JCY International

A bumpy road ahead

MARKET PERFORM

Price: RM0.80
Target Price: RM0.85

We are initiating coverage on JCY with a MARKET PERFORM rating and a Target Price of RM0.85 based on 1.15x P/BV. JCY is one of the largest global precision engineering manufacturers of HDD mechanical components. Since Aug 2012, JCY's share price has corrected by 50.0% from its peak. Despite this, we reckon that the share price could still continue to be overshadowed by a number of concerns on the industry outlook at this juncture. We believe macro uncertainties, challenging industry trends and possible company-specific issues will be the headwinds limiting a strong rebound in the share price. The tide in the industry has turned negative and JCY being a leader in the local HDD sector is likely to feel the adverse impacts. In fact, its earning visibility is likely to get worse before it gets better over the next 6 months. Hence, the investment strategy on the stock, in our view, is to wait out the sector weakness at the moment and re-look for opportunities later when the sector woes clear up a little. Our current MARKET PERFORM rating is premised on the stock offering an upside of 6% to our Target Price.

Prominent HDD manufacturer. JCY is one of the largest global precision engineering manufacturers of Hard Disk Drive (HDD) mechanical components based on revenue and unit. The company primarily manufactures base plates, top cover assembly, APFA and antidiscs, which are the key mechanical components of HDDs. The company jointly develops these components for its customers, which then assemble these components into completed HDDs, primarily 3.5 inch and 2.5 inch HDDs.

Weak outlook globally. The tide in the industry has likely turned negative as there has been a weakening of the industry fundamentals brought about by the persistent uncertainties in the Eurozone, a slowdown in the emerging markets (China and India) and the weak consumer sentiment in the PC market. Our view is supported by HP and Dell whose managements are now cautious about the growth of PCs in 2HCY12 given the uncertain economic environment, competitive dynamics and softer consumer sentiment worldwide.

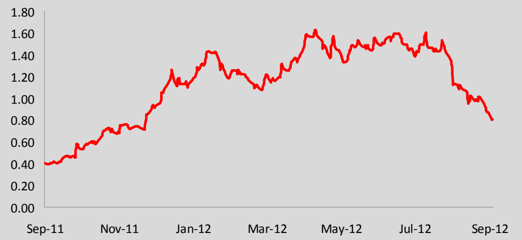
Weak sentiment from HDD makers. Meanwhile, the two big HDD players, Western Digital (WD) and Seagate are also saying that they are wary about the soft macroeconomic environment, and the growing use of tablets and smart phones to the detriment of PC usage. Consequently, WD is only expecting the unit growth in HDD demand to be just around 5%.

Compression of ASP. In addition, in the case of HDD, there has been a compression of the ASP as JCY's Thai peers are resuming their production lines and its HDD vendors have started to return to their usual suppliers. We believe this could be the start of a fierce competition in the HDD market, which means the likelihood of lower operating margin in the segment persisting or getting worse.

Structural challenges. We think that the PC industry growth deceleration is not just a temporary phenomenon. The PC industry's growth profile is facing many challenges and in our view, the market here faces incremental risks beyond just a macroeconomic slowdown. Consumers and enterprises remain distracted by alternative devices such as smartphones and tablets, which continue to encroach on the PC's share of IT spending. These factors suggest that at a minimum, the current consensus forecast for PC unit growth of 0.9% in CY12 is likely to face more downside risks.

Challenges keep us guarded on our valuation. Our TP is derived from 1.15x the P/BV ratio, which being at the mid of JCY's P/B band since it went listing in year-2012. The stock had traded previously as much as 2.7x P/BV (+2 SD) when the market became optimistic then on JCY's earnings after the Thai flood. However, considering the weaker demand outlook now over the next 6 months and its lower earning visibility, we believe the stock's valuation could remain pressured below its P/Bv mean, at the mid-point of mean and -1SD. This supports our view that there is limited upside of our target price if industry development turns further uncertain over next 6 months.

Share Price Performance



KLCI	1,619.30
YTD KLCI chg	5.8%
YTD stock price chg	-25.7%

Stock Information

Bloomberg Ticker	JCYH MK Equity
Market Cap (RM m)	1,625.7
Issued shares	2,044.9
52-week range (H)	1.65
52-week range (L)	0.40
3-mth avg daily vol:	11,210,850
Free Float	26%
Beta	1.2

Major Shareholders

YKY INVESTMENTS	74.1%
INVESCO LTD	0.2%
KING KHENG WONG	0.2%

Summary Earnings Table

FYE Sep (RM m)	2011A	2012E	2013E
Turnover	1671.3	2228.8	2064.4
EBIT	18.3	469.0	311.5
PBT	13.8	466.7	311.5
Net Profit (NP)	**13.5**	**454.0**	**303.0**
Core Net Profit	**13.5**	**454.0**	**303.0**
Consensus (NP)		503.3	384.3
Earnings Revision	-	-	-
Core EPS (sen)	0.7	22.2	14.8
Core EPS growth (%)	-92.3	3,271	-33.3
GDPS (sen)	5.0	7.8	5.2
NTA/Share (RM)	0.4	0.6	0.7
Core PER	122.2	3.6	5.4
Price/NTA (x)	1.9	1.4	1.2
Gearing (%)	25.4	0.0	0.0
Dividend Yield (%)	6.2	9.7	6.4

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1. INVESTMENT MERIT

Consolidation of customer base led to a better ASP before Thai flood, but the situation has turned. The consolidation of the top five players into just three players has led to more stable HDD pricing in the industry. Following the acquisition of Samsung by Seagate and Hitachi GST by WD, the top two suppliers now hold an 85% share of the HDD market in 1QCY12 from just 62% in 3QCY11 (before the acquisitions). The acquisitions had resulted in the top players now being more able to control the industry's HDD ASP pricing. However, the ASP is now facing downward pressures due to the lower consumer spending in IT and the slowdown in the world economy. Hence, we expect the ASP and volume to compress from 2HCY12 onwards.

