

Malaysia

HOLD (previously REDUCE)

Consensus ratings*: Buy 0 Hold 0 Sell 2

Current price:	RM1.71
Target price:	RM1.89
Previous target:	RM1.35
Up/downside:	10.5%
CGS-CIMB / Consensus:	31.7%
Reuters:	DPPM.KL
Bloomberg:	DPP MK
Market cap:	US\$133.5m
	RM559.8m
Average daily turnover:	US\$0.02m
	RM0.08m
Current shares o/s:	327.3m
Free float:	38.1%

*Source: Bloomberg

Key changes in this note

➤ FY20-21F EPS increased by 9.3-13.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.2	-11.4	-14.9
Relative (%)	0	-6.2	-3.2

Major shareholders

	% held
Scientex Bhd	61.9

Analyst(s)

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Daibochi Bhd

19MFY19: A new beginning

- At 95% of our full-year forecast, FY19 core net profit was 5% below our forecast (but 8% above consensus) due to higher-than-expected expenses.
- In FY2019, Daibochi wrote down RM11.4m worth of inventory and recognised another RM6.4m in M&A-related costs. However, these were non-core items.
- We raise our earnings forecast and TP to reflect potential synergies from the acquisition of MPP.

Lower FY19 core net profit due to higher-than-expected expenses

Daibochi's 19-month FY19 core net profit was RM34.8m, 5% short of our RM36.6m net profit forecast, likely due to higher-than-expected expenses in the past four months as the new Scientex management strengthened Daibochi's balance sheet. In FY19, the company wrote down RM11.4m worth of inventory and recognised another RM6.4m in M&A-related costs. However, these were non-core items. No final DPS was declared, in line with our expectations.

Acquisition of Mega Printing & Packaging completed in Aug 2019

In Aug 2019, Daibochi completed the acquisition of a 100% stake in Melaka-based low-cost plastic flexible packaging producer Mega Printing & Packaging Sdn Bhd (MPP) for RM125m in cash. With MPP under its umbrella, Daibochi can now focus on providing higher-end value-added products to MNC customers, while MPP handles the low-cost price-sensitive local orders.

Net debt rises after buying MPP but is not a concern

Post MPP acquisition, Daibochi's net debt would rise from RM43.9m or 0.21x net gearing at end-Jul 2019 to RM137m net debt or 0.66x net gearing. Nevertheless, management plans to further improve Daibochi's working capital and cashflow over the next few quarters. According to management, the MPP acquisition is already EPS accretive. Post MPP acquisition, interest expense is expected to rise by around RM5m annually but this should be offset by MPP's PBT. In FY2018, MPP recorded a revenue of RM131.9m and PBT of RM9.2m.

Upgrade from Reduce to Hold

We raise our FY20-21F EPS by 9.3-13.6% after consolidating MPP's earnings. We have also added a new FY22F EPS. We have not assumed any positive synergies from MPP. Our TP rises from RM1.35 to RM1.89, based on a 2020F 15.6x P/E, a 20% premium to the packaging target 2020F P/E of 13x (previously no premium); the premium is to reflect potential synergies with MPP. We upgrade the stock from Reduce to Hold as we see better times ahead for Daibochi with potential positive synergies with MPP. A rise in borrowing interest rates is a potential downside risk, while strong synergies from the MPP acquisition and stronger-than-expected earnings are key upside risks to our Hold call.

Financial Summary

	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Revenue (RMm)	699.4	631.4	694.9	726.9
Operating EBITDA (RMm)	69.30	80.47	93.55	94.65
Net Profit (RMm)	17.30	36.47	46.71	47.80
Core EPS (RM)	0.09	0.10	0.13	0.13
Core EPS Growth	21.4%	15.5%	28.1%	2.3%
FD Core P/E (x)	19.23	16.65	12.99	12.70
DPS (RM)	0.035	0.045	0.055	0.058
Dividend Yield	2.05%	2.63%	3.22%	3.39%
EV/EBITDA (x)	9.75	9.83	8.31	7.66
P/FCFE (x)	11.33	22.92	12.46	9.62
Net Gearing	19.1%	62.4%	50.5%	27.9%
P/BV (x)	2.95	2.69	2.40	2.17
ROE	15.5%	16.9%	19.5%	18.0%
% Change In Core EPS Estimates		13.6%	9.3%	
CGS-CIMB/Consensus EPS (x)		0.93	1.13	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

