



JEP Holdings Ltd

Next phase is revenue growth

SINGAPORE | TECHNOLOGY MANUFACTURING | 2H19 RESULTS

4 March 2020

BUY (Maintained)

CLOSING PRICE	SGD 0.205
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.260
TOTAL RETURN	26.8%

COMPANY DATA

Bloomberg CODE:	JEP SP
O/S SHARES (MN):	414
MARKET CAP (USD mn / SGD mn):	61 / 85
52 - WK HI/LO (SGD):	0.25 / 0.14
3M Average Daily T/O (mn):	0.58

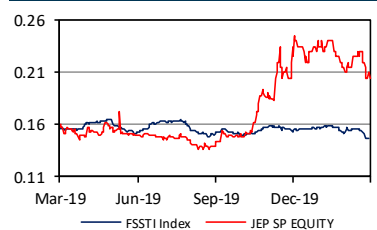
MAJOR SHAREHOLDERS

UMS Holdings Ltd	40.0%
Zee Hoong Huay	14.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.3)	(4.5)	32.9
STI RETURN	(4.6)	(5.3)	(2.7)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY18	FY19	FY20e	FY21e
Revenue	85.9	89.0	96.1	100.4
EBITDA	19.8	23.2	23.3	24.2
Net Profit	2.3	6.5	7.4	8.3
P/E (X)	37.0	12.7	11.2	9.9
ROE	4.4%	10.9%	10.9%	11.0%
ROA	2.0%	5.4%	5.9%	6.6%

Source: Company, PSR

VALUATION METHOD

14x PE Multiple

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- FY19 PATMI more than tripled to the S\$6.5mn, the highest on record.
- Results were below our forecast. We were too aggressive on our margin and revenue assumptions.
- The turnaround came from new management realigning the whole cost structure of the company and improving pricing.
- Maintain BUY. We are raising our target price to S\$0.26 (prev. S\$0.20). After major cost restructuring, we believe the next phase of growth will be expanding revenues and new customers. The aerospace supply chain is looking to outsource more from Asia but this will require time. Our higher target price is due to valuation expansion closer to industry peers. After the major turnaround, we expect more stable earnings which deserve higher valuations, in our opinion. We moved our target valuations from 10x to 14x peer and closer to industry peer.

Results at a glance

(SGD mn)	2H19	2H18	YoY	FY19	FY18	YoY (%)	Comment
Revenue	44.3	42.2	5%	89.0	85.9	4%	
- Precision Machining				61.6	51.2	20%	Aerospace the key revenue driver
- Trading & others				12.3	18.3	-33%	
- Equipment manufacturing				15.1	16.4	-8%	
Gross Profit	7.3	8.2	-10%	15.7	12.6	25%	
Selling & distribution exp.	(1.1)	(1.0)	11%	(2.1)	(2.1)	2%	
Administrative expense	(2.5)	(3.0)	-15%	(5.5)	(6.3)	-12%	Cost restructuring underway.
EBIT (before unallocated exp).				9.7	6.1	58%	
- Precision Machining				6.7	2.0	235%	
- Trading & others				1.0	2.0	-48%	The weakest division.
- Equipment manufacturing				2.0	2.2	-9%	
PATMI	3.2	2.6	21%	6.5	2.3	184%	
Gross margin	16.5%	19.3%	-15%	17.6%	14.7%	20%	

Source: Company, PSR

The Positive

+ Gross margins rebounded. FY19 Gross margins are the highest in a decade. We believe it is a combination of the lower cost of production after shifting more work to Malaysia and better pricing from customers.

+ Removed significant fixed cost. Total operating cost in FY19 fell 12.5% to S\$7.9mn. A large part of the decline was from administrative and other operating expenses. We believe the number of headcount in the company was rightsized.

The Negatives

- Revenues were below our expectations. We were modelling 7% YoY growth in revenue for FY19. Precision machining grew 20% due to more aerospace orders. There was disappointment in the non-aerospace business, namely semiconductor, oil and gas and trading business. Trading was affected by less manufacturing activity in China, which is their largest market.

Outlook

The outlook for FY20e will be driven by the stable growth from aerospace customers – Safran and Collins Aerospace. Another source of earnings growth will be margin expansion from more parts being made in Malaysia. The labour cost savings in Malaysia could be more than 50%.

The next phase of growth for JEP will be new customer programmes. There is a demand to outsource more aerospace parts from Asia due to price, diversification and the large backlog of aircraft orders. However, new initiatives will face a delay if the recent Covid-19 outbreak is prolonged. JEP is also looking for higher-end niche products, such as aerospace gears.

Maintain BUY with higher TP of S\$0.26 (prev. S\$0.20)

The aerospace components industry is trading around 23x PE (Figure 1). JEP should trade at a discount due to the size and lack of profitable track record until recently. Our initial 10x PE valuations were conservative. We are pegging a 14x PE, similar to Taiwanese and European peers.

