Company Note

Malaysia

Daibochi Plastic & Packaging

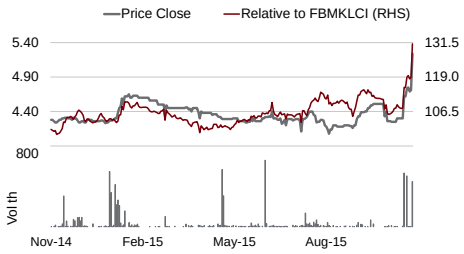
The worst is over?

REDUCE *(no change)*

Current price:	RM5.24
Target price:	RM4.53
Previous target:	RM4.21
Up/downside:	-13.5%
Reuters:	DPPM.KL
Bloomberg:	DPP MK
Market cap:	US$136.1m
	RM596.3m
Average daily turnover:	US$0.03m
	RM0.14m
Current shares o/s	113.8m
Free float:	72.6%

Key changes in this note

- FY16F EPS increased by 11%.
- FY17F EPS increased by 8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	16.2	22.4	22.4
Relative (%)	19.4	16.7	30.4

- 3Q15 briefing today, management is bullish about 2016 outlook but we remain cautious about domestic sales.
- Earnings to gain from reinvestment allowances (RA) in 2016-18.
- Less strain on working capital needs from new vendors financing programme, i.e. win-win for all parties.
- Raise FY16-17 EPS by 8-11% to reflect RA benefits. However, the stock remains a Reduce as the valuation remains expensive.

3QFY15 briefing highlights

Daibochi held its 3Q15 briefing today. It was chaired by ED Low Jin Wei and CFO Tan Gaik Hong. There were a few positive surprises from the briefing. Firstly, management is bullish about its 2016 outlook and is looking at double-digit topline growth, mainly from Australia, Thailand and the Philippines markets.

Tax incentives from reinvestment allowances

Secondly, the company highlighted the extension of the reinvestment allowances (RA) announced during Budget 2016 at end-Oct 2015. The government is offering three years of RA, whereby companies can claim RA, 60% of the capex to produce finished goods. Daibochi is looking at around 19% effective tax rates in FY16-18 due to the RA, compared to our earlier 26% tax rate forecast.

Benefit from new "vendors financing programme"

The company's working capital needs are now less due to the new "vendors financing programme" which started from Aug 2015. Foreign MNC customers are working with the foreign banks to help finance suppliers' (like Daibochi) working capital needs with lower effective interest and more prompt payments. In exchange, MNC customers are asking for longer credit terms, i.e. from 60 days to 90 days. It is a win-win deal for everybody.

The worst is over for domestic sales?

Management indicated that the worst is over for the company's domestic sales as new orders for the domestic market picked up in 4Q15. However, we are less bullish than management and remain cautious on the outlook of the domestic market in 2016.

Maintain Reduce

We have raised our FY16-17 EPS forecasts by 8-11% mainly to reflect lower effective tax rates due to the RA in 2016-2018. Target price rises as valuation basis remain at 13x FY17 sector P/E. However, the stock remains a Reduce as valuation still looks expensive. Potential de-rating catalysts include expensive stock valuations and weak domestic demand market.

Financial Summary	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue (RMm)	310.8	344.5	346.0	370.2	402.5
Operating EBITDA (RMm)	44.80	40.80	46.50	52.22	60.50
Net Profit (RMm)	27.90	23.80	26.80	33.72	39.70
Core EPS (RM)	0.25	0.21	0.24	0.30	0.35
Core EPS Growth	13.9%	(14.7%)	12.6%	25.8%	17.7%
FD Core P/E (x)	21.30	24.97	22.17	17.62	14.97
DPS (RM)	0.16	0.14	0.15	0.18	0.21
Dividend Yield	3.05%	2.58%	2.77%	3.44%	4.01%
EV/EBITDA (x)	14.29	15.89	13.48	11.84	10.04
P/FCFE (x)	NA	48.14	21.42	24.90	18.26
Net Gearing	27.0%	30.8%	16.8%	11.2%	5.3%
P/BV (x)	3.67	3.54	3.28	3.06	2.86
ROE	17.8%	14.4%	15.3%	17.9%	19.7%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)					

SOURCE: COMPANY DATA, CIMB FORECASTS

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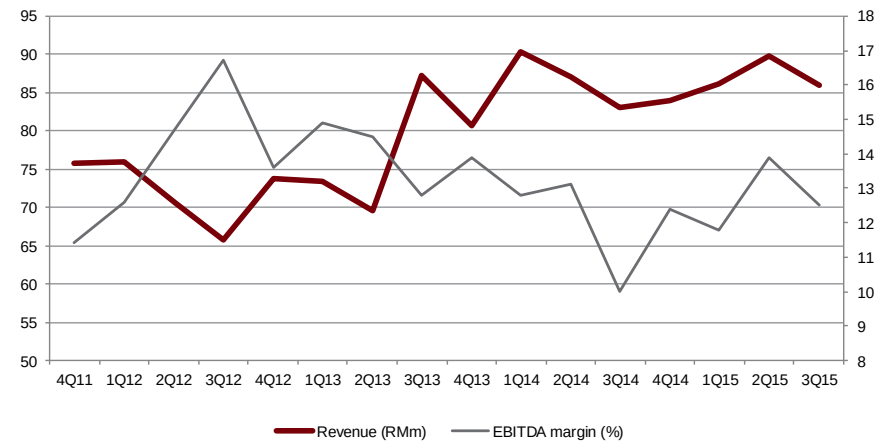
Still cautious