19MFY19: A new beginning

Figure 1: Results Comparison

FYE Jul (RM m)	7QFY19	4QFY18	yoy % chg	qoq % chg	19-mth FY19 cum	12-mth FY18 cum	yoy % chg	Prev. FY19F	Comments
Revenue	123.3	-	-	-	699.3	430.8	62.3	649.2	Above, strong export and domestic revenue
Operating costs	(111.2)	-	-	-	(630.1)	(386.5)	63.0	(586.5)	
EBITDA	12.1	-	-	-	69.2	44.3	56.2	62.7	
<i>EBITDA margin (%)</i>	<i>9.8</i>	-	-	-	<i>9.9</i>	<i>10.3</i>	<i>(3.8)</i>	<i>9.7</i>	Below, hit by RM2.7m inventory writedown
Depn & amort.	(4.0)	-	-	-	(22.9)	(14.0)	63.6	(21.0)	
EBIT	8.1	-	-	-	46.3	30.3	52.8	48.2	
Interest expense	(1.0)	-	-	-	(6.1)	(3.8)	60.5	(5.8)	Below, falling debt RM43.9m net debt or 0.21x net gearing
Interest & int inc	0.1	-	-	-	0.3	0.1	200.0	0.0	
Associates' contrib	0.4	-	-	-	1.9	1.1	72.7	0.0	
Exceptionals	(6.8)	-	-	-	(17.5)	(7.1)	<i>nm</i>	(15.3)	Above, inventory writedown and M&A related costs
Pretax profit	0.8	-	-	-	24.9	20.6	20.9	27.1	Below, further kitchen sinking costs in 7QFY19
Tax	(0.5)	-	-	-	(4.6)	(3.8)	21.1	(3.8)	
Tax rate (%)	62.5	-	-	-	18.5	18.4	0.1	14.0	
Minority interests	(0.6)	-	-	-	(3.0)	(0.7)	<i>nm</i>	(2.0)	
Net profit	(0.3)	-	-	-	17.3	16.1	7.5	21.3	Below, hit by inventory writedown and M&A related costs
Core net profit	7.6	-	-	-	34.8	23.2	50.0	36.6	Below, likely hit by other costs
EPS (sen)	(0.1)	-	-	-	4.9	4.5	7.5	6.0	
Core EPS (sen)	2.1	-	-	-	9.8	6.5	50.0	10.3	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Working on synergies from the acquisition of MPP➤

Daibochi is looking to tap the potential synergies with MPP in areas such as bulk purchasing of raw materials and sharing of marketing and distribution network. We have not assumed any potential synergies from the MPP acquisition in our earnings forecasts.

High raw material prices not sustainable➤

Raw material prices like polyethylene were falling over the past few months until the recent drone attack on Saudi Arabia's oil facilities. With industry oversupply of polyethylene and polyester, we expect Daibochi's raw material prices to fall over the next few months.

7QFY19 results briefing highlights

Reduced inventory levels➤

Since Scientex took over Daibochi's operations in Apr 2019, management has been able to reduce inventory levels for its Malaysia operations, from RM93.9m at end-Mar 2019 to RM62.4m at end-Jul 2019, which is a RM31.5m decline. Management is also looking to trim down inventory levels at its Myanmar operations over the next few quarters.

Launch environment-friendly materials with local customer➤

Over the past one year, the company has been working with an MNC customer on environmentally-friendly packaging materials that do not use polyester. Testing is still ongoing with its MNC customer on this product. The company is targeting to launch this non-polyester material with a local beverage customer by 1QCY2020.

