

Equity Beat

24 February 2010

FY09 Results Review

JT International Berhad

Resilient in a challenging environment

Maintain NEUTRAL

Target Price (TP): RM4.80

- JTI recorded a net profit of RM108 million in FY09, well within expectation, which represents 104% of our full year forecast.
- Total industry volumes declined by 11%yoy in FY09. However, JTI recorded top line and bottom line growth of 12%yoy and 10%yoy respectively driven by higher cigarette prices.
- JTI also successfully enlarged its overall market share to 18.5% in 2009 from 17.6% a year earlier.
- JTI is a well-run company but it suffers from a flattish earnings trend due to the difficult industry environment. It is a good dividend-play stock but do expect a flattening dividend rate going forward with an estimated long-term maintainable dividend per share of 30 sen. We maintain a NEUTRAL on JTI with a target price of RM4.80, based on the Dividend Discount Model.

STOCK INFO

Price (23 Feb 10)	RM5.09	KLCI	1,266.43
Issued shares (mil)	261.5	Bursa / Bloomberg	2615 / RJR MK
Par Value (RM)	1.00	Board / Sector	Main/ Consumer
Market cap. (RM'm)	1,331.2	Syariah Compliant	No
Price over NA	2.88		
52-wk price Range	RM3.80–RM5.28	Major Shareholders	
Beta (against KLCI)	0.51	JT International Holdings	60.37%
3-mth Avg Daily Vol	0.08m	EPF	7.38%
3-mth Avg Daily Value	RM0.39m	Skim ASB	4.98%

Illegal cigarettes exert pressure on TIV. In 2009, the overall total industry volume (TIV), as measured by the Confederation of Malaysian Tobacco Manufacturers (CMTM), declined by more than 11% versus the previous year. The reduction in TIV was driven by the challenging economic conditions, which fueled the acceleration in the growth of illicit (contraband and counterfeits) cigarettes. The growth of the illicit cigarettes exerts downward pressure on TIV hence it remains as the number one threat to the legitimate cigarette manufacturers. In a recent survey conducted by the CMTM, it showed that around 38% of cigarettes sold in Malaysia are illicit.

But JTI managed to snare market share from its competitors. Despite the dire challenges confronting the cigarette industry, JTI successfully enlarged its overall market share to 18.5% in 2009 from 17.6% in the previous year (source: AC Nielsen Retail Audit Report). The strong performance in overall market share growth was driven primarily by its value-segment leader 'Winston', which increased its market share to an all-time high of 9.8% in 2009 from 8.5% in the prior year.

Higher top line and bottom line numbers due to higher cigarette prices. JTI's revenue in FY09 grew by 12% to RM1,158.2 million as compared with revenue of RM1,038.5 million in the same period last year. Earnings in FY09 were higher by 10% at RM108.3 million compared with RM98.2 million for the prior corresponding period. The increase in both revenue and earnings were mainly driven by higher cigarette prices, offset partially by higher


FYE Dec 31	FY07	FY08	FY09	FY10F
Revenue (RM'm)	862.1	1,038.5	1,158.2	1,196.4
Op Profit (RM'm)	105.4	126.2	141.3	145.5
Pretax Profit (RM'm)	114.1	134.1	143.6	148.2
Net Profit (RM'm)	81.1	98.2	108.3	108.2
EPS (sen)	31.0	37.5	41.4	41.4
EPS growth (%)	-6.6%	21.0%	10.4%	-0.1%
PER(x)	16.4	13.6	12.3	12.3
Net Dividend (sen)	36.9	50.2	29.0	30.0
Net Dividend Yield (%)	7.2%	9.9%	5.7%	5.9%

Source: Company, Forecasts by MIDFR

marketing expenditure and lower interest income. In 4Q09, JTI recorded a 19% increase in revenue to RM301.3 million as compared with RM253.2 million for the corresponding period last year. The increase in top line figure was attributed to higher cigarette prices and higher sales volume. Earnings in 4Q09 were higher by 98% at RM18.6 million compared with RM9.4 million for the same period last year. Higher earnings were also driven by higher cigarette prices and sales volume, but partially offset by higher marketing expenditure.

Challenging outlook. The problem of illicit cigarettes will continue to be a bane to the industry in the foreseeable future. JTI, in its commentary, is “appreciative of the efforts by various Government agencies to combat this serious concern and remains committed to working closely with the Malaysian Government to combat the illicit cigarettes”. Notwithstanding the accolades, the Government on its part is expects to continue on with its struggle against the ‘menace’ of smoking. Furthermore, industry players can expect further challenges in the operating environment going forward:

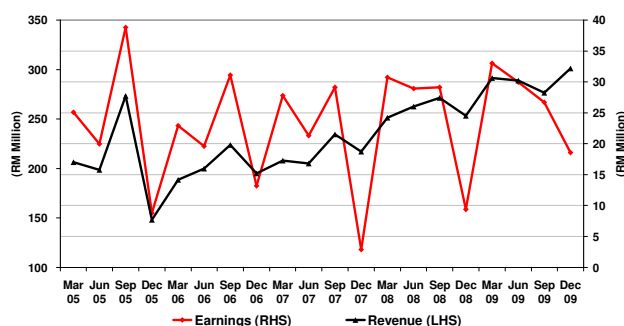
1. Beginning January 2010, the liberalization of tobacco trade as a result of the implementation of the ASEAN Free Trade Agreement (AFTA).
2. Minimum cigarette price for a packet of 20 cigarette sticks is now RM6.40, with restrictions on downward price adjustment.
3. Prohibition on sales of cigarette packets containing less than 20 sticks, effective in June 2010.

