Jadi sets the tone for better days ahead

by yvonne tan

Jadi's head office in Shah Alam. The company is the only toner manufacturer in Malaysia and the largest in Asia- Pacific.

JADI Imaging Holdings Bhd is one of those companies that attracted a fair bit of attention when it was first listed but disappeared off the radar before it could come close to being a favourite with investors.

A reason for this could be that investors were put off by the ink toner manufacturer's huge capital expenditure (capex) that has been a drag on the company's profits post-initial public offering (IPO).

At the height of investor interest in the company which makes toners mainly for printers, photocopiers and fax machines, its shares surged to 47.5 sen.

At last look, it was 18.5 sen, a shade below 19.55 sen per share, which was the initial cost of the stock at the point of IPO.

"Investors are mostly alike – if the stock is performing, everybody chases it. Once it's quiet, everyone stays away," laments executive chairman and group chief executive officer K.S. Liew.

Liew, who controls 32.2% of Main Market-listed Jadi, says over the last few years, the company has been busy focusing on growing its business at the expense of a ballooning capex. For a small company, it has spent at least RM100mil over the past four to five years and still has to make depreciation charge-outs because of this for a seemingly long time.

Net profit margins have also been squeezed to below 3% from the previous double-digits.

"We've thought of making several big write-offs but are still weighing our options," Liew says.

Cashflow-positive

Still, the depreciation charges, he says, are mainly on non-cashflow items. "So, we are still cashflow-positive. The heavy capex will be good in the long-term, if we didn't go for it, we will still be at one factory."

Nothwistanding its high capex, Liew says the money, which was mainly internally-generated, was used for investments in "several projects", which he hopes will eventually bear fruit and lift the company to a new phase of growth.

"We expect to see some form of results on our bottom and top-line by next year but our plans are mostly for the long-term."

Among its investments, it has spent about RM20mil on producing its own resin, the main raw material for the production of its toner products which total about 100.

This will save the company about RM3mil a year, according to Liew, and could possibly make it more money when the company is ready to sell it to third parties, possibly by next year.

Jadi has also invested in the production of higher-value chemically-produced toners that should fetch higher margins than its current conventional toners.

He admits that the plan to venture into chemically-produced toners has been on the plate for some time.

"We have been experiencing some hiccups but recently have had Japanese expertise to come in and fine-tune things and so are on track to start on this soon."

Liew also has a merger and acquisition (M&A) strategy planned for Jadi and is speaking with several "strategic" investors, which he hopes can add value to its current network of customers as part of its efforts to shore up profits.

It is also studying new areas of printing, including for commercial packaging.

Liew: ‘We have no competitor in Malaysia; our competitors are mainly from China and Taiwan.’

For the financial year ended Dec 31, 2013, the company made a net profit of RM2.2mil on a revenue of RM75.2mil. In its most recent quarter ended March 31, it registered a net profit of RM170,000 on revenue of RM17.8mil.

“We are going through a few phases of expansion. When we first got listed in 2006, we were very small – at that point in time, we had one factory. Now we have four including one in Suzhou, China.”

All of its facilities are currently running at a 60% capacity utilisation rate, according to Liew.

The company is the only toner manufacturer in Malaysia and the largest in Asia-Pacific, with a production capacity of about 8,000 tonnes a year.

“We have no competitor in Malaysia; our competitors are mainly from China and Taiwan.”

In the global after-market, it has about 2% market share. “So, there remains a lot of potential,” Liew says.

Sunset Industry?

He says while it cannot be denied that with the advent of technology, there has been a downtrend when it comes to the printing industry, this is often generalised.

“A lot of people say printing is sunset but you have to look at it as having different segments.

“For the consumer/home printing business, yes, it is tapering off but this is not the biggest market. The biggest market is office printing and that has never come down, it has actually moved on to colour printing which offers higher value and which is a growth area we are looking at.”

Citing reports, he notes that sales in the global colour printing market are currently at about US$25bil (RM79bil), which suggests huge potential for Jadi.

He cites another catalyst for Jadi’s growth, moving forward.

"One of the main players based in South Korea, LG Chem Ltd, has decided to stop its toner production business. This is an opportunity for us to tap into their markets."

According to reports, LG Chem currently manufactures up to 6,000 tonnes of toner per year for major IT companies' products spread over 50 countries.

"Our capacity is about 8,000 tonnes per year. Last year, we did only about 4,000 tonnes. By the end of this month, LG Chem will reportedly stop, so we think we can tap into some of its markets," he says.

Export markets

Almost all of Jadi's toners are exported, with only about 2% of the sales being local business.

Asia-Pacific is its biggest market at the moment, with South America and Eastern Europe "getting to be important".

"We hope to look at more developed markets which will have demand for higher-value products," Liew says.

The main challenge of its business has not changed over the years, Liew says.

"In a business like ours, the biggest challenge is always in research and development as original equipment manufacturers keep introducing new models of machines and for every machine, there is a different (toner) formulation needed."

Despite the struggles that the company is experiencing, Liew appears adamant to pull the company through.

"We have actually been approached for possible reverse takeover exercises and have also considered taking the company private.

"But what was the objective of our listing? We wanted to build our company to become a bigger entity and that's what we are going to do – the next few years will be our new phase of growth.

"We will get back to our double-digit net profit margin."

Such optimism from the head of a company is welcomed. Naturally, it is hard to predict when exactly its goals will materialise.