Streamline and reorganise operations to boost efficiency➤

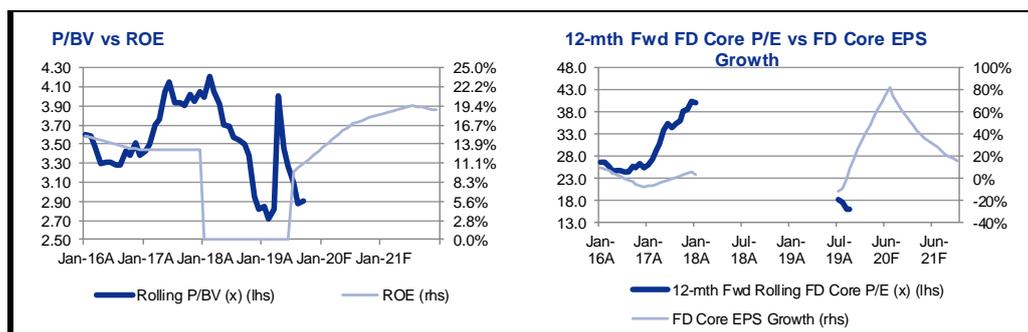
As part of its efforts to streamline its operations, Daibochi is looking to i) undertake inventory revaluation and reduction, ii) implement the just-in-time model for efficiency improvements, iii) prioritise efficient machinery, while retiring older printing lines, and iv) streamlined workforce for its Malaysia operations from 936 to 770 workers. We understand that more than 50% of the employees

who were cut were contract workers, while the remaining were transferred to Scientex's operations.

Figure 2: Earnings revision

	Old			New			Change (%)		
	Jul-2020F	Jul-2021F	Jul-2022F	Jul-2020F	Jul-2021F	Jul-2022F	Jul-2020F	Jul-2021F	Jul-2022F
Revenue	495.7	555.2	-	631.4	694.9	726.9	27.4%	25.2%	-
EBITDA	61.3	74.7	-	76.1	89.8	92.9	24.1%	20.1%	-
PBT	43.1	56.3	-	52.7	66.3	69.3	22.2%	17.7%	-
Net profit	32.1	42.7	-	36.5	46.7	47.8	13.6%	9.3%	-

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Total Net Revenues	699.4	631.4	694.9	726.9
Gross Profit	69.3	80.5	93.6	94.6
Operating EBITDA	69.3	80.5	93.6	94.6
Depreciation And Amortisation	(22.9)	(20.9)	(21.0)	(21.1)
Operating EBIT	46.4	59.6	72.6	73.5
Financial Income/(Expense)	(5.9)	(6.9)	(6.3)	(4.3)
Pretax Income/(Loss) from Assoc.	1.9	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	42.4	52.7	66.3	69.3
Exceptional Items	(17.5)			
Pre-tax Profit	24.9	52.7	66.3	69.3
Taxation	(4.6)	(14.0)	(17.1)	(19.0)
Exceptional Income - post-tax				
Profit After Tax	20.3	38.7	49.1	50.3
Minority Interests	(3.0)	(2.2)	(2.4)	(2.5)
Preferred Dividends	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	17.3	36.5	46.7	47.8
Recurring Net Profit	31.6	36.5	46.7	47.8
Fully Diluted Recurring Net Profit	31.6	36.5	46.7	47.8

Cash Flow

(RMm)	Jul-19A	Jul-20F	Jul-21F	Jul-22F
EBITDA	69.30	80.47	93.55	94.65
Cash Flow from Inv. & Assoc.				
Change In Working Capital	(0.90)	(29.98)	(17.71)	(2.56)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	0.79	1.00	1.00	1.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00
Tax Paid	(4.60)	(14.00)	(17.14)	(19.00)
Cashflow From Operations	64.59	37.49	59.70	74.09
Capex	(10.00)	(10.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/Investments	0.00	0.00	0.00	0.00
Other Investing Cashflow	(1.00)	(1.00)	(1.00)	(1.00)
Cash Flow From Investing	(11.00)	(11.00)	(11.00)	(11.00)
Debt Raised/(repaid)	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00
Dividends Paid	(7.47)	(15.50)	(19.67)	(20.65)
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	(7.47)	(15.50)	(19.67)	(20.65)
Total Cash Generated	46.12	10.99	29.04	42.44
Free Cashflow To Equity	53.59	26.49	48.70	63.09
Free Cashflow To Firm	53.59	26.49	48.70	63.09

