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Daibochi records higher 4QFY15 earnings despite lower revenue

Daibochi Plastic and Packaging Industry Bhd
(Feb 23, RM2.20)

Maintain neutral with adjusted target price (TP) of RM1.96: Daibochi's earnings for the fourth quarter ended Dec 31, 2015 (4QFY15) were within our and consensus expectations. Its earnings for FY15 were 103.7% and 99.6% of our and consensus full-year forecasts respectively.

Its revenue for 4QFY15 declined by 1.1% year-on-year (y-o-y) to RM83.1 million. This drop was attributable to: (i) a 7.8% decline in its domestic revenue, which fell to RM68.5 million; and (ii) weaker demand post-implementation of the goods and services tax. Its FY15 revenue also grew marginally by only 0.1% to RM344.95 million.

Daibochi's earnings for 4QFY15 outpaced its revenue performance, increased by 11.7% y-o-y. This was mainly due to: (i) improved margins on higher export sales from the weaker ringgit against other

foreign currencies; (ii) new product innovations to its Australian and New Zealand market; and (iii) reduction in raw material prices.

Daibochi declared a tax-exempt dividend for FY16 of 1.3 sen per share.

Going forward, we expect further top-line growth to stem from the company's export sales and introduction of new products. To this end, Daibochi has secured export contracts, which are due to commence deliveries from 2QFY16 onwards. However, the group expects its domestic sales to continue to be impacted by rising cost of living and the relatively high household debt.

We are maintaining our "neutral" stance with a revised FY16 TP of RM1.96 per share, which reflects the recently completed share split and bonus issues. Our valuation is premised on the dividend discount model, with a cost of equity of 9.27% and terminal growth of 4.8%. — *MIDF Research, Feb 23*

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FYE DEC (RM MIL)	2013	2014	2015	2016F	2017F
Revenue	310.3	344.5	345.0	348.7	354.8
Cost of goods sold	(273.3)	(312.5)	(308.4)	(311.8)	(317.3)
Gross profit	37.0	32.0	36.6	36.8	37.4
Finance costs	(1.1)	(1.9)	(2.4)	(1.2)	(1.2)
Profit before tax	36.9	31.1	35.7	35.6	36.2
Income tax expense	(9.0)	(7.3)	(9.0)	(8.9)	(9.0)
Net profit	27.8	23.7	26.7	26.7	27.1
EPS* (sen)	10.0	5.6	6.0	9.9	9.9
PER (x)	9.2	10.6	9.8	9.4	5.9
Net dividend* (sen)	6.3	5.6	6.0	6.3	6.6
Dividend yield (%)	2.8	2.5	2.7	2.8	3.0
Gross profit margin (%)	11.9	9.3	10.6	10.6	11.6
Profit before tax margin (%)	11.9	9.0	10.4	10.2	10.2
Net profit margin	9.0	6.9	7.7	7.7	7.7

*Adjusted for share split and bonus issue Source: MIDFR