3-years CAGR earnings of 151.3% from FY11-FY14 (low base before Thai flood). We expect JCY to record a CAGR in its earnings by 151.3% from RM13.5m in FY11 to RM213.8m in FY14 (albeit from a small base). Despite having volatile revenues and earnings in the last five years, especially in FY11 due to the erosion of the ASP, we believe that JCY is poised to maintain its profitability albeit at a downward trend at RM454m, RM303m and RM214m in FY12, FY13 and FY14 respectively. The slowdown in the earnings growth is due to the compression of the HDD ASP and likely lower unit shipments that we believe will occur due to the weaker consumers spending in computers and the softness in the current global economy.

Still decent dividend yield of 5.2%. JCY has a reasonably low gearing ratio ranging from 23% to 39% in the past few years. For its latest FY11, the company has a net debt position of RM225m, which translated to a net gearing ratio of 25%. However, given its higher earnings in FY12-FY14 (post-flood level) and the group's relatively stable capital expenditures, we expect the group will turn into to be in a net cash position of around RM519.4m by FY14. We are estimating FY12-FY14E net dividends per share of 3.7 sen-7.8 sen, translating to good yields of 3.7%-7.8%. The immediate term risk to earnings is from foreign currency exchange rate and the increasing cost of its raw materials.

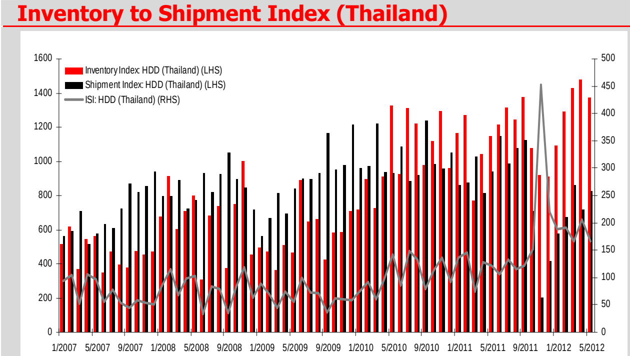
2. INDUSTRY OUTLOOK

Global economic uncertainties. Recently, the unemployment rate has hit a new record high in Europe and the continent's leaders still lack a credible plan to stop the contraction of the economy in the Eurozone amidst its increasing debt loads. Meanwhile, China is facing a slowdown in its economy, with many economists already lowering their forecasts for China to grow at just 7.4% YoY (7.9% previously) in 3QCY12 before picking up to 7.6% YoY (8.2% previously) in 4QCY12. China's imports fell 2.6% YoY in August due to the weakening of its domestic consumption. Due to the slowdown in the global economy, consumer spending may now come in lower than expected.

Flattish PC market segment. According to IDC (a research house), worldwide PC unit shipments were mainly contributed by HP (15.5%), Lenovo (14.9%), Dell (11.1%), Acer (10.4%), ASUS (7.1%) and others (41.1%) in 2QCY12. HP and Dell's latest quarterly results still showed decent earnings, with increases of 1.3ppt and 0.4ppt to 5.7% QoQ and 6.7% QoQ growth respectively. However, their earnings are now under pressure in the near term as the slowdown in the PC market and macroeconomic softness are too big to be overcome by any company-specific efforts. Meanwhile, the two big HDD players, Western Digital (WD) and Seagate have said that they are wary about the soft macro economic environment and the growing use of tablets and smart phones to the detriment of PC usage. Consequently, WD is only expecting the unit growth in HDD demand to be at just around 5%. Note that JCY derived more than 50% of its revenue from sales to Western Digital and Seagate and hence will likely be the first to feel the adverse impact from their slowing orders.

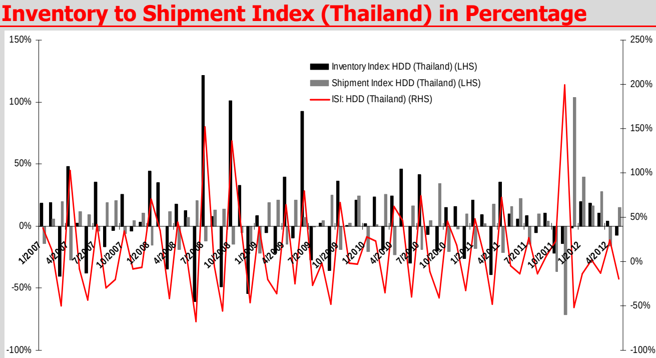
Normalised but shipments still down. After the Thai floods in Oct 2011, the industry faced a shortage of HDD's inventories as most HDD plants were under water, which disrupted the supply chain of the HDD. The shipment of HDD then deteriorated sharply. However, after almost a year since the Thai flood, the production has gone back to its normal rate as all the manufacturers have ramped up their plants faster than expected. However, the HDD shipments index is still far below the shipment rate before the Thai flood. This we believe is likely due to the slower HDD demand as a result of the flattish growth in the PC market and the shift of consumers' spending into tablets and smartphones.

Inventory to Shipment Index (Thailand)



Source: CEIC, Kenanga Research

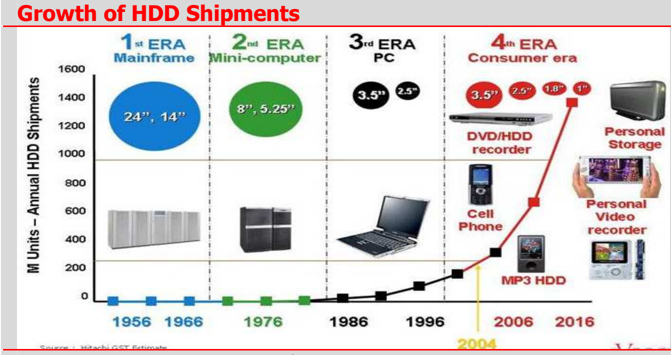
Inventory to Shipment Index (Thailand) in Percentage



