

# Jackin



**BUY (unchanged)**

## On track

### Key points:

- Shipments to new customer Imation scheduled to commence at end-Oct 2008
- Imation shipments to reach 400K in FY12/09F, accounting for 40.5% of remanufactured toner cartridge turnover
- Cash level currently at around HK\$60.0m, up from HK\$47.6m in 1H FY12/06
- Beneficiary of the global economic slowdown
- Maintain BUY call, keeping our target price of \$0.55, representing 6.0x FY12/09F P/E fully diluted

**Update.** Shipments of remanufactured toner cartridges to Imation are scheduled to commence at -Oct 2008, due to a slight delay arising from the approval of packaging-related artwork. We expect to Jackin to ship around 31,000 units to this new customer by end-FY12/08F and 400,000 in FY12/09. We estimate revenue derived from this customer at HK\$139.2m in FY12/09F, accounting for 40.5% of the total remanufactured cartridge turnover revenue. Other business segments, such as floppy diskette OEM manufacturing and data media distribution, also remain on track.

The company's gearing ratio was 45.0% at end-1H FY12/08A. According to management, its cash level was around HK\$60.0m, up from HK\$47.6m in 1H FY12/08A. Debt, at HK\$205.8m, remains largely the same as in 1H FY12/08A (comprising HK\$164.3m ST debt and HK\$41.5m LT debt). The company generally does not have problems securing funding from banks for this capital-intensive business due to its strong track record and the fact that the majority of its clients are multi-national brand owners or IT product distributors.

**Our view.** We remain positive on this niche recycling play from a fundamentals point of view. The company is a beneficiary of the global economic downturn. Printer cartridges are an office staple and demand for Jackin's products tends to increase as economic conditions weaken. As business look for ways to cut costs, many turn to remanufactured toner cartridges. The cartridge for HP's popular HP4600 retails for around US\$205, while Jackin's substitute sells for just over US\$80.

**Valuation.** We maintain our BUY call on Jackin, with a target price of HK\$0.55, representing 6.0x FY12/09F P/E.

## Hong Kong Industrials

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### Stock data

<b>Price</b>	<b>HK\$0.205</b>
<b>Target price</b>	HK\$0.55 (+168%)
<b>12 mth range</b>	HK\$0.15-0.45
<b>Market cap.</b>	US\$21.0m
<b>Daily t/o, 3 mth</b>	US\$0.05m
<b>Free float %</b>	63.4%
<b>Ticker</b>	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)	2.2	5.2	3.6	2.2	2.0
P/B (x)	0.5	0.6	0.4	0.3	0.3
EV/EBITDA (x)	2.4	2.5	2.1	1.5	1.4
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 (%)	-38.3	-26.8	+31.5
Actual price changes (%)	-46.8	-48.8	-31.7

	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

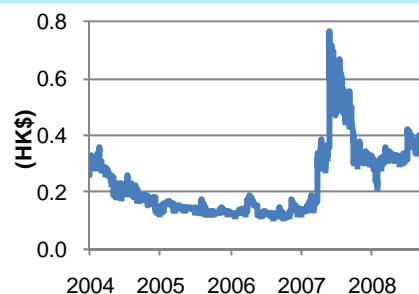


Table 1: P&amp;L

Year to Dec (HK\$m)	06A	07A	08F	09F	10F
<b>Turnover</b>					
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
	<b>345.6</b>	<b>418.2</b>	<b>472.7</b>	<b>604.8</b>	<b>669.6</b>
Cost of sales	(233.5)	(274.7)	(310.2)	(388.0)	(432.7)
<b>Gross profit</b>	<b>112.1</b>	<b>143.5</b>	<b>162.5</b>	<b>216.8</b>	<b>236.9</b>
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)
<b>Operating profit</b>	<b>45.9</b>	<b>68.6</b>	<b>79.7</b>	<b>113.2</b>	<b>121.6</b>
Financial costs	(23.3)	(25.2)	(23.4)	(22.3)	(20.8)
Gain from a legal claim	47.1	(7.9)	-	-	-
<b>Pre-tax profit</b>	<b>69.7</b>	<b>35.5</b>	<b>56.3</b>	<b>90.9</b>	<b>100.8</b>
Tax	(4.8)	(2.0)	(4.5)	(7.3)	(8.1)
Minority interests	-	-	-	-	-
<b>Net profit</b>	<b>64.9</b>	<b>33.5</b>	<b>51.8</b>	<b>83.6</b>	<b>92.8</b>

Source: Company data, SBI E2-Capital

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

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