While management believes that domestic sales should bottom out in 4Q15 and that the worst is over, we remain cautious on the recovery of domestic sales until we see more concrete signs of a recovery. We are looking at 7% revenue growth in FY2016x for Daibochi compared to the double-digit forecast indicated by the management. However, we remain bullish on export market growth coming from the ASEAN and Australia markets.

Figure 1: Daibochi's quarterly revenue (RM m) and EBITDA margin (%)



SOURCES: CIMB, COMPANY REPORTS

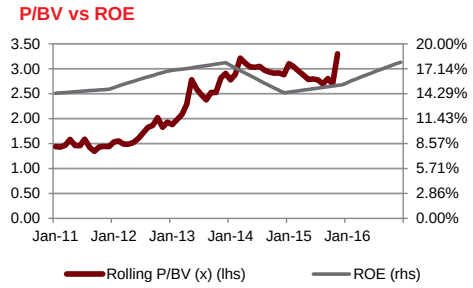
Stable raw material prices but…

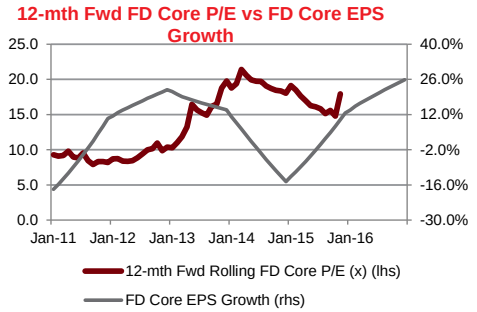
Although raw material prices were stable in 3Q15 compared to 2Q15, 3Q15 EBITDA margin dipped compared to 2Q15. We believe that this was mainly due to lower economies of scale as a result of weak 3Q15 revenue numbers. Over the next few quarters, it would be crucial for the company to boost its quarterly revenue above the RM90m levels. In 1Q14, Daibochi recorded revenue above RM90m but since then, the company has been struggling to break past this level.

BY THE NUMBERS

Share price info

Share px perf. (%)	1M	3M	12M
Relative	19.4	16.7	30.4
Absolute	16.2	22.4	22.4
Major shareholders			**% held**
Low Chan Tian			10.4
Apollo Asia Fund Ltd			9.4
Lim Koy Peng			7.6





Profit & Loss

(RMm)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Net Revenues	**310.8**	**344.5**	**346.0**	**370.2**	**402.5**
Gross Profit	**44.8**	**40.8**	**46.5**	**52.2**	**60.5**
Operating EBITDA	**44.8**	**40.8**	**46.5**	**52.2**	**60.5**
Depreciation And Amortisation	(9.5)	(10.5)	(11.0)	(11.6)	(12.5)
Operating EBIT	**35.3**	**30.3**	**35.5**	**40.6**	**48.0**
Financial Income/(Expense)	1.2	0.8	0.8	1.0	1.0
Pretax Income/(Loss) from Assoc.	0.4	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**36.9**	**31.1**	**36.3**	**41.6**	**49.0**
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**36.9**	**31.1**	**36.3**	**41.6**	**49.0**
Taxation	(9.0)	(7.3)	(9.5)	(7.9)	(9.3)
Exceptional Income - post-tax					
Profit After Tax	**27.9**	**23.8**	**26.8**	**33.7**	**39.7**
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**27.9**	**23.8**	**26.8**	**33.7**	**39.7**
Recurring Net Profit	27.9	23.8	26.8	33.7	39.7
Fully Diluted Recurring Net Profit	**27.9**	**23.8**	**26.8**	**33.7**	**39.7**

Cash Flow

(RMm)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
EBITDA	44.80	40.80	46.50	52.22	60.50
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9.50)	(10.34)	2.35	(8.80)	(8.40)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.79	0.79	0.79	0.79	0.79
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(8.50)	(8.56)	(11.55)	(10.00)	(10.00)
Cashflow From Operations	**27.59**	**22.69**	**38.09**	**34.21**	**42.89**
Capex	(34.70)	(10.00)	(10.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)
Cash Flow From Investing	**(35.70)**	**(11.00)**	**(11.00)**	**(11.00)**	**(11.00)**
Debt Raised/(repaid)	0.55	0.65	0.65	0.65	0.65
Proceeds From Issue Of Shares	1.20	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(16.50)	(15.89)	(16.20)	(18.00)	(22.00)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(14.75)**	**(15.24)**	**(15.55)**	**(17.35)**	**(21.35)**
Total Cash Generated	(22.86)	(3.54)	11.54	5.86	10.54
Free Cashflow To Equity	**(7.56)**	**12.34**	**27.74**	**23.86**	**32.54**
Free Cashflow To Firm	**(8.11)**	**11.69**	**27.09**	**23.21**	**31.89**

