

05 March 2019 | Corporate Update

## Daibochi Berhad

### *Marrying Up*

**Accept Offer**  
Offer Price (TP):RM1.59

#### INVESTMENT HIGHLIGHTS

- Offer from Scientex closes on 25<sup>th</sup> March (Monday)
- Making of a bigger regional flexible packaging player
- Thinning margins amid higher sales
- Accept Offer in view of possible gestation for the merger benefits to materialise

**Offer from Scientex closes on 25<sup>th</sup> March (Monday).** Scientex has on 4<sup>th</sup> March issued the offer document to takeover Daibochi shares the former does not already own for RM1.59 per Daibochi share. The offer includes a share swap that prices one Scientex share at RM8.80 or 5.535 Daibochi shares in exchange of one Scientex share. This follows Scientex's acquisition of 42.48% in Daibochi.

#### **Daibochi's listing status and operations to be maintained.**

Scientex intends to continue Daibochi's existing business and will review its strategy and business direction from time to time. The offeror also does not plan to introduce major changes to Daibochi's existing business except to integrate, reorganise and/or rationalise the business activities where necessary. We believe that both companies can tap into each other's expertise to further improve operations and profitability. As for Daibochi's employees, we understand that the top and mid management had agreed to stay on to carry out the day-to-day operations of Daibochi.


#### **Making of a bigger regional flexible packaging player.**

Scientex is Daibochi's upstream supplier. Besides economies of scale from raw material, both companies may also benefit through the collaboration in research and development for new sustainable packaging solutions that are highly sought after by MNCs. Both companies can also share the machinery and manufacturing knowledge. On top of that, Scientex hopes to leverage on Daibochi's Myanmar based plant to scale up its operations as part of its expansion plans to tap into the fast-growing emerging market. By leveraging on each other's strengths, product know-how and customer base, the enlarged entity is expected to be in a better position to compete with other regional players. We believe that management teams from both companies will need time to reap the synergistic benefits of the merger.

**Thinning margins amid higher sales.** We note that Daibochi's FY18 earnings fell short despite revenue that jumped 10.8%. The lower on-year profit can be attributed to higher raw material costs, slower cost pass through, unfavourable forex trend and higher operating cost. While we expect FY19F profit to improve, we think that its profit margin may not recover to FY17 level due to product mix and elevated opex in the near-term.

RETURN STATS	
Price (4 <sup>th</sup> March 2019)	RM1.57
Offer Price	RM1.59
Expected Share Price Return	+1.3%
Expected Dividend Yield	+1.9%
<b>Expected Total Return</b>	<b>+3.2%</b>

STOCK INFO	
KLCI	1,693.99
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.35
Market cap. (RM'm)	513.94
Price over NA	3.01
52-wk price Range	RM1.55– RM2.40
Beta (against KLCI)	0.42
3-mth Avg Daily Vol	0.09m
3-mth Avg Daily Value	RM0.14m
Major Shareholders (%)	
Scientex Bhd	42.48
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

**Accept Offer in view of possible gestation for the merger.** We opine that there is limited upside gain in the near-term while the 1.9% dividend yield is unappealing. The offer price of RM1.59 is close to our TP of RM1.60 which was derived based on DDM model (terminal growth of 3.2%). While we think that there will be synergistic benefits through the merger with Scientex, we also reckon that it will take some times for these benefits to materialise. Hence, we recommend investors to accept offer. 

## Snapshot of Daibochi and Scientex

	Daibochi	Scientex
<b>Liquidity ratio</b>	0.5	2.65
<b>Share price range over the past one year</b>	RM1.58 to RM2.30	RM6.55 to RM9.44
<b>1-year VWAMP</b>	RM1.96	RM8.25
<b>Premium/ (Discount) to offer price vs 1-year VWAMP</b>	(18.9%)	6.67%
<b>PER</b>	20.08x (FYE Dec 2017) 34.19x (FYE Dec 2018)	14.77x (FYE July 2018) 15.83x (FPE Oct 2018)
<b>PBR</b>	2.61 (FYE Dec 2017) 2.65 (FYE Dec 2018)	2.44 (FYE July 2018) 2.36 (FPE Oct 2018)

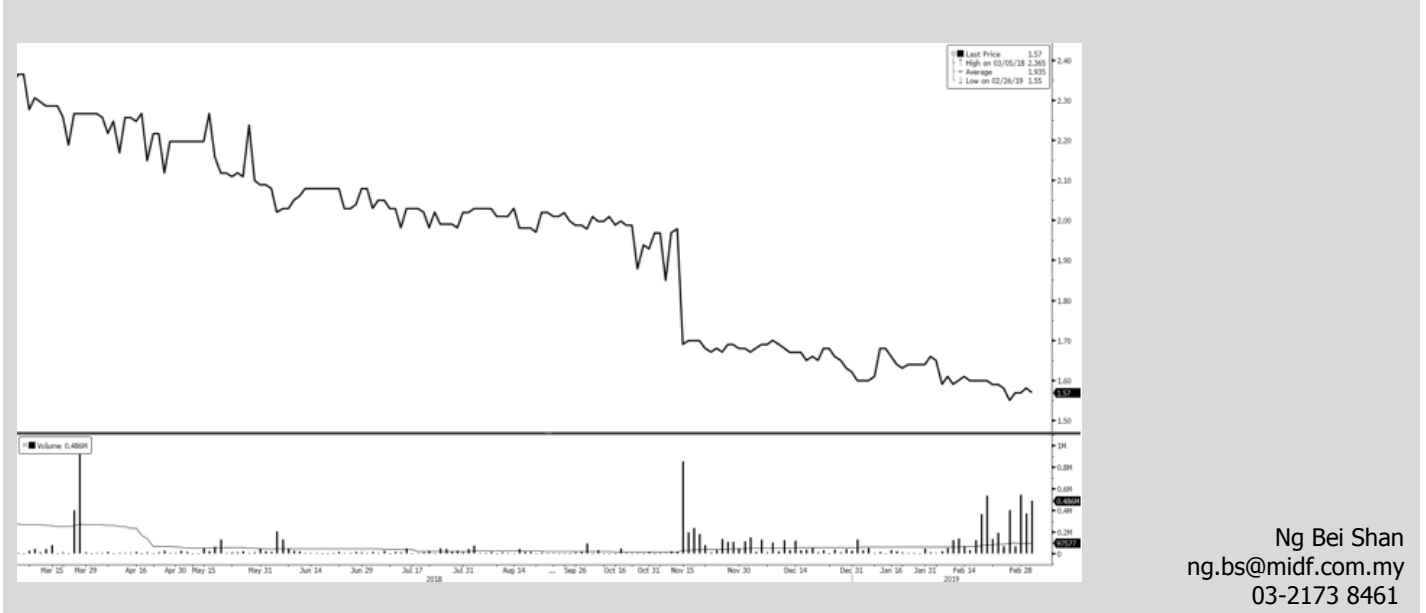
Source: Company, MIDF Research.

## 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
<b>PATAMI</b>	<b>24.5</b>	<b>26.0</b>	<b>15.2</b>	<b>23.0</b>	<b>25.3</b>
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)	21.0	19.8	33.8	22.4	20.3
Net dividend (sen)	5.4	5.2	3.4	4.1	4.5
Dividend yield (%)	3.5	3.3	2.1	2.6	2.9
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

## 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.