Figure 1: Aircraft component makers trade around 23x PE

Company	1 Mth	3 Mth	YTD	Share Px Local Crcy	Mkt. Cap. (US\$ m)	Yr 0	PE	
	Perf.	Perf.	Perf.				Yr + 1	Yr + 2
Airplane manufacturer								
Boeng	-9.1%	-18.6%	-11.2%	289	162,903	-256.1	46.9	16.8
Airbus	-19.2%	-17.1%	-17.5%	108	93,632	-61.9	15.5	13.5
Bombardier	-13.0%	-46.8%	-45.3%	0.8	1,960	-1.1	-5.8	-31.9
Embraer	-8.7%	-12.2%	-21.1%	15	2,845	-19.0	-46.0	19.3
	-12.8%	-18.2%	-13.8%		261,340	-63.8	28.7	15.6
Engine makers								
United Technologies	-10.7%	-7.5%	-10.5%	134	116,012	21.0	16.3	14.3
General Electric	-10.0%	0.4%	0.4%	11	97,978	-19.7	20.1	15.1
Safran	-15.5%	-14.9%	-10.4%	123	58,520	21.5	18.8	16.4
Rolls-Royce	-8.1%	-11.6%	-9.9%	616	15,193	-9.0	21.9	15.3
MTU Aero Engine	-21.7%	-10.9%	-15.9%	214	12,622	23.3	19.8	18.0
	-7.6%	-3.8%	-3.1%		300,326	-88.4	32.2	25.5
Component makers								
<u>US</u>								
TransDigm	-11.6%	2.1%	1.5%	568	30,519	34.3	25.8	22.2
Spirit AeroSystems	-18.9%	-38.2%	-27.3%	53	5,551	10.5	293.1	12.2
<u>Europe</u>								
Meggitt	-19.7%	-13.6%	-17.4%	543	5,393	19.0	14.0	12.7
Senior	-11.7%	-19.6%	-14.9%	147	788	21.1	18.2	12.9
<u>S Korea</u>								
Hanwha Aero	-14.6%	-27.1%	-20.8%	27750	1,200	10.5	11.2	9.2
<u>Taiwan</u>								
Aerospace	-8.1%	-1.9%	-13.6%	31	973	14.0	14.2	12.8
Magnate Technology	-12.4%	-13.8%	-18.3%	22	51	12.6	17.1	12.5
Aero Win Tech	-4.2%	-7.4%	-8.6%	17	39	26.1	n.a.	n.a.
	-13.5%	-6.1%	-5.6%		44,513	23.1	24.6	17.6

Source: PSR, Bloomberg

Financials

Income Statement

Y/E Dec, SGD '000	FY17	FY18	FY19	FY20e	FY21e
Revenue	86,093	85,865	88,962	96,064	100,428
Gross profit	9,933	12,591	15,694	17,003	17,675
EBITDA	18,346	19,812	23,234	23,334	24,156
Depreciation & amortisation	5,518	5,933	6,457	5,406	5,556
EBIT	12,067	13,756	16,654	17,803	18,475
Net Finance Inc/(Exp)	(1,427)	(1,531)	(1,816)	(1,176)	(878)
Profit before tax	(254)	3,181	6,921	8,173	9,239
Taxation	437	(886)	(403)	(817)	(924)
Net profit, reported	183	2,295	6,518	7,356	8,315

Per share data (SGD Cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS, Reported	0.2	0.6	1.6	1.8	2.1
DPS	0.1	0.0	0.0	0.0	0.0
BVPS	13.4	13.2	14.8	16.8	18.9

Cash Flow

Y/E Dec, SGD '000	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	(254)	3,181	6,921	8,173	9,239
Adjustments	6,753	9,332	8,692	6,707	6,559
WC changes	(343)	(855)	3,529	(3,536)	(1,883)
Cash generated from ops	6,156	11,658	19,142	11,344	13,916
Tax paid	(31)	-	-	(817)	(924)
Cashflow from ops	4,917	10,129	17,328	9,351	12,113
CFI					
CAPEX, net	(9,946)	(3,475)	(971)	(3,000)	(3,000)
Others	(1,633)	(3,723)	467	-	-
Cashflow from investments	(11,579)	(7,198)	(504)	(3,000)	(3,000)
CFF					
Share issuance, net	32	2,593	1,415	-	-
Loans, net of repayments	6,453	(5,251)	(5,615)	(6,360)	(4,465)
Dividends	(436)	-	-	-	-
Others	(1,181)	(1,966)	(5,222)	-	-
Cashflow from financing	4,868	(4,624)	(9,422)	(6,360)	(4,465)
Net change in cash	(1,794)	(1,693)	7,402	(9)	4,648
CCE, end	6,234	4,541	11,943	11,934	16,582

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Accounts receivables	24,252	22,713	20,914	25,828	26,367
Cash	6,234	4,541	11,943	11,934	16,582
Inventories	13,775	15,741	15,005	16,982	17,293
Total current assets	44,261	42,995	47,930	54,812	60,310
PPE & IA	72,048	69,054	71,687	69,156	66,475
Others	857	91	8	8	8
Total non-current assets	72,905	69,145	71,695	69,164	66,483
Total Assets	117,166	112,140	119,625	123,976	126,793