Maintain NEUTRAL recommendation on JTI with a target price of RM4.80. Not unlike other cigarette companies, JTI normally paid out its entire earnings as dividend due to the industry’s weary investment prospects. During the past five years, its net dividend yields have averaged at about 8%. A dividend-play stock is most appropriately valued via the dividend discount model (DDM). With an estimated long-term maintainable dividend per share of 30 sen and a required return of 6.24% (Beta=0.51; Market=8.14%; Risk-free=4.27%), we arrive at a value of RM4.80. Hence we maintain our NEUTRAL recommendation on JTI with a target price of RM4.80. 

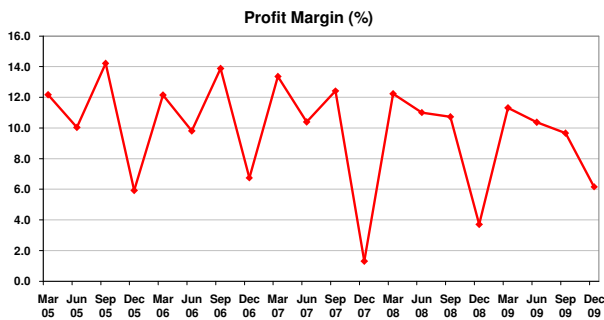
Annual Decline in Legal TIV				
2005	2006	2007	2008	2009
-8.2%	-10.4%	-4.0%	-1.5%	-11.2%

Market Share of Illicit Cigarettes				
2005	2006	2007	2008	2009
17%	20%	24%	26%	38%

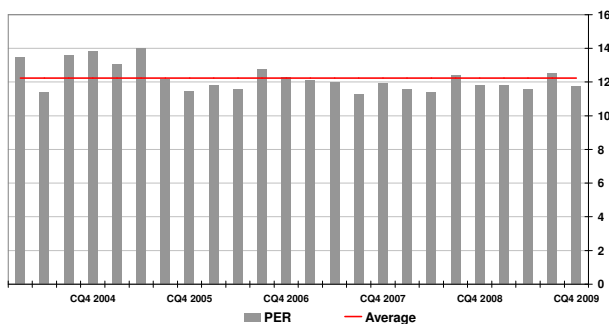
Source: CMTM



Slight rebound in sales volume and higher cigarette prices contributed to higher QoQ revenue in 4Q09. However QoQ earnings declined due to higher marketing expenditure.



Profit margin retreated in 4Q09 due to higher marketing and operating expenditures.



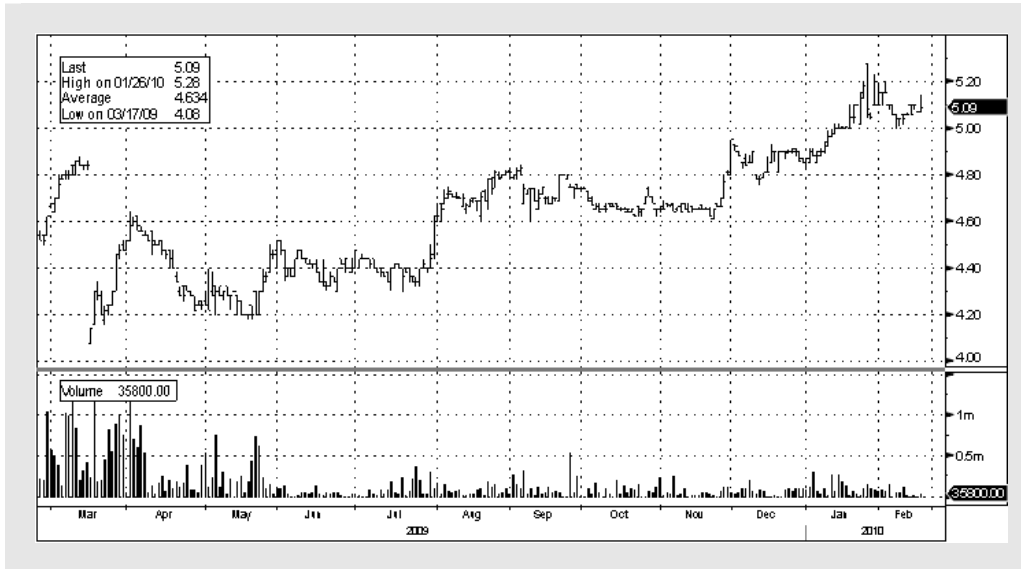
Stock is currently trading at near its historical average PER of 12.2x.

JT International: FY09 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
Revenue	301.3	19.0%	9.0%	1,158.2	11.5%	Higher cigarette prices and strengthening market share
Op profit	21.4	107.2%	-40.2%	141.3	12.0%	Lower marketing expenditure
Interest expense	0.4	-78.6%	8.8%	2.3	-71.2%	
Pre-tax profit	21.8	78.9%	-39.7%	143.6	7.1%	As above
Tax	-3.2	14.1%	-65.9%	-35.3	-1.7%	
Net Profit	18.6	98.3%	-30.5%	108.3	10.3%	As above
EPS (sen)	7.1	98.3%	-30.5%	41.4	10.3%	
		+/- ppts	+/- ppts		+/- ppts	
Op margin	7.1%	3.0	-5.8	12.2%	0.1	
Tax rate	14.7%	-8.4	-11.3	24.6%	-2.2	

Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.