Source: CEIC, Kenanga Research

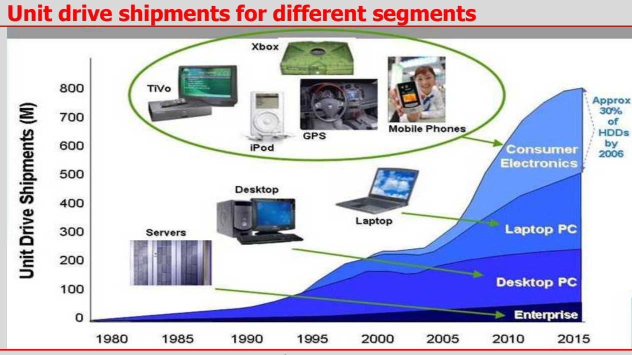
Consolidation from the top five players into just three. The HDD industry has consolidated from five major players into just three after the two major acquisitions of Seagate/Samsung and Western Digital/Hitachi GST in Mar and Apr this year. When all the mergers are completed, Seagate, WD and Toshiba will contribute more than 80% of the industry's sales, which will lead to a more efficient market environment. The new environment will create a more stable average selling price (ASP) due to less competition firstly, and secondly, PC original equipment manufacturers (OEMs) are signing long-term agreements with HDD makers to lock in the HDD pricing. However, we believe that a decline in the ASP may occur in 2H12 as the growth in the industry cannot withstand the slowdown in the global economy as well as the lower consumer demand for electronic devices.

Growth of HDD Shipments



Source: HGST, Kenanga Research

Unit drive shipments for different segments



Source: Veeco, Kenanga Research

Targeting the market of consumer electronics. The number of consumer electronics (CE) devices containing HDD is growing fast. This gives HDD manufacturers an opportunity to grow their revenues as the number of PCs sold worldwide has flattened. HDD has been increasingly suitable for use in CE devices as well as they become smaller, quieter, cheaper and more robust. The targeted CE markets are cell phones, automotive, digital video camera, digital still camera, AV players, DVR, home network and games.

3. COMPANY OVERVIEW

Global leader in precision engineering manufacturing of HDD mechanical components. JCY is one of the largest global precision engineering manufacturers of HDD mechanical components based on revenue and unit production for base plates, top cover assembly, APFA and antidiscs. All these components are assembled into completed HDDs, especially for 3.5" and 2.5" HDDs. Its manufacturing facilities and inventory hubs are located around Malaysia (Johor, Penang, KL, and Malacca), in Thailand (Saraburi) and in China (Suzhou and Guangzhou). All its manufacturing facilities and inventory hubs are located very near to its key customers' (Western Digital and Seagate) facilities. This helps to reduce the logistic cost and cements its position as a top supplier of HDD in the market.

Cost competitive due to economies of scale and ability to manufacture multi-components in HDD. JCY has a large scale of operations that enables it to manufacture multi-components of HDD. The group operates in a vertical integration to accommodate the manufacturing of multi-components to meet the demand of its customers. Another cost competitive advantage to the group is the location of its manufacturing facilities. All its manufacturing plants are near to its customers' facilities to reduce the cost of logistics. The group has also started to expand its manufacturing facilities to China, which has a lower labour cost two years ago.

High barriers of entry into the HDD industry. HDD is a capital intensive industry. The manufacturing of HDD requires a high investment cost and a strong relationship with customers. Furthermore, there is a long lead time required to establish new manufacturing facilities and all the new component manufacturers are required to undergo stringent qualification processes of six to ten months by their HDD vendors. During the period, the manufacturer must have a strong cash flow to sustain its operation as there is no significant cash inflow during the qualification period. Apart from that, with the HDD market now dominated by just the top three players, any uncertainties in securing customers and new orders could be fatal to new entrants, making it a strong deterrent factor.

JCY's plants and locations

Source: Company

Casting of base plates

Source: Company

Base plates from die casting

Source: Company

Stamping for top covers

Source: Company

Top cover from stamping

Source: Company

Assembly of actuators and antidiscs

Source: Company

Actuator from assembly

Source: Company

E-coating

Source: Company

Output of E-coating

Source: Company

Strong competitive advantages against other competitors. JCY operates in a vertical integration manufacturing platform that is capable of delivering multi-component solutions to meet the needs of its customers. The company is able to lower the cost of its products due to its scale and efficiency of operations, vertically integrated processes and strategic low cost locations. As a multi-component manufacturer, the company benefits from economies of scale as compared to its competitors. Its large scale operations also enable the company to improve its production efficiency through better assembles line coordination and specialisation of skills. Besides that, a large scale operation also helps to secure relationships with the suppliers of manufacturing equipments and other machineries, resulting in priority delivery, greater bulk discounts and better credit terms and reliability in terms of the quantity and quality of supplies.

Supplier to big players such as WD and Seagate. JCY has maintained a good relationship with Western Digital (WD) since 1994 and Seagate since 2006. It has supplied WD with all its major components such as base plate, actuator arm, top cover and antidisc and it has also supplied Seagate with base plate since 2006 and antidisc since 2008. WD and Seagate are the world's current top two players after the acquisition of Samsung by Seagate and Hitachi GST by WD. Both of them hold 85% of the HDD market share in terms of unit shipment in 1QCY12 from just 62% in 3QCY11 before the acquisitions. These big HDD OEMs nowadays rely on only two or three key suppliers and one or two secondary sources and this benefitted JCY since it is one of the key suppliers to these players.

Expansion of customer market share in the world. The consolidation from the top five players into just three players in the HDD industry has increased the market share of the current top three players globally while reducing market competitions and stabilising the pricing of HDD products. This could further strengthen JCY's position as one of the largest suppliers of HDD in the industry and grow its market share together with these players, which make up 85% of JCY's sales.