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Total Cash And Equivalents	18.6	21.7	21.7	44.9
Total Debtors	89.3	89.3	89.3	89.3
Inventories	62.4	88.4	111.2	116.3
Total Other Current Assets	3.7	3.7	3.7	3.7
Total Current Assets	174.0	203.1	225.9	254.2
Fixed Assets	139.4	264.4	253.4	242.3
Total Investments	0.0	0.0	0.0	0.0
Intangible Assets	32.4	32.4	32.4	32.4
Total Other Non-Current Assets	19.3	19.3	19.3	19.3
Total Non-current Assets	191.1	316.1	305.1	294.0
Short-term Debt	57.4	59.1	43.6	11.6
Current Portion of Long-Term Debt				
Total Creditors	54.5	50.5	55.6	58.1
Other Current Liabilities	0.2	0.2	0.2	0.2
Total Current Liabilities	112.1	109.8	99.4	69.9
Total Long-term Debt	5.3	120.1	120.0	120.0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	17.5	36.8	30.4	47.8
Total Non-current Liabilities	22.8	156.9	150.4	167.8
Total Provisions	0.0	0.0	0.0	0.0
Total Liabilities	134.9	266.7	249.8	237.7
Shareholders' Equity	206.1	226.1	252.4	279.1
Minority Interests	24.2	26.4	28.8	31.3
Total Equity	230.3	252.5	281.2	310.4

Key Ratios

	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Revenue Growth	80.0%	(9.7%)	10.1%	4.6%
Operating EBITDA Growth	35.6%	16.1%	16.3%	1.2%
Operating EBITDA Margin	9.9%	12.7%	13.5%	13.0%
Net Cash Per Share (RM)	(0.12)	(0.44)	(0.40)	(0.24)
BVPS (RM)	0.58	0.64	0.71	0.79
Gross Interest Cover	N/A	N/A	N/A	N/A
Effective Tax Rate	18.5%	26.6%	25.9%	27.4%
Net Dividend Payout Ratio	43.1%	35.3%	30.2%	28.9%
Accounts Receivables Days	64.69	51.77	46.91	44.84
Inventory Days	68.01	50.09	60.57	65.67
Accounts Payables Days	51.37	34.88	32.20	32.83
ROIC (%)	11.6%	14.7%	11.7%	11.7%
ROCE (%)	15.9%	16.7%	16.7%	16.7%
Return On Average Assets	12.8%	13.0%	13.5%	13.4%

Key Drivers

	Jul-19A	Jul-20F	Jul-21F	Jul-22F
ASP (% chg, main prod./serv.)	5.0%	5.0%	5.0%	5.0%
Unit sales grth (% , main prod./serv.)	7.0%	7.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	70.0%	70.0%	70.0%	70.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit Raw Material ASP (% Change)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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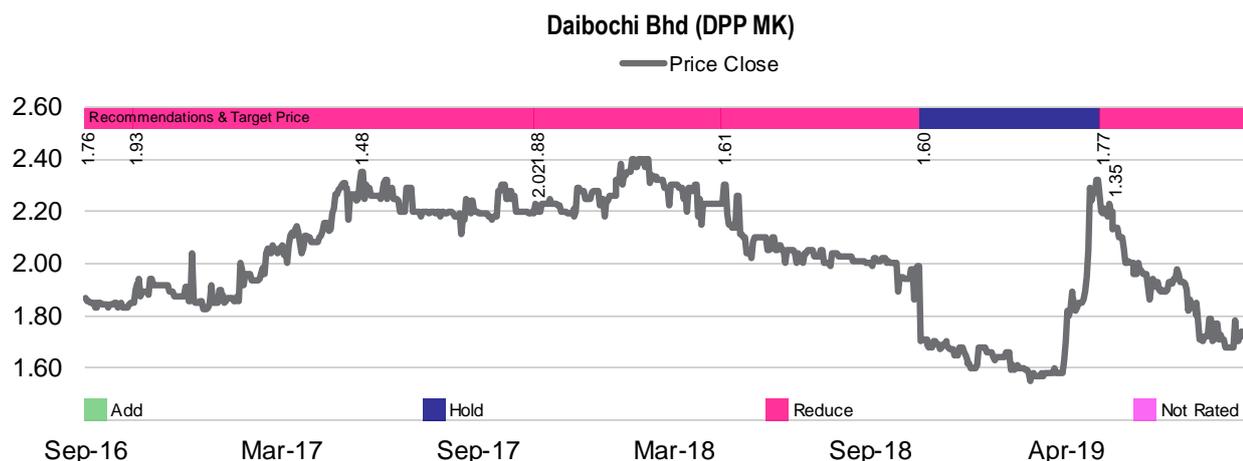
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791 companies under coverage for quarter ended on 30 June 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.9%	4.2%
Hold	26.5%	1.8%
Reduce	15.5%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **JWD** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **OSP** – not available, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PR9** – not available, n/a, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **S** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Very Good, Certified, **WORK** – Good, n/a.

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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Definition:

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