

25 February 2019 | 4QFY18 Results Review

Daibochi Berhad

Ended FY18 on a weak note

INVESTMENT HIGHLIGHTS

- **FY18 earnings missed estimates**
- **Weak 4QFY18 due to high input costs, forex losses and one-off expenses**
- **Accept Scientex's cash offer, which is deemed fair**
- **FY19F PATAMI cut by -10.5% to RM23.0m**
- **Maintain NEUTRAL with lower TP of RM1.60 (previously RM1.69)**

FY18 earnings missed estimates. Daibochi's full year PATAMI of RM15.2m was below our and consensus estimates at 66%/65% of full year forecasts respectively. The negative deviation can be attributed to slower than expected recovery in profit margin. The company had also experienced forex loss and one-off expenses from the recent merger and acquisition (M&A). It had announced an interim dividend of 0.5 sen, bringing DPS(ytd) to 3.35 sen, which is also below our expectation at 82% of estimate.

FY18 net profit declined by 42%yoy to RM15.2m although revenue climbed 10.8% to RM430.8m. This is mainly due to higher raw material costs, higher operating expenses, forex losses of RM3.27m and a one-off M&A expenses. There was also a one-off transitional cost for a new customer in Australia. Excluding the one-off M&A cost of RM4.9m, its PBT decreased by 28.7% to RM25.5m, which is also disappointing, as it only made up 88% of our full year estimate.

Weak 4QFY18 due to high input costs, forex losses and one-off expenses. During the quarter, Daibochi recorded a net loss of RM1.6m that included a RM0.6m cost for M&A. It registered an operating loss of RM0.4m due to high raw material costs and operating expenses. It had also incurred a one-off RM0.6m M&A cost and forex loss of RM0.4m compared to RM0.08m in the previous corresponding quarter. Myanmar PBT margin for 4QFY18 declined to 12.4% compared to 20% in 4QFY17.

Accept Scientex's cash offer, which is deemed fair. Daibochi had received a mandatory takeover offer from Scientex for RM1.59 cash per share or through a share swap of based on a ratio of 5.535 Daibochi shares to one Scientex share to be issued at RM8.80 apiece. We deem the offer fair based on the PER and PBV that is above Daibochi's 10-year average as well as taking into consideration the near-term challenging business environment. We think that the cash offer is a good opportunity to exit now as any synergistic benefits from the merger will take time to materialise.

Maintain NEUTRAL
Adjusted Target Price (TP):RM1.60
(Previously RM1.69)

RETURN STATS	
Price (22 nd February 2019)	RM1.59
Target Price	RM1.60
Expected Share Price Return	0.0%
Expected Dividend Yield	+2.1%
Expected Total Return	+2.1%

STOCK INFO	
KLCI	1,721.42
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.35
Market cap. (RM'm)	520.48
Price over NA	3.04
52-wk price Range	RM1.56– RM2.41
Beta (against KLCI)	0.42
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM0.10m
Major Shareholders (%)	
Scientex Bhd	42.48
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

FY19F PATAMI cut by -10.5% to RM23.0m in view of the thinning profit margin and slower than expected cost pass through to customers.

Maintain NEUTRAL with lower TP of RM1.60 (previously RM1.69). As a result, our DDM-derived TP is adjusted to RM1.60 from RM1.69 previously. Our terminal growth of 3.2% is maintained. We opine that there is limited upside gain in the near-term while the 2.1% dividend yield is unappealing. We think that the Scientex offer is a good opportunity to cash out in view of the limited upside in the near-term. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	371.2	388.7	430.8	469.9	507.4
Gross profit	49.2	39.9	31.7	38.8	41.9
Profit before tax	30.0	35.7	20.6	28.8	31.7
Income tax expense	-5.4	-8.7	-3.8	-4.3	-4.8
Net profit	24.5	27.1	16.8	24.4	26.9
PATAMI	24.5	26.0	15.2	23.0	25.3
EPS (sen)	7.5	7.9	4.6	7.0	7.7
EPS growth (%)	-8.3	6.0	-41.3	50.7	10.1
PER (x)	26.6	25.1	42.8	28.4	25.8
Net dividend (sen)	5.4	5.2	3.4	4.1	4.5
Dividend yield (%)	2.7	2.6	1.7	2.1	2.3
Gross profit margin (%)	13.3	10.3	7.4	8.3	8.3
Profit before tax margin (%)	8.1	9.2	4.8	6.1	6.2
Net profit margin (%)	6.6	7.0	3.8	4.9	5.0