Expansion of the company's products

Year	Products	
1996	Base plate	
1999	Top cover	
2000	APFA	
2008	Antidiscs	

Source: Company, Kenanga Research

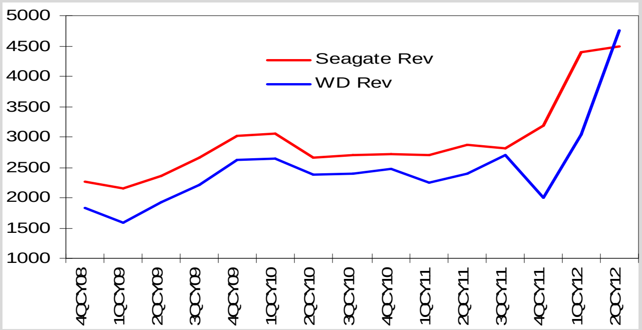
Consolidation of the major players in HDD industry

2011	2012
HITACHI Inspire the Next	Seagate
SAMSUNG	TOSHIBA
Seagate	WD Western Digital
TOSHIBA	
WD Western Digital	

Source: Company, Kenanga Research

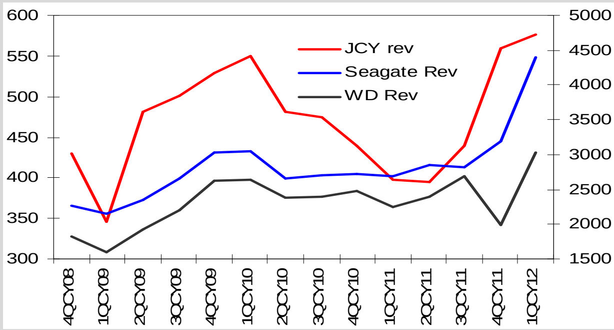
Correlation between JCY's revenue and key players' WD and Seagate's revenues. Based on our study, we observe that JCY's revenue has a strong correlation with Seagate's revenue, which is above 90% for the past one year. Meanwhile, during the same period, JCY's revenue and WDI's revenue have a more moderate correlation of 74% given that WD's only lately started to include its acquired subsidiary, Hitachi Global Storage Technologies' (HGST) revenue contribution. Stripping off the newly acquired subsidiary, we believe the correlation between JCY's revenue and WD's revenue should record a similar high correlation of about 80%-90%. By using the correlation between Seagate's revenue and JCY's revenue, we expect JCY's revenue growth to be moderate in 2QCY12 as Seagate only posted a revenue growth of just 2.3% QoQ in 2QCY12.

Correlation between Seagate's revenue and WD's revenue



Source: Company, Kenanga Research

Consolidation of the major players in HDD industry



Source: Company, Kenanga Research

4. COMPANY RISKS

Risk of reducing orders from key customers. JCY's financial performance would be affected should its key customers (i.e. WD and Seagate) reduce their orders due to economic slowdown. The group is very much dependent on these two key players as they contribute more than 50% to the group's total sales. A loss of either one of these customers would hurt the group's profitability badly.

Increasing of the cost of the raw materials, such as steel and aluminium. Increased commodity price for raw materials used (i.e. stainless steel and aluminum) in HDD may result in lower gross profit margin due to the increased of the cost of good sold. Based on our sensitivity analysis, a 1% increase in the raw material cost per unit would lead the group's FY13 cost of good sold to increase by 1.4%. Furthermore, the group is depending on its suppliers for raw materials and do not have a long-term supply contracts with them.

Natural disaster. A delay of one manufacturing facilities could affect the production volume of the group. For instance, the Thai flood happened in Oct 2011 had caused the disruption of the supply chain of HDD. The group cannot bear the this kind of risk again in the future as it needs three to six months to recover from the disaster for the group to revamp its production line.

Dependent on skilled employees and foreign labour. The group is much dependent on its key personnel and skilled employees to engineer the production of the manufacturing facilities. The group has also hired foreign workers to speed up the production lines. Any stringent laws enforce by the government to foreign workers might increase the risk of the group.

Product substitution risk. Besides HDD, the industry has introduced a new product, SSD (Solid State Drive). It is a data storage device that uses integrated circuit (IC) assemblies as memory to store data persistently. SSD is less susceptible to physical shock, more silent, and have lower access time and latency compared to HDD.

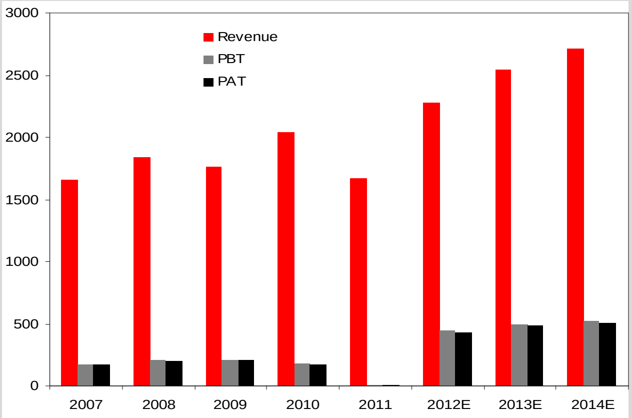
Foreign exchange rate fluctuation. In view of the group's turnover are generated by using US Dollar, its revenue performance is subject to the foreign exchange rate fluctuation. Based on our sensitivity analysis, a 1% depreciate in USD against RM would lower the group's FY13 revenue lower by 1%. The group does not involve in any derivative instruments, hence, the fluctuation of the foreign exchange might affect the group's revenue and earnings.

5. HISTORICAL FINANCIAL PERFORMANCE

Earnings and margins growth. JCY historically has been able to maintain its revenue at an average of around RM1.7b-RM2.0b over its last 5 financial years (FY07-FY11) thanks to growing global HDD unit shipments but partially offset by volatility in ASPs. Meanwhile, the group's net profit saw some fluctuations during the same period although on the overall, it was able to maintain its net profit at around RM174m-RM207m from FY07 to FY10. However, FY11 was a very unusual year as the profit fell significantly due to the 18% drop in revenue as well as rising labour and raw material costs. Stripping off the unusual fall in FY11, the group's net profit actually showed a flat 3-year CAGR.