LIABILITIES

Accounts payable	16,466	15,487	17,278	20,633	19,599
Short term loans	14,323	11,105	5,808	7,303	8,914
Finance leases	1,850	2,003	1,508	1,508	1,508
Others	2,000	-	-	-	-
Total current liabilities	34,639	28,595	24,594	29,444	30,021
Long term loans	27,498	25,551	25,260	17,405	11,329
Deferred tax liabilities	478	1,295	1,614	1,614	1,614
Others	5,706	4,572	8,097	8,097	8,097
Total non-current liabilities	33,682	31,418	34,971	27,116	21,040
Total Liabilities	68,321	60,013	59,565	56,560	51,061

Equity

Non-controlling interests	1,600	-	-	-	-
Shareholder Equity	48,845	52,127	60,060	67,416	75,732

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	90.4	37.0	12.7	11.2	9.9
P/B (X)	1.5	1.6	1.4	1.2	1.1
EV/EBITDA (X)	5.3	4.7	3.5	3.2	2.7
Dividend Yield (%)	0.9%	0.0%	0.0%	0.0%	0.0%

Growth & Margins

Growth

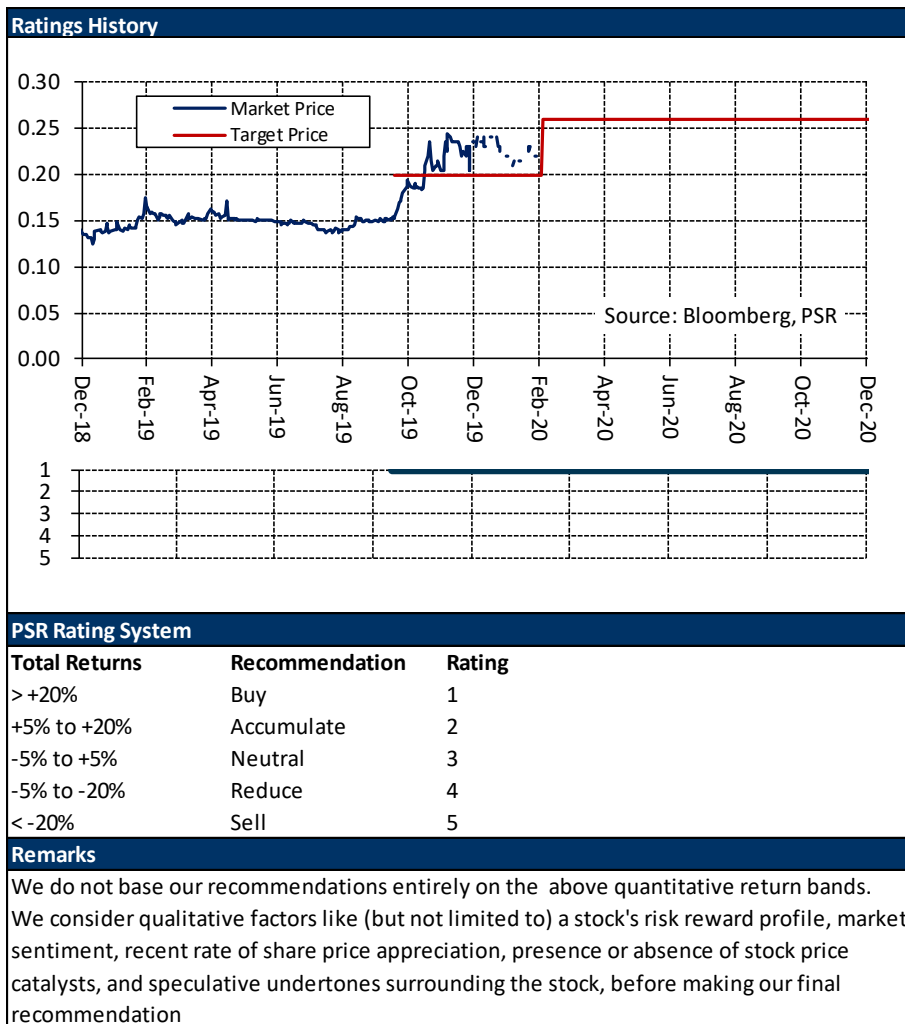
Revenue	19.7%	-0.3%	3.6%	8.0%	4.5%
EBITDA	29.4%	8.0%	17.3%	0.4%	3.5%
EBIT	26.9%	14.0%	21.1%	6.9%	3.8%
Net profit, adj.	N.M.	1154.1%	184.0%	12.9%	13.0%

Margins

Gross margin	11.5%	14.7%	17.6%	17.7%	17.6%
EBITDA margin	21.3%	23.1%	26.1%	24.3%	24.1%
EBIT margin	14.0%	16.0%	18.7%	18.5%	18.4%
Net profit margin	0.2%	2.7%	7.3%	7.7%	8.3%

Key Ratios

ROE	0.4%	4.4%	10.9%	10.9%	11.0%
ROA	0.2%	2.0%	5.4%	5.9%	6.6%
Net Gearing	72.9%	61.6%	31.8%	18.9%	4.8%
Net Debt/EBITDA (X)	1.9	1.6	0.8	0.5	0.2



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