

Jackin



BUY (unchanged)

Economy slowdown beneficiary

Key points:

- Turnover up 20.0% YoY to HK\$215.6m and in line with expectation. Net profit missed our estimates slightly, down 12.6% YoY to HK\$22.5m, mainly due to weak margin in floppy diskette OEM segment
- Strong growth in printer cartridge remanufacturing segment, up 46.0% YoY to HK\$149.3m. Jackin appears to have benefitted from the economic slowdown in US. Sales in US region was up 35.8% YoY
- Announces new key customer for cartridge remanufacturing. We expect sales to this multi-national stationery distributor to be around 400K units in FY12/09F
- Maintain BUY call, target price revised to HK\$0.55, representing 6.0x FY12/09F P/E fully diluted

Interim net profit down 12.6%. Jackin (630 HK) announced 1H FY12/08A results. Turnover increased 20.0% YoY to HK\$215.6m though net profit was down 12.6% YoY to HK\$22.5m. While top line was within our estimates, the bottom line was slightly below our expectations.

Strong performance in remanufacturing segment. Turnover from printer cartridge remanufacturing improved 46.0% YoY to HK\$149.3m. This was better than we expected given the delay in announcing the new key customer (see below). In our view, Jackin may have been an unlikely beneficiary of the global economic slowdown, which has forced companies to cut operational costs, and hence, switch to the cheaper remanufactured printer cartridges. Not surprisingly, sales in North America surged 35.8% YoY to HK\$66.3m. Operating margin was stable at 39.9% (1H FY12/07A: 39.2%). Management indicated that the company sold around 450,000 remanufactured cartridges during the reporting period.

Floppy diskette OEM was reason behind weak bottom line. Turnover from Jackin's floppy diskette OEM (manufacture and sales of data media products) was down 18.4% YoY to HK\$43.0m, with operating margin shrinking 15.6pcp to 4.8%. The significant contraction of operating margin was the key reason for Jackin's bottom line not meeting our expectations. Meanwhile, turnover from the data media product distribution segment was down 6.1% YoY to HK\$23.3m, with operating margin improving slightly to 9.5% (1H FY12/07A: 7.2%).

New major customer for remanufactured toner cartridge. Company announced recently that they had signed an agreement with a multi-national stationery distributor to supply them with remanufactured printer cartridges. Based on our channel checks, we believe this major customer to be Imation Corp (IMN US), the renowned manufacturer of removable data storage media. Imation appears to be diversifying into this emerging market and has selected Jackin to be its key partner. Jackin already has a close

Hong Kong Industrials

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Stock data

Price	HK\$0.295
Target price	HK\$0.55 (+86%)
12 mth range	HK\$0.21-0.45
Market cap.	US\$29.7m
Daily t/o, 3 mth	US\$0.05m
Free float %	63.4%
Ticker	0630.HK/630 HK

Financial summary

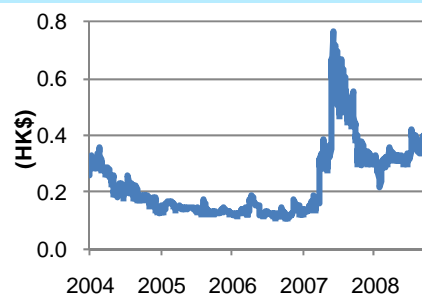
Year to Dec	06A	07A	08F	09F	10F
Turnover (HK\$m)	345.6	418.2	472.7	604.8	669.6
Net Profit (HK\$m)	64.9	33.5	51.8	83.6	92.8
EPS (HK\$m)	0.093	0.040	0.057	0.092	0.103
EPS Δ %	n/a	(57.4)	44.6	61.3	10.9
P/E (x)	3.2	7.4	5.1	3.2	2.9
P/B (x)	0.7	0.8	0.6	0.5	0.4
EV/EBITDA (x)	3.4	3.7	3.0	2.1	2.0
Yield (%)	n/a	n/a	n/a	n/a	n/a
ROE (%)	26.7	10.9	12.7	15.9	14.9
ROCE (%)	14.8	6.8	8.6	11.6	11.6
N. Gear. (%)	69.2	50.1	39.1	37.9	29.8

