

New catalysts emerging

Hong Kong Industrials

Jackin Int'l (630 HK, HK\$0.30)

BUY (unchanged)

Target price: HK\$0.80 (+166.7%)

Key takeaways from our recent conference call with the management of Jackin:

Capitalizing on China distribution network. Jackin has a well-entrenched distribution networks in China through distributing data media products for Sony since 2001. In 4Q FY12/07, Jackin commenced utilizing this distribution network to sell lower-grade toner cartridges (known as standard and test grade) in China. One of the Jackin's key competitive advantages is its ability to refurbish most of toner cartridge components (OPC drums, magnetic and charging rollers, toners and wiper blades) in-house. This helps it save costs and lengthen the products line by introducing lower-grade toner cartridges. Currently, toner cartridges contribute only a small percentage of the distribution division's turnover, but we expect this new sales channel for the toner cartridges to be a solid top line driver in the future.

Robust demand for toner cartridges. We understand that, in recent months, the Chinese government has tightened enforcement of existing regulations to prevent illegal cartridge recycling and allow only licensed cartridge remanufacturing. Jackin, as one of China's three licensed cartridge remanufacturers, will benefit. Since the clamp down, Jackin has secured new orders and we expect a stricter regulation environment to further drive demand for its toner cartridges. Meanwhile, a secondary benefit is that the reduced number of importers would increase the bargaining power of companies such as Jackin, which would lower the cost of importing empties.

Dandong factory helps in cost saving and capacity enhancement. Currently, Jackin is still lobbying for the license of importing and exporting toner cartridges for remanufacturing in Dandong, Liaoning province, which is expected to obtain in early next year. If successful, the company plans to initially move the cartridge sorting process from Hong Kong to Dandong's factory and ultimately the entire remanufacturing process. This new arrangement not only helps the company to save transportation costs but also facilitates cost control as it takes the advantage of the province's cheaper labour costs. When ramped up, the new factory will enhance the company's remanufacturing capacity to 160,000 units per month from 100,000 units (Zhuhai + Shenzhen plants).

Forecast lifted for FY12/08 and FY12/09. Jackin's cartridge shipments for FY12/07 are on track. We have cut our turnover estimate for FY12/07F to HK\$370.7m, due to a faster-than-expected drop in the data media distribution business. We have lifted our turnover forecast for FY12/08, due to several catalysts: 1) lower price of empties; 2) lower labour and transport costs from the Dandong plant; 3) growing number of colour toner cartridges in the product mix; 4) broader customer base; 5) contribution from toner cartridge sales in China. We revise up our net profit forecast to HK\$75.8m for FY12/08F and HK\$126.7m for FY12/09F. We expect its remanufacturing business to remain a core driver and boost margins. Turnover should up 33.3% to HK\$493.7m in FY12/08F and 32.2% to HK\$652.4m, while the gross margin of the remanufacturing business should widen to

Table 1: Financial summary

Year to Dec	Net profit HK\$m	EPS HK\$	EPS Δ %	P/E x	P/B x	EV/EBITDA X	Yield %	ROE %	ROCE %	N. Gearing %
05A	(135.2)	(0.198)	Na	Na	1.0	2.1	Na	(51.3)	(36.5)	90.6
06A	64.9	0.093	Na	3.2	0.7	3.4	Na	26.7	14.8	69.2
07F	41.5	0.046	(50.6)	6.5	0.7	3.7	Na	12.1	8.2	4.9
08F	75.8	0.084	82.5	3.6	0.5	2.5	Na	16.6	13.1	5.7
09F	126.7	0.140	67.2	2.1	0.4	1.6	Na	23.2	20.2	2.0

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40.0% in FY12/08F, on lower costs and changes in the product mix.

Reiterate BUY with target price of HK\$0.80. We remain bullish on the company's prospects and maintain our BUY call, with a target price of HK\$0.80, representing 9.5x FY12/08F P/E (on a fully diluted basis). The valuation of the counter looks appealing, trading at 6.5x FY12/07F P/E and 3.6x FY12/08F P/E, compared with peers' P/E of 13.7x (current) and 11.8x (one-year forward) and recycling peers' current P/E of 14.5x and one-year forward P/E of 11.5x.