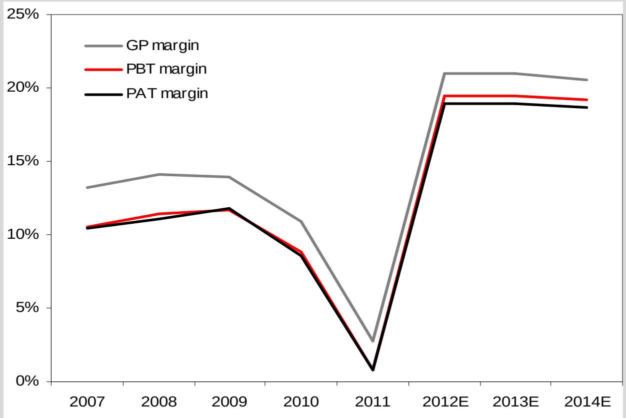
Margin wise, its gross profit margin had been maintaining at 11%-14% from FY07-FY10. However, it dropped to 2.7% in FY11 due to erosion of HDD's ASP and higher raw material costs. Meanwhile, its PBT and PAT margins recorded around 9%-12% from FY07-FY10, while FY11 recorded 0.8% only.

JCY's revenue, PBT and PAT



Source: Company, Kenanga Research

JCY's margins



Source: Company, Kenanga Research

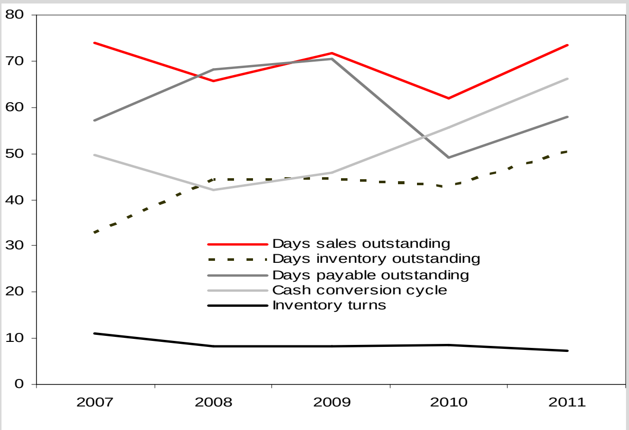
Net gearing ratio. JCY has a low gearing ratio, which has been around -7% to 24% in the past few years. For its latest FY11, the company has a net debt position of RM225m, which translated to a net gearing ratio of 15%.

Liquidity ratio. JCY's FY07-FY11 debtors' turnover days have been fluctuating in a reasonable range at between 62 days to 74 days. However, the inventory turnover has increased from 33 days in FY07 to 51 days in FY11 due to the increased inventory level as the company saw a weak FY11 earnings. That said, JCY's creditors turnover has also risen from a low of 49 days in FY10 to 58 days in FY11. Hence, on the overall, the group's cash conversion cycle has rose from 50 days in FY07 to 66 days in FY11.

JCY's net gearing

Source: Company, Kenanga Research

JCY's liquidity ratios



Source: Company, Kenanga Research

6. EARNINGS FORECAST and KEY ASSUMPTION

Conservative earnings estimate. Our earning forecast for FY13 of RM303m is 17% below consensus. We believe consensus is overly bullish and yet to factor in slower demand ahead. JCY is poised to have lower unit shipments in the next few quarters due to lower consumer spending and the softness in the global economic condition as we have highlighted above. A risk of compression of its HDD ASP is likely to happen from 2HCY12 onwards. As for FY13, we expect JCY's revenue to be lower by a 7.4% YoY while net profit is estimated to be lower at a drop of -12.1% YoY to RM303.0m on lack of operating leverage

Utilization rate and capacity expansion. Based on our estimate, we believe the group's breakeven utilisation rate is set at 70%. We are expecting a 60%-70% utilisation rate in 2H12 and FY13 as the industry may affect by the slowdown in the PC market as well as the global softness in economic. Besides that, JCY's new plants in China (Suzhou and Foshan) are targeted to be completed in CY12. We only factor in the utilization rate of its new plants in CY13, which will boost the current total output by another 9% to 98m units in CY13.

Revenue. The HDD industry will record a CAGR of 9.6% for the period of 2011-2016 according to IDC (International Data Corporation). Meanwhile, the PC market is expected to grow 6.5% in 2013 and the research house is expecting worldwide PC shipment to grow 7.1% from 2013 to 2016.

However, we expect the group's revenue to grow by 33.4%, -7.4% and 3.3% in FY12, FY13 and FY14, respectively. We believe that JCY is poised to grow slower than expected as its customers may lower their orders in the next few quarters due to the stock pile effect and this trend will continue to CY13.

Foreign exchange fluctuation. Currently, we are using our in-house forecast of the average USD-RM of RM3.12 for CY12, RM3.06 for CY13 and RM2.91 for CY14 at this juncture.

Decent dividend. We estimate JCY to declare a total net dividend per share of 7.8sen, 5.2sen and 3.7sen for FY12, FY13 and FY14 respectively, which is more than its historical dividend trend due to decent earnings going forward and that would translate into a dividend yield of 3.7%-7.8%. Our 3.7sen-7.8sen DPS forecast is implied a dividend payout ratio of 35%. The decent dividend yield is inline with the general market but higher than its industry peer. Note that, the dividend yield for Notion, one of its smaller peer is estimated to record at 2.4%-3.3% for FY12-FY13E.

JCY's key assumption

	FY12E	FY13E	FY14E
ASPs (RM)	5.6	5.4	5.1
Group utilization rate (%)	73.5	62.8	63.7
Forex (USD/RM)	3.09	3.08	2.95

Source: Kenanga Research

7. VALUATION

Challenges keep us guarded on our valuation. Our TP is derived from 1.15x the P/BV ratio, which being at the bear horizon of JCY's P/B band since it went listing in year-2010. The stock had traded previously as much as 2.7x P/BV (+2 SD) when the market became optimistic then on JCY's earnings after the Thai flood. However, considering the weaker demand outlook now over the next 6 months and its lower earning visibility, we believe the stock's valuation could remain pressured and not discounting it could potentially trade below our target price. We are deriving our target price based on 1.15x, which is below its mean. However, there is downside of our target price if industry development turns further uncertain over next 6 months.

