26 Jan 2021

Daibochi

Entering new growth phase

Buy

Price
RM2.47

Target Price
RM2.90

Market Data

Bloomberg Code	DPP MK
No. of shares (m)	327.4
Market cap (RMm)	808.7
52-week high/low (RM)	2.99 / 1.45
Avg daily turnover (RMm)	0.6
KLCI (pts)	1,576.6

Source: Bloomberg, KAF

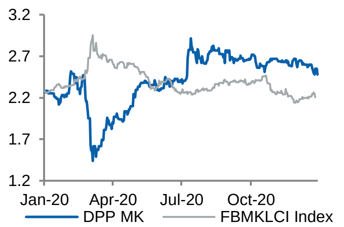
Major Shareholder (%)

Scientex Berhad	(61.9%)
Apollo Asia Fund Ltd	(9.4%)
Public Mutual Berhad	(6.4%)
Free Float	28.5

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(9.3)	1.2	7.5
Rel Market (%)	(14.5)	0.0	6.1



Source: Bloomberg, KAF

Initiate coverage on Daibochi with a Buy rating and TP of RM2.90. Valuation is pegged to 15x PE based on CY21F EPS. Our investment thesis includes 1) aggressive capacity expansion activities due to growing domestic and export markets; 2) integrated operations with Scientex which promotes production efficiencies; and 3) continuous R&D in providing innovative FPP solutions to domestic and overseas clients. We are projecting a three-year earnings CAGR of 16% for FY21-23F due to the above. Stock is currently trading at 12x PE which is -0.5SD below its five year-forward mean PE of 15x which we find the stock to be undervalued.

Financial Highlights

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue (RMm)	699	619	700	817	965
Core net profit (RMm)	34	55	57	69	85
Core EPS (Sen)	10.5	16.7	17.3	21.1	26.1
EPS growth (%)	27.0	59.4	3.4	21.7	24.0
DPS (Sen)	3.4	5.0	6.0	7.0	8.0
Core PE (x)	23.3	14.6	14.2	11.6	9.4
Div yield (%)	1.4	2.0	2.4	2.9	3.3
ROE (%)	16.7	21.7	19.6	20.5	21.6
Net Gearing (%)	21.4	19.7	31.7	35.2	31.9
PBV(x)	3.9	3.2	2.8	2.4	2.0

Source: Company, KAF

Initiate coverage with Buy rating and TP of RM2.90

Valuation is pegged to 15x PE based on CY21F EPS which is in line with its long-term mean PE. Our investment thesis includes aggressive capacity expansion activities due to growing domestic and export markets. Moreover, integrated operations with Scientex which promotes production efficiencies and continuous R&D in providing innovative Flexible Plastic Packaging (FPP) solutions.

Sales driven by growing demands and higher capacity

Daibochi's topline growth is expected to grow at a three-year CAGR of 16% between FY21-23F. This is expected to be driven by increasing production capacity as Daibochi has allocated a total CAPEX of RM100m for FY20-21. The purpose of the CAPEX is to add 21 new lines for printing, laminating and bagging which is projected to increase annual production capacity by 60% from around 1b meter. This is expected to be supported by growing demands for FPP domestically (55% of sales) and in export markets (45% of sales) like Southeast Asia and Oceania as Daibochi enters into this new phase of growth.

Efficient operations and innovative new products

We are projecting earnings to grow at three-year CAGR of 16% between FY21-23F. This is attributable to its integrated operations with Scientex and continuous R&D to deliver innovative sustainable FPP solutions to its clients. The efficiencies can be achieved via ongoing capacity expansions, reduced wastages and improvement in inventory controls. Furthermore, Daibochi collaborates with local and international brands to adopt fully-recyclable laminates which is in line with global sustainability trends.

30% dividend payout policy with comfortable level of balance sheet

Management guided that the group has a dividend policy of paying not less than 30% of earnings annually. Assuming Daibochi pays between 30-35% in dividends in FY21-23F with projected DPS of 6-8sen, this implies a dividend yield of 2-3% currently. While balance sheet looks healthy with net gearing of 0.2x as of FY20 which management guided they are comfortable with.

Share price is undervalued

Stock has recovered by 72% after touching a five-year low back in March-2020 as it catches up with its fundamentals. Currently, it is trading at 12x PE which us -0.5SD below its five year-forward mean PE of 15x. Hence we find the stock to be undervalued.

Analyst

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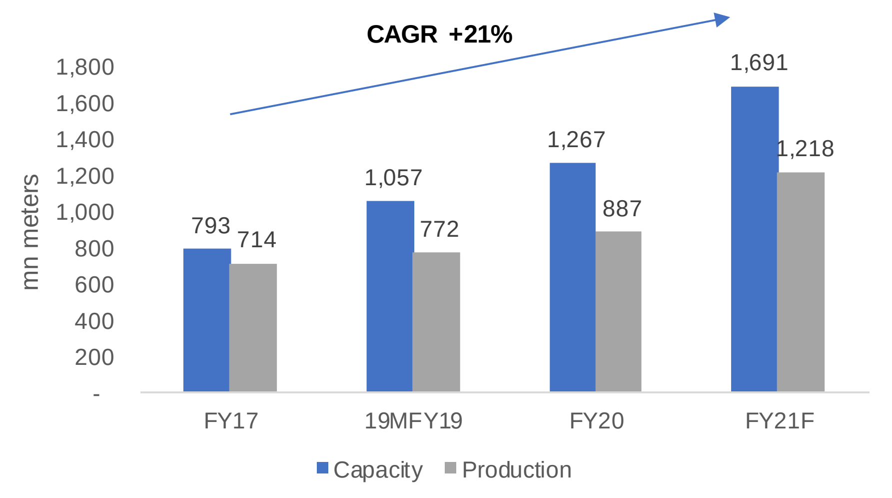
Investment thesis

Aggressively expanding capacity