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS

Balance Sheet

(RMm)	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Cash And Equivalents	13.7	7.7	19.4	31.7	42.4
Total Debtors	73.3	77.2	66.7	73.4	80.7
Inventories	57.3	63.0	76.4	84.0	92.4
Total Other Current Assets	0.1	0.2	0.1	0.1	1.0
Total Current Assets	**144.4**	**148.1**	**162.6**	**189.2**	**216.6**
Fixed Assets	110.0	123.2	122.2	120.6	118.1
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	26.6	22.6	22.6	22.6	22.6
Total Non-current Assets	**136.6**	**145.8**	**144.8**	**143.2**	**140.7**
Short-term Debt	46.1	46.3	38.5	42.0	42.0
Current Portion of Long-Term Debt					
Total Creditors	50.6	54.8	66.7	73.4	80.7
Other Current Liabilities	2.0	0.7	0.7	0.7	0.7
Total Current Liabilities	**98.7**	**101.8**	**105.9**	**116.1**	**123.4**
Total Long-term Debt	11.5	13.2	11.5	11.5	11.5
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8.3	10.6	8.1	10.0	14.0
Total Non-current Liabilities	**19.8**	**23.8**	**19.6**	**21.5**	**25.5**
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**118.5**	**125.6**	**125.5**	**137.6**	**148.9**
Shareholders' Equity	162.5	168.3	181.9	194.9	208.4
Minority Interests	0.0	0.0			
Total Equity	**162.5**	**168.3**	**181.9**	**194.9**	**208.4**

Key Ratios

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Revenue Growth	11.5%	10.8%	0.4%	7.0%	8.7%
Operating EBITDA Growth	7.4%	(8.9%)	14.0%	12.3%	15.9%
Operating EBITDA Margin	14.4%	11.8%	13.4%	14.1%	15.0%
Net Cash Per Share (RM)	(0.39)	(0.46)	(0.27)	(0.19)	(0.10)
BVPS (RM)	1.43	1.48	1.60	1.71	1.83
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	24.4%	23.5%	26.2%	19.0%	19.0%
Net Dividend Payout Ratio	45.4%	45.9%	44.3%	48.6%	48.6%
Accounts Receivables Days	78.80	79.73	75.90	69.24	69.86
Inventory Days	77.39	72.29	84.94	92.33	94.18
Accounts Payables Days	65.38	63.34	74.04	80.61	82.22
ROIC (%)	14.1%	10.2%	11.1%	13.3%	15.2%
ROCE (%)	18.8%	14.5%	16.5%	18.0%	19.8%
Return On Average Assets	14.0%	10.6%	11.9%	12.8%	14.0%

Key Drivers

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
ASP (% chg, main prod./serv.)	5.0%	5.0%	5.0%	5.0%	5.0%
Unit sales grth (%, main prod./serv.)	7.0%	7.0%	7.0%	7.0%	7.0%
Util. rate (%, main prod./serv.)	70.0%	70.0%	70.0%	70.0%	70.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit Raw Material ASP (% Change)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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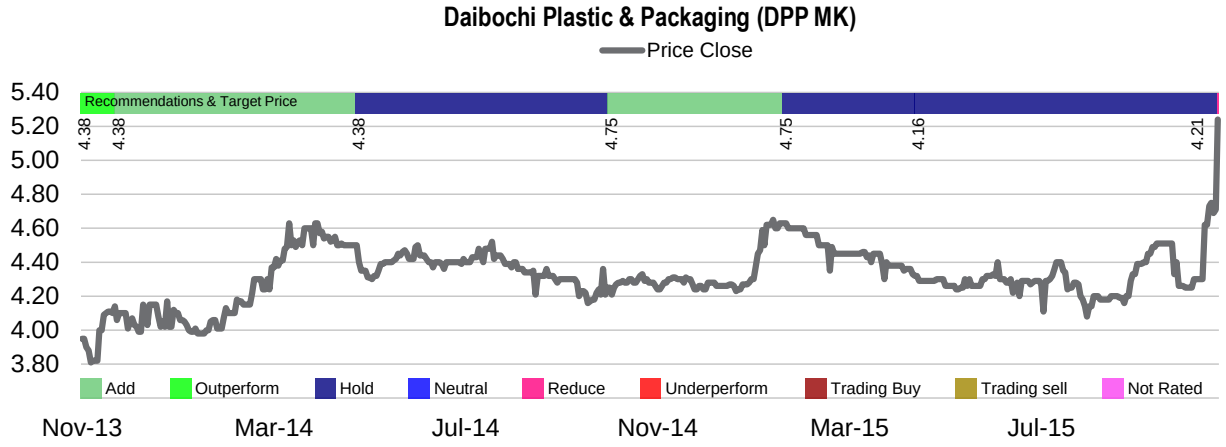
Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2015 1528 companies under coverage for quarter ended on 30 September 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.1%	6.0%
Hold	30.4%	3.5%
Reduce	10.9%	1.0%

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 2015.

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Stock Ratings	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.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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