

26 June 2019 | Corporate Update

Daibochi Berhad

In the process of a revamp


INVESTMENT HIGHLIGHTS

- **Adjustment in financial year end**
- **Acquisition of Mega Printing & Packaging to be decided in an upcoming EGM**
- **Change in valuation method due to dividend policy update**
- **Maintain SELL with an adjusted TP of RM1.52 (from RM1.55 previously)**

Adjustment in financial year end. Daibochi has announced the change in its financial year end to July 31 from December 31 previously. It has announced its one-month ended April 30, 2019 results due to the change in financial year end. There is no comparable period due to this change.

Acquisition of Mega Printing & Packaging (MPP). The EGM to approve the acquisition of MPP will be held on July 11 (Thursday). We think that the acquisition price of RM125m is fair and provides synergy to the enlarged entity.

Change in valuation method due to dividend policy update. Historically, Daibochi has been generous with its dividend payout that ranged from 50% to 60%. Dividends were also paid out in interims. Going forward, we expect lower payout as the company has to conserve cash to fund its expansion. As such, we believe that the dividend discount model, which was used previously, may not be the best way to value the company as we anticipate lower payout ratio and less frequent payments going forward. We have changed our valuation method to price-to-earnings ratio (PER), which is widely used for manufacturing companies.

Maintain SELL with an adjusted TP of RM1.52 (from RM1.55 previously). Our TP is based on 19.0x FY20F EPS of 8.0 sen. The 19.0x PER is based on Daibochi's long-term average. We believe that the valuation of the stock is unattractive at this moment. Furthermore, we have incorporated contribution from MPP to better reflect Daibochi's future earnings prospects (in FY20F and FY21F) as we believe that the acquisition will likely go through due to the synergies that the enlarged company can enjoy. We have also updated our FY19F numbers to reflect the 19-months period due to the change in financial year end. 

Maintain SELL
Adjusted Target Price (TP): RM1.52
(Previously RM1.55)

RETURN STATS	
Price (25 th June 2019)	RM1.91
Target Price	RM1.52
Expected Share Price Return	-20.4%
Expected Dividend Yield	+1.1%
Expected Total Return	-19.3%

STOCK INFO	
KLCI	1,676.61
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.35
Market cap. (RM'm)	625.24
Price over NA	3.77
52-wk price Range	RM1.55– RM2.37
Beta (against KLCI)	0.36
3-mth Avg Daily Vol	0.12m
3-mth Avg Daily Value	RM0.24m
Major Shareholders (%)	
Scientex Bhd	61.89
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

INVESTMENT STATISTICS

FYE July (RM'm)	FY17*	FY18*	FY19F**	FY20F	FY21F
Revenue	388.7	430.8	679.6	609.9	674.5
Gross profit	39.9	31.7	36.6	43.1	47.8
Profit before tax	35.7	20.6	27.0	32.9	37.4
Income tax expense	-8.7	-3.8	-4.0	-4.9	-5.6
Net profit	27.1	16.8	22.9	28.0	31.7
PATAMI	26.0	15.2	20.3	26.3	29.8
EPS (sen)	7.9	4.6	6.2	8.0	9.1
EPS growth (%)	6.0	-41.3	33.4	29.3	13.5
PER (x)	26.9	45.8	34.4	26.6	23.4
Net dividend (sen)	5.2	3.4	3.3	2.4	2.7
Dividend yield (%)	2.5	1.6	1.6	1.1	1.3

Source: Company, MIDFR

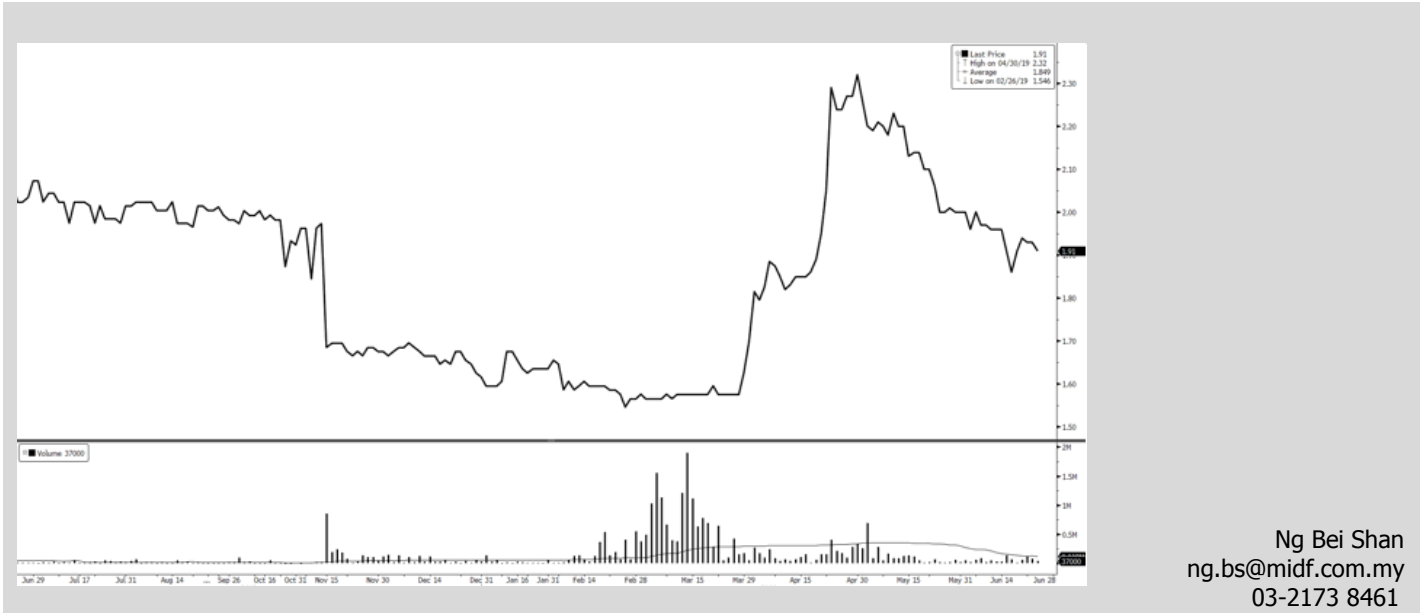
*Based on financial year ended December 31.

**Based on a period of 19 months due to the change in financial year end.

Daibochi: Financial period ended April 30, 2019 results summary

	1-month ended	16-month ended
Revenue	34.48	576.06
Profit from operations	0.98	27.70
Profit before tax	1.06	24.06
Profit after tax	0.95	19.95
PATAMI	0.82	17.60
Basic EPS (sen)	0.25	5.37
PBT margin (%)	3.07	4.17
PAT margin (%)	2.76	3.46

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.