

16 May 2019 | Briefing Note

## Daibochi Berhad

*Let the dust settle first*

### INVESTMENT HIGHLIGHTS

- **Huge makeover underway**
- **Change in strategy for Daibochi Myanmar**
- **Acquisition of MPP expected by 3QCY19**
- **Maintain SELL with an unchanged TP of RM1.55**

**Huge makeover underway.** During Daibochi's 5QFY19 results briefing, Scientex management has shared some of its imminent plans for its 62%-owned subsidiary. Among others, it is reviewing Daibochi's raw material costs and inventory management framework as well as disposing off its non-core assets. They opined that Daibochi's operating costs can be further reduced through the enhancement in efficiency particularly for its Jasin plant. Management has allocated an additional capex of RM6.6m to expand its extrusion capacity. On top of that, they have also identified possible solutions to reduce wastage by about 6ppt. While we are positive on the measures taken to boost Daibochi's operating efficiency and eventually profitability, we expect possible write-downs arising from the restructuring that could negatively impact Daibochi's earnings in the near-term.

**Change in strategy for Daibochi Myanmar.** Management has also shared that it will relook into the growth plan for Daibochi Myanmar. Previously, Daibochi planned to serve its local price-sensitive customers by importing semi-finished products from Myanmar but after a review, they think that Daibochi Myanmar could focus on serving the local market there and other neighbouring countries such as Thailand and Cambodia. Currently, they are looking to expand the capacity in Myanmar to better serve the MNC customer there.

**Acquisition of Mega Printing & Packaging (MPP) expected by 3QCY19.** Management feels upbeat about the prospects of the enlarged company once MPP is integrated into the group. Currently 84% of MPP's revenue is derived from local sales compared to about ~50% for Daibochi. Management has also shared that MPP will be able to serve the more price sensitive customers in Malaysia. We are positive on this acquisition due to the synergy and earnings accretion. However, we have not factored in contribution from MPP pending the completion of the deal.

**Maintain SELL with an unchanged TP of RM1.55.** We keep our DDM-derived TP at RM1.55 as we make no changes to our earnings estimates. Our SELL recommendation is maintained due to recent run-up in its share price. We also think that investors should wait out until the dust settles, i.e. completion of the restructuring activities. Moreover, dividend yield is unattractive at 1.6%. 

**Maintain SELL**  
**Unchanged Target Price (TP):RM1.55**

RETURN STATS	
Price (15 <sup>th</sup> May 2019)	RM2.13
Target Price	RM1.55
Expected Share Price Return	-27.3%
Expected Dividend Yield	+1.6%
<b>Expected Total Return</b>	<b>-25.7%</b>

STOCK INFO	
KLCI	1,611.43
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.35
Market cap. (RM'm)	697.25
Price over NA	4.20
52-wk price Range	RM1.55– RM2.37
Beta (against KLCI)	0.41
3-mth Avg Daily Vol	0.35m
3-mth Avg Daily Value	RM0.59m
Major Shareholders (%)	
Scientex Bhd	61.89
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

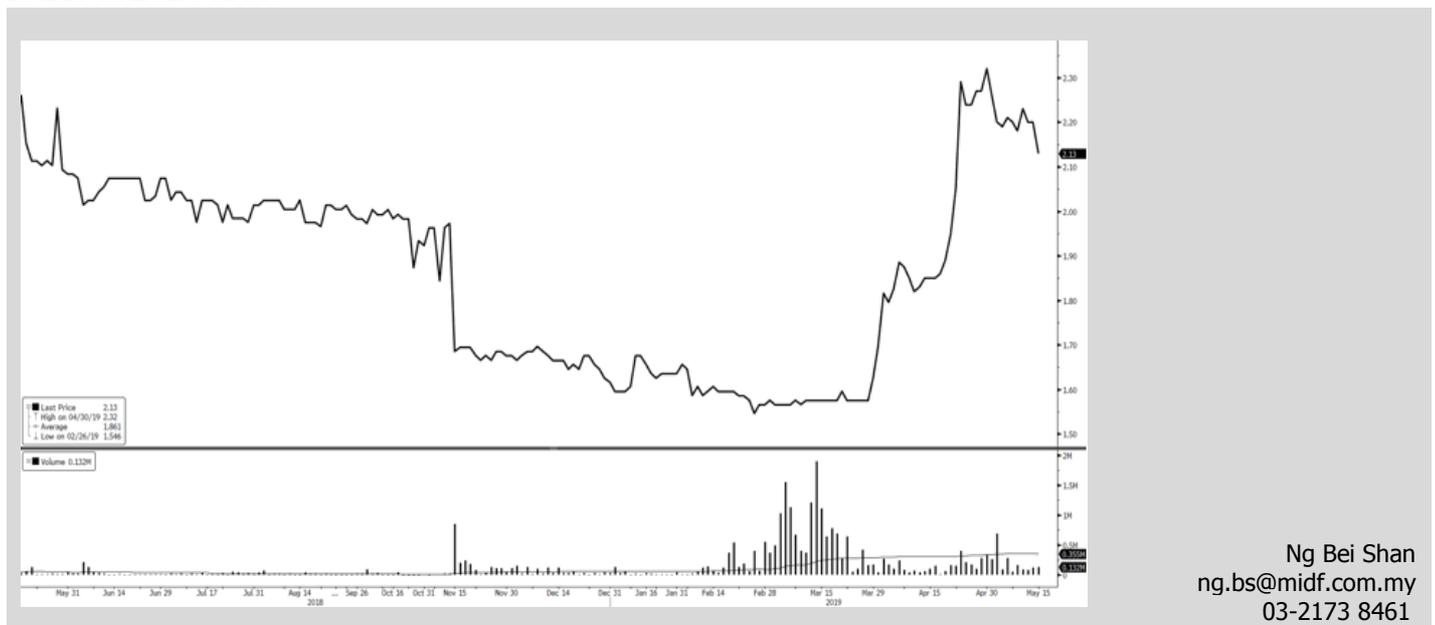
## INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2016	FY2017	FY2018	FY2019F*	FY2020F*
Revenue	371.2	388.7	430.8	465.7	506.2
Gross profit	49.2	39.9	31.7	35.7	41.8
Profit before tax	30.0	35.7	20.6	25.6	31.6
Income tax expense	-5.4	-8.7	-3.8	-3.8	-4.7
Net profit	24.5	27.1	16.8	21.8	26.8
<b>PATAMI</b>	<b>24.5</b>	<b>26.0</b>	<b>15.2</b>	<b>20.5</b>	<b>25.2</b>
EPS (sen)	7.5	7.9	4.6	6.2	7.7
EPS growth (%)	-8.3	6.0	-41.3	34.4	23.1
PER (x)	28.5	26.9	45.8	34.1	27.7
Net dividend (sen)	5.4	5.2	3.4	3.4	4.2
Dividend yield (%)	2.5	2.5	1.6	1.6	2.0
Gross profit margin (%)	13.3	10.3	7.4	7.7	8.3
Profit before tax margin (%)	8.1	9.2	4.8	5.5	6.2
Net profit margin (%)	6.6	7.0	3.8	4.4	5.0

Source: Company, MIDFR

Daibochi has changed its financial year to July-2019 but we maintain it as Dec-2019 for comparison purpose.

## DAILY PRICE CHART



Ng Bei Shan  
ng.bs@midf.com.my  
03-2173 8461

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

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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.