

Daibochi Berhad

(8125 | DPP MK) Industrial Products & Services | Containers and packaging

Starting anew in FY20

KEY INVESTMENT HIGHLIGHTS

- **7QFY19 results missed estimates**
- **Net loss of RM0.3m recorded mainly due to inventory write down/ off**
- **Focus on expanding topline and control to enhance margins**
- **Upgrade to NEUTRAL from SELL with an unchanged TP of RM1.52**

7QFY19 results missed estimates. Daibochi's (DPP) results for the 19 months ended March CY2019 (7QFY19) was lower than our 19-month estimates, making up 85% of ours and 55.9% of consensus estimates. The negative deviation can be attributed to one-off merger and acquisition costs of RM6.4m and write down of inventories amounting to RM11.4m. No dividend was announced during the quarter but cumulative DPS came to 3.35 sen for the 19-month period.

Net loss of RM0.3m recorded for the quarter mainly due to inventory write down/ off. On top of that, the company has also incurred one-off expenses for the acquisition of Mega Printing and Packaging (MPP). However, revenue for the quarter was a record high for DPP at RM123.3m, which is an increase of 11.2% compared to the quarter ended April 30.

Focus on expanding topline and control to enhance margins. During the analyst briefing, management has shared some of its plans to expand topline through selling more products to existing clients and improve margins through cost controlling measures such as consolidation of headcount (from 936 to 770 at DPP), improved inventory management and replacement of less efficient machines with better ones. Besides that, they have also improved the floor plan of the plants for a better process flow. They also shared that DPP will continue to manufacture more complicated products while MPP will focus on simpler products. While we laud the management's active measures in implementing plans to improve operational efficiencies and to boost sales, we think that the impact on its financial may be gradual. Hence, we are maintaining our FY20F/FY21F earnings estimates at this juncture as we believe that the transformation of the group may take time. We have incorporated MPP contribution to our forecast. We also do not rule out more M&A activities in the future.

Upgrade to NEUTRAL from SELL with an unchanged TP of RM1.52. Our TP is derived from 19.0x PER of FY20F EPS of 8.0 sen. Due to the correction in share price of ~26% since our SELL recommendation in May, we think that the downside risk may be limited as most of the house-keeping has been done at the group. However, valuation remains considerably high now. Upside for the company includes better-than-expected synergies from the M&A and faster-than-expected growth. Downside risks include slower-than-expected turnaround and expansion. Dividend yield is expected at 1.4%. 

Upgrade to NEUTRAL

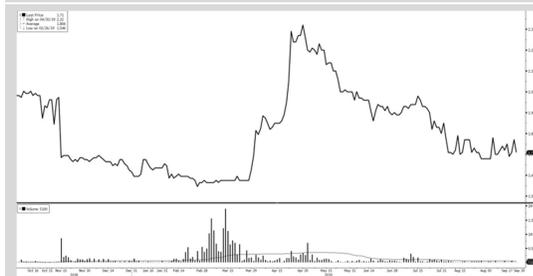
(Previously SELL)

Unchanged Target Price: RM1.52

RETURN STATISTICS

Price @ 25 th September 2019 (RM)	RM1.71
Expected share price return (%)	-11.1%
Expected dividend yield (%)	+1.6%
Expected total return (%)	-9.5%

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	0.7
3 months	-9.5	-6.7
12 months	-14.5	-3.3

KEY STATISTICS

FBM KLCI	1,589.58
Syariah compliant	Yes
Issue shares (m)	327.35
Estimated free float (%)	12.84
Market Capitalisation (RM'm)	559.77
52-wk price range	RM1.55-2.37
Beta vs FBM KLCI (x)	0.39
Monthly velocity (%)	11.02
Monthly volatility (%)	32.96
3-mth average daily volume (m)	0.05
3-mth average daily value (RM'm)	0.09
Top Shareholders (%)	
Scientex Bhd	61.89
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

Analyst(s)

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INVESTMENT STATISTICS

FYE July (RM'm)	FY17*	FY18*	FY19F**	FY20F	FY21F
Revenue	388.7	430.8	699.3	609.9	674.5
Profit before tax	35.7	20.6	24.9	32.9	37.4
Income tax expense	-8.7	-3.8	-4.6	-4.9	-5.6
Net profit	27.1	16.8	20.3	28.0	31.7
PATAMI	26.0	15.2	17.3	26.3	29.8
EPS (sen)	7.9	4.6	5.8	8.0	9.1
EPS growth (%)	6.0	-41.3	NM	NM	13.5
PER (x)	19.2	33.0	26.2	19.0	16.7
Net dividend (sen)	5.2	3.4	3.3	2.4	2.7
Dividend yield (%)	2.5	1.6	2.0	1.6	1.8

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: 7QFY19 RESULTS SUMMARY

FYE Dec (RM'm)				Cumulative results
	7QFY19	5QFY19	QoQ (%)	19MFY19
Revenue	123.3	110.8	11.2	699.3
Profit from operations	1.4	3.3	(58.4)	29.1
Finance costs	(0.9)	(1.0)	(5.3)	(6.1)
Share of profit of equity-accounted associate	0.4	(0.0)	NM	1.8
Profit before tax	0.8	2.4	(65.5)	24.9
Income tax expense	(0.5)	(0.2)	121.2	(4.6)
Profit after tax	0.3	2.1	(85.3)	20.2
PATAMI	(0.3)	1.6	(119.4)	17.3
Basic EPS (sen)	(0.1)	0.5	(119.1)	5.3

Source: Company, MIDFR

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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.