JCY's peer comparison

Company name	Market Capitalization	Last price	PBV
Notion Vtec	308.3	1.14	1.03
ENG Tek	242.8	1.99	1.01
Average			**1.02**

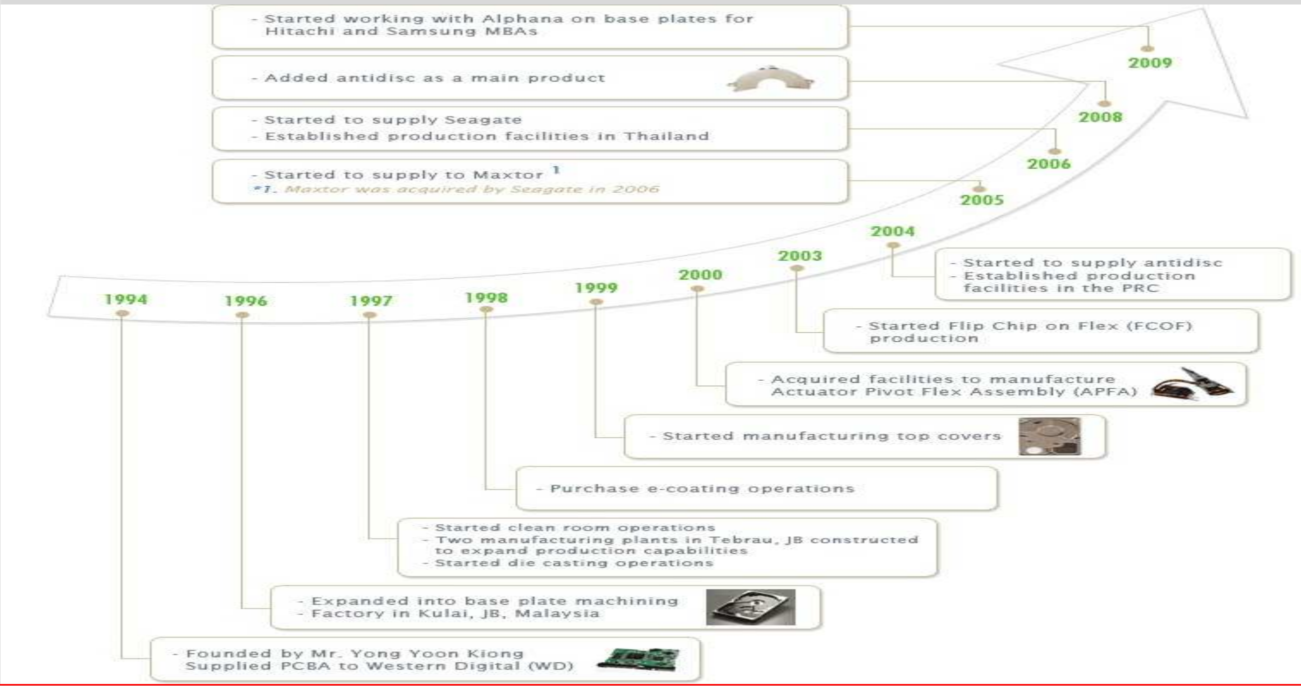
Source: Kenanga Research

8. APPENDIX

Company Background

JCY was incorporated in Malaysia on 21 Oct 2005. The group completed a restructuring in Mar 2006, where JCY acquired all of the operating assets and inventories owned by the Predecessor Group, excluding all of their liabilities and certain of their specified assets (such as non-core assets, accounts receivable and cash) and entered into new agreements from 1 Apr 2006 with all of the Predecessor Group's customers and suppliers. The Group commenced its business using the operating assets and inventories it acquired pursuant to this restructuring. The following diagram sets forth the milestones of the JCY Group including those of the Predecessor Group:

JCY's Milestone



Source: Company

Group Structure and Management Team

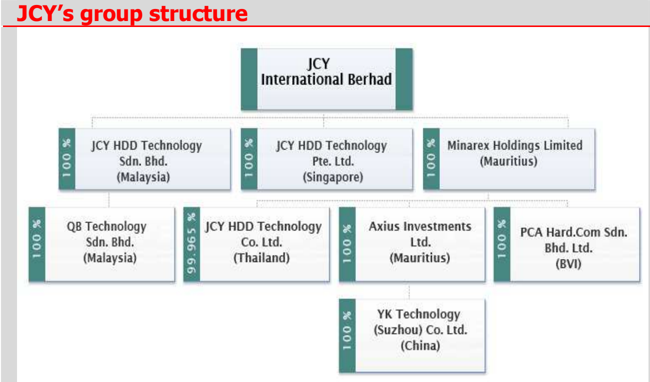
JCY is the holding company for the group and also undertakes design and development for the group. JCY HDD Malaysia is responsible for the group's manufacturing activities. Currently, the company's primary production activities include casting of base plates, assembly of actuators, antidiscs, stamping for top covers and E-coating. Meanwhile, JCY HDD Singapore serves as an intermediary for the group's marketing activities.

Besides that, Minarex Holdings (Mauritius) is an investment holding company and serves as the primary holding company for the group's operations in China and Thailand. QB Technology (Malaysia) is responsible for the manufacturing of magnetic coils to be used in the APFA. On the other hand, JCY HDD Thailand serves as the machinery centre for base plates and is also directly responsible for marketing and sales to its customers in Thailand.

Furthermore, Axius Investment (Mauritius) is an investment holding company and serves as the primary holding company for the group's operation in Jiangsu, China. PCA (BVI) mainly serves as an intermediary for the group's marketing and international procurement activities. YK Technology Suzhou will be primarily responsible for the manufacturing of actuator arms.

The group's key management team has more than 20 years of working experience on average. Mr. Goh Chye Kang is the Executive Director, Operation of JCY. Mr. Wong King Kheng, on the other hand, is the group's Executive Director, Finance.

JCY's group structure



Source: Company

Key Management Team Members

Name	Position
Dr Rozali Bin Mohamed Ali	Chairman Independent Non-Executive Director
Goh Chye Kang	Non-Independent Executive Director
Wong King Kheng	Non-Independent Executive Director
Tan Shih Leng	Non-Independent Executive Directors
Chang Wei Ming	Independent Non-Executive Directors
Chan Boon Hui	Independent Non-Executive Directors
Lim Ching Tee Peter	Non-Independent Executive Directors

Source: Company, Kenanga Research

Products by JCY

Base Plate

Base plate is the main component to which all other HDD components such as spindle motor, pivot and media are directly or indirectly attached in order to complete the assembly of a drive. It forms the base of HDD on which the top cover is secured. Base plates are typically made from aluminium, which is smelted, cast and machined to the required precision. A coating can be applied to the inside of the base plate to seal in minute particles. JCY's base plates are primarily used in 3.5" and 2.5" HDDs. The group designs, develops and manufactures a variety of base plates based on its customers' specifications.

Antidisc

Antidisc is a stationary disc separator plate to suppress turbulence near a disk drive read/write head. It is produced from an aluminium extruded stock/bar or aluminium die-casting parts. Typically, HDDs have multiple disks and a separator plate places between each pair of adjacent disks. There are only several key antidisc makers supplying to two major US HDD OEMs. They are Eng Tek , JCY and Notion Vtec.

Top Covers

Top covers are used to protect HDD from external contaminations such as dust. It is typically made of stainless steel. It is commonly come with a cover damper for sound attenuation to achieve near-zero operating noise. An FIPG (Form-in-place Gasket) is applied to the top cover to ensure a tight seal between the top cover and the base. JCY stamps the cover damper, the top cover and apply the FIPG gasket. These parts are then assembled by JCY to form the top cover assembly. JCY manufactures top cover assembly primarily for 3.5" and 2.5" HDDs. Customers provide JCY with basic specifications for the top cover assembly and JCY provide input from a DFM (design for manufacturing) and DFC (design for cost) perspective.

Actuators

The actuator are thin pieces of metal (stainless steel), which the head sliders and read/write heads are mounted. The thin pieces of metal usually are stainless steel and the actuator E-blocks are made of aluminium. Actuator arms move the heads to the desired location on the surface of the platters. The positioning movement must be extremely precise and quick because it affects the speed of the drive. The actuator arms are designed with different number of arms to cater to the number of heads required in the HDD. Most of the actuators suppliers are privately held companies, or subsidiaries of listed companies, such as Eng Tek.

Base Plate

Source: Company

Top Cover

Source: Company

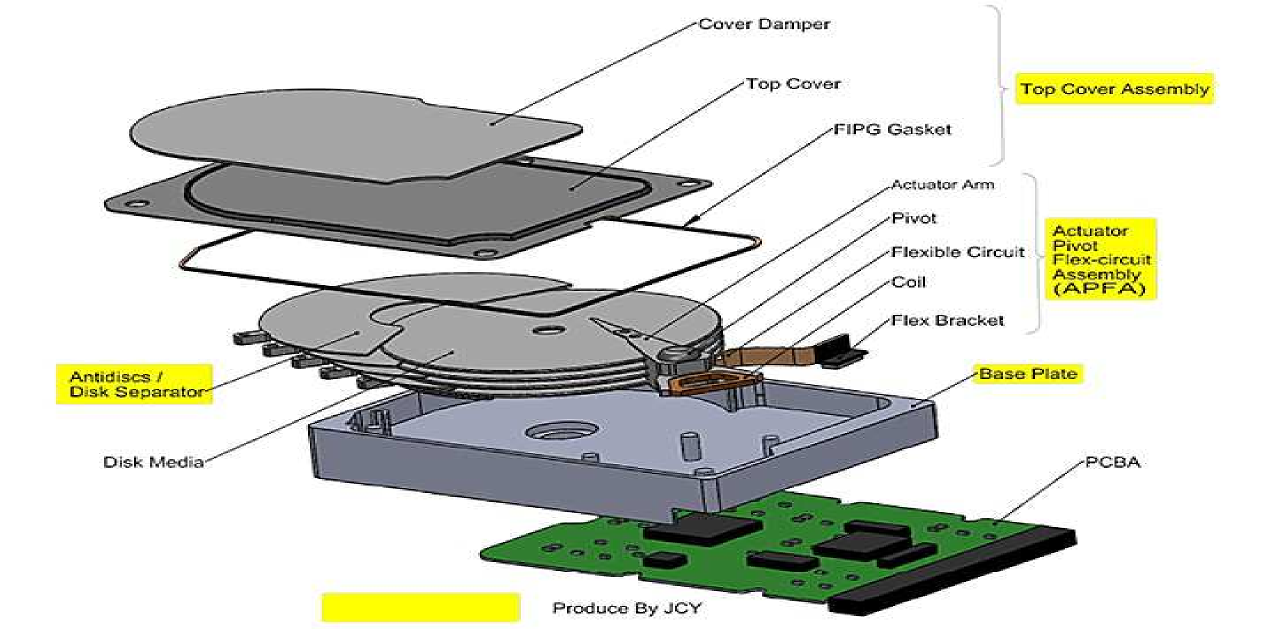
Antidisc

Source: Company

Actuator

Source: Company

Products by JCY



Source: JCY

Income Statement

FY Sep (RM m)	2010A	2011A	2012E	2013E	2014E
Revenue	2,033	1,671	2,229	2,064	2,132
EBITDA	282.0	116.6	600.0	432.9	345.2
Depreciation	93.7	98.3	131.1	121.4	125.4
Operating Profit	188.3	18.3	469.0	311.5	219.8
Other Income	0.0	0.0	0.0	0.0	0.0
Interest Exp	7.7	4.5	2.2	0.0	0.0
Associate	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
PBT	180.6	13.8	466.7	311.5	219.8
Taxation	6.9	0.4	12.7	8.5	6.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	173.8	13.5	454.0	303.0	213.8
Core Net Profit	173.8	13.5	454.0	303.0	213.8

Balance Sheet

FY Sep (RM m)	2010A	2011A	2012E	2013E	2014E
Fixed Assets	753.8	702.3	721.2	749.8	774.5
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other FA	0.0	0.0	0.0	0.0	0.0
Inventories	213.3	224.8	239.2	237.2	259.3
Receivables	344.5	336.9	449.3	416.1	429.9
Other CA	38.6	32.2	344.8	243.6	180.7
Cash	128.8	93.6	443.5	498.7	519.4
Total Assets	1,479	1,390	2,198	2,145	2,164
Payables	243.4	257.7	274.2	271.9	297.2
ST Borrowings	262.9	224.7	0.0	0.0	0.0
Other ST Liability	1.0	0.6	20.2	13.5	9.5
LT Borrowings	77.1	0.0	0.0	0.0	0.0
Other LT Liability	21.4	21.5	723.1	482.6	340.6
Minorities Int.	0.0	0.0	0.0	0.0	0.0
Net Assets	**873.2**	**885.3**	**1,180**	**1,377**	**1,516**
Share Capital	511.2	511.2	511.2	511.2	511
Reserves	362.0	374.1	669.2	866.1	1,005
Equity	**873.2**	**885.3**	**1,180**	**1,377**	**1,516**

Cashflow Statement

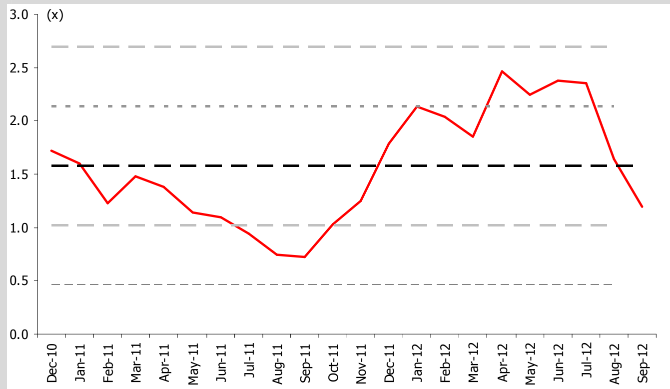
FY Sep (RM m)	2010a	2011A	2012E	2013E	2014E
Operating CF	184.3	130.2	883.5	311.2	245.6
Investing CF	-189.2	-38.8	-150.0	-150.0	-150.0
Financing CF	-99.2	-130.7	-383.6	-106.0	-74.8
Change In Cash	-104.1	-39.3	349.9	55.2	20.8
Free CF	-4.9	91.4	733.5	161.2	95.6
Capex	-189.2	-38.8	-150.0	-150.0	-150.0

Financial Data & Ratios

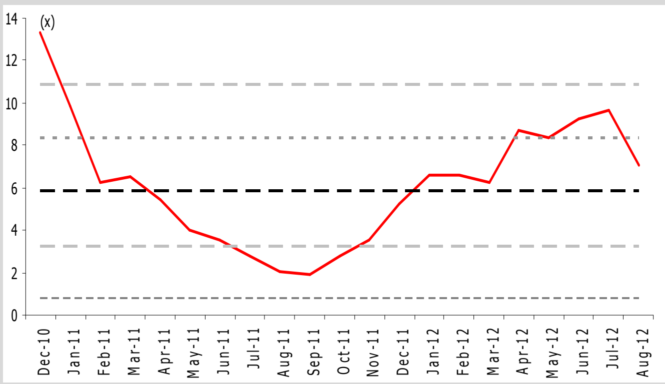
FY Sep (RM m)	2010A	2011A	2012E	2013E	2014E
Growth					
Turnover (%)	15.7	-17.8	33.4	-7.4	3.3
EBITDA (%)	-4.5	-58.7	414.7	-27.9	-20.3
Operating Profit (%)	-11.7	-90.3	2,462	-33.6	-29.4
PBT (%)	-12.3	-92.3	3,271	-33.3	-29.4
Core Net Profit (%)	-16.2	-92.3	3,271	-33.3	-29.4
Profitability (%)					
EBITDA Margin	13.9	7.0	26.9	21.0	16.2
Operating Margin	9.3	1.1	21.0	15.1	10.3
PBT Margin	8.9	0.8	20.9	15.1	10.3
Net Margin	8.5	0.8	20.4	14.7	10.0
Effective Tax Rate	3.8	2.7	2.7	2.7	2.7
ROA	11.7	1.0	20.7	14.1	9.9
ROE	19.9	1.5	38.5	22.0	14.1
DuPont Analysis					
Net Margin (%)	8.5	0.8	20.4	14.7	10.0
Assets Turnover (x)	1.4	1.2	1.0	1.0	1.0
Leverage Factor (x)	1.7	1.6	1.9	1.6	1.4
ROE (%)	19.9	1.5	38.5	22.0	14.1
Leverage					
Debt/Asset (x)	0.2	0.2	0.0	0.0	0.0
Debt/Equity (x)	0.4	0.3	0.0	0.0	0.0
Net Cash/(Debt)	-211.2	-131.1	443.5	498.7	519.4
Net Debt/Equity (x)	0.2	0.1	-0.4	-0.4	-0.3
Valuations					
EPS (sen)	8.5	0.7	22.2	14.8	10.5
GDPS (sen)	4.7	5.0	7.8	5.2	3.7
NTA (RM)	0.4	0.4	0.6	0.67	0.7
PER (x)	9.5	122.2	3.6	5.4	7.7
Gross Div. Yield (%)	5.8	6.2	9.7	6.4	4.5
P/NTA (x)	1.9	1.9	1.4	1.2	1.1
EV/EBITDA (x)	6.6	15.2	2.0	2.7	3.3

Source: Kenanga Research

Fwd PER Standard Deviation



Fwd PER Standard Deviation



Source: Kenanga Research; Bloomberg

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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