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-10.8	+11.2	+9.6
Actual price changes (%)	-24.7	-9.4	-27.5

	08F	09F	10F
Consensus EPS (HK\$)	n/a	n/a	n/a
Previous forecasts (HK\$m)	75.8	126.7	
Previous EPS (HK\$)	0.084	0.140	

Price Chart



relationship with Imation as it is the US-listed company's exclusive OEM supplier for floppy diskette products.

New agreement will sustain high growth. We had already anticipated the company to announce the signing of a new major customer, though the timing was slightly later than we had expected. Nevertheless, this new agreement should provide Jackin with a solid impetus to sustain the high growth in its printer cartridge remanufacturing segment going forward.

Sufficient manufacturing capacity. Jackin's two cartridge remanufacturing plants in Zhuhai and Shenzhen has a combined capacity of around 130,000/month (1.6m/year) on only one shift of work. Therefore, with the ability to increase up to two shifts of work per day, we do not expect any production bottlenecks to meet oncoming demand.

Revised FY12/08F estimates. Shipment to Imation is scheduled to commence in 4Q FY12/08F and we expect sales to this key customer to only have moderate contribution this year. For FY12/09F, we have estimated sales to Imation to be around 400K units. We have revised down our net profit estimates by 7.5% to HK\$51.8m for FY12/08F and left our FY12/09F largely unchanged at HK\$83.6m. Meanwhile, we also introduce our FY12/10F net profit estimate (HK\$92.8m). The adjustments take into consideration: 1) stronger demand for its remanufactured cartridges and 2) lesser contribution from its floppy disk and data media distribution segment.

Maintain BUY, new target price HK\$0.55. Though micro caps are currently out of favour with the investment community, we continue to be favourable on this niche recycling play from a fundamental basis. We maintain a BUY call on the counter, with a revised target price of HK\$0.55, representing 6.0x FY12/09F P/E on a fully diluted basis, assuming the exercise of all warrants.

Table 1: P&L

Year to Dec (HK\$m)	06A	07A	08F	09F	10F
Turnover					
Cartridge recycler	133.1	283.2	345.5	496.7	575.7
Floppy disc	105.6	83.2	78.0	66.3	56.4
Distribution and sales of data media	106.9	51.7	49.2	41.8	37.6
	345.6	418.2	472.7	604.8	669.6
Cost of sales	(233.5)	(274.7)	(310.2)	(388.0)	(432.7)
Gross profit	112.1	143.5	162.5	216.8	236.9
Other revenue	8.2	5.3	5.3	5.3	5.3
Other net (loss)/income	(0.1)	0.1	-	-	-
Selling and distribution costs	(22.4)	(24.5)	(28.9)	(39.3)	(42.9)
Administrative expenses	(51.8)	(55.7)	(54.5)	(65.5)	(73.7)
Other operating expenses	-	-	(4.6)	(4.0)	(4.0)
Operating profit	45.9	68.6	79.7	113.2	121.6
Financial costs	(23.3)	(25.2)	(23.4)	(22.3)	(20.8)
Gain from a legal claim	47.1	(7.9)	-	-	-
Pre-tax profit	69.7	35.5	56.3	90.9	100.8
Tax	(4.8)	(2.0)	(4.5)	(7.3)	(8.1)
Minority interests	-	-	-	-	-
Net profit	64.9	33.5	51.8	83.6	92.8

Source: Company data, SBI E2-Capital

Disclosure of interests: A fellow subsidiary of SBI E2-Capital Securities Limited was acted as the financial adviser for the Jackin International Holdings Limited since July 2007.

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BUY : absolute upside of >10% over the next six months

HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

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