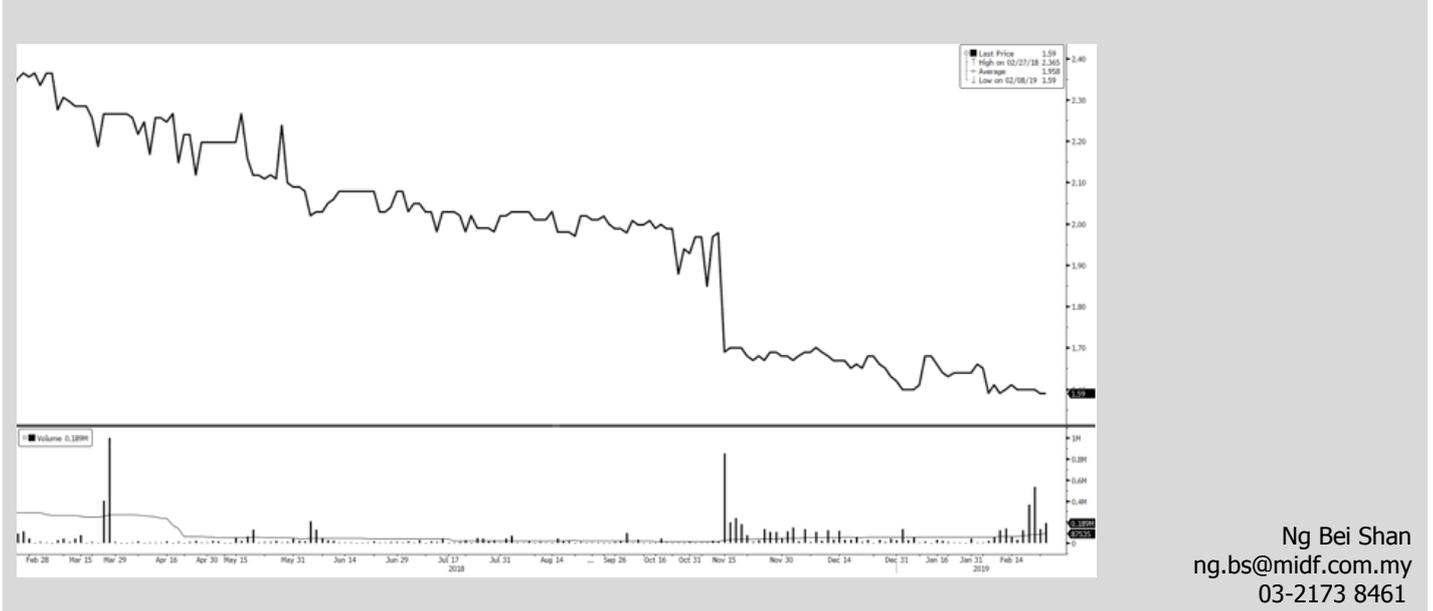
Source: Company, MIDFR

DAIBOCHI: 4QFY18 Results Summary

FYE Dec (RM'm)					Cumulative results		
	4QFY18	4QFY17	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue	110.5	105.7	4.5	1.1	430.8	388.7	10.8
Profit from operations	(0.4)	11.3	(103.2)	(104.9)	23.4	37.6	(37.7)
Finance costs	(1.1)	(0.9)	17.8	4.2	(3.9)	(3.0)	27.8
Profit before tax	(0.6)	11.2	(105.4)	(109.4)	20.6	35.7	(42.3)
Income tax expense	(0.5)	(2.7)	(80.1)	0.2	(3.8)	(8.7)	(56.3)
Profit after tax	(1.1)	8.5	(113.5)	(119.4)	16.8	27.0	(37.8)
PATAMI	(1.6)	8.5	(118.5)	(127.6)	15.3	26.5	(42.4)
Basic EPS (sen)	(0.5)	2.4	(119.8)	(127.7)	4.7	7.9	(41.4)
			+ / (-) pts				
PBT margin (%)	(0.5)	10.6	(11.1)	(6.4)	4.8	9.2	(4.4)
PAT margin (%)	(1.0)	8.0	(9.0)	(6.4)	3.5	6.8	(3.3)
Geographical Segments							
<i>Revenue</i>							
Malaysia	82.2	78.2	5.1	3.6	323.4	298.3	8.4
Australia	19.5	19.6	-0.5	(15.4)	73.2	72.6	0.9
New Zealand	0.2	1.0	-77.4	(29.0)	1.3	4.4	(69.7)
Myanmar	8.5	6.8	24.3	31.2	31.1	13.3	134.3

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	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.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.