Update on E-waste business. The company is still lobbying to obtain the e-waste recycling license from National Development and Reform Commission (NDRC) and the Ministry of Information Industry (MII), which is expected to be granted in mid-2008. Jackin's bid is supported by the local government, as its new business will be in line with China's central government policy to develop recycling and boost employment in Liaoning province. If successful, Jackin will gain an instant leadership position in this emerging industry with high entry barriers.

Table 2: Peer comparison

Company name	Ticker	Market Cap (US\$m)	P/E (x)			ROA (%)	ROE (%)
			Historical	Current	1-yr forward		
<i>Industrial sector</i>							
Lexmark International	LXK US	3,116.4	10.1	12.1	11.9	11.0	27.5
Ricoh Company	7752 JP	13,413.5	13.4	12.3	11.2	5.2	11.0
Canon Finetech Inc	6421 JP	599.3	10.2	9.8	8.4	5.7	10.7
Riso Kagaku Corporation	6413 JP	473.2	17.9	13.8	12.1	2.5	4.3
Seiko Epson Corporation	6724 JP	4,201.6	na	18.5	14.0	na	na
Brother Industries Limited	6448 JP	3,700.2	14.4	16.4	13.2	7.7	14.8
OCE NV	OCE NA	1,508.2	19.1	12.8	11.8	2.0	7.9
<i>Average</i>			<i>16.8</i>	<i>13.7</i>	<i>11.8</i>		
<i>Recycling sector</i>							
Waste Management Inc	WMI US	16,760.2	15.7	16.1	14.7	5.5	18.6
Allied Waste Industries Inc	AW US	3,990.4	32.6	13.8	12.0	0.9	4.3
Advance Sct Ltd	ASCT SP	202.2	37.6	11.6	7.3	4.9	16.4
Enviro-Hub Holdings Ltd	ENVH SP	246.7	138.8	10.7	8.2	1.0	2.0
Super Dragon Technology Co.	9955 TT	154.2	26.0	18.2	na	13.4	16.2
Asahi Pretec Corp	5855 JP	955.2	18.7	16.8	15.2	14.6	19.3
<i>Average</i>			<i>39.0</i>	<i>14.5</i>	<i>11.5</i>		

Source: Bloomberg, SBI E2-Capital

Table 3: P&L

Year to Dec (HK\$m)	2005A	2006A	2007F	2008F	2009F
Turnover					
Cartridge recycler	98.8	133.1	220.5	363.1	544.7
Floppy disc	126.9	105.6	99.2	74.5	43.2
Distribution and sales of data media	104.1	106.9	51.0	56.1	64.5
	329.8	345.6	370.7	493.7	652.4
Cost of sales	(259.4)	(233.5)	(254.9)	(325.4)	(405.3)
Gross profit	70.4	112.1	115.8	168.4	247.1
Other revenue	4.5	8.2	8.2	8.2	8.2
Other net (loss)/income	0.3	(0.1)	-	-	-
Selling and distribution costs	(22.8)	(22.4)	(23.0)	(31.4)	(41.4)
Administrative expenses	(51.1)	(51.8)	(38.9)	(49.9)	(65.2)
Other operating expenses	(199.8)	0.0	0.0	0.0	0.0
Depreciation & amortisation	(22.0)	(20.5)	(18.1)	(18.9)	(19.6)
Operating profit	(118.6)	45.9	62.1	95.4	148.6
Financial costs	(15.4)	(23.3)	(16.0)	(11.2)	(7.8)
Gain from a legal claim	-	47.1	-	-	-
Pre-tax profit	(134.0)	69.7	46.1	84.2	140.8
Tax	(1.2)	(4.8)	(4.6)	(8.4)	(14.1)
Minority interests	-	-	-	-	-
Net profit	(135.2)	64.9	41.5	75.8	126.7
EPS (HK\$) - Basic	(0.198)	0.095	0.053	0.097	0.162
EPS (HK\$) - F.D.	(0.198)	0.093	0.046	0.084	0.140

Source: SBI E2-Capital

Disclosure of interests: SBI E2-Capital Securities Ltd and/or its affiliates beneficially own(s) more than one percent of the ordinary shares of Jackin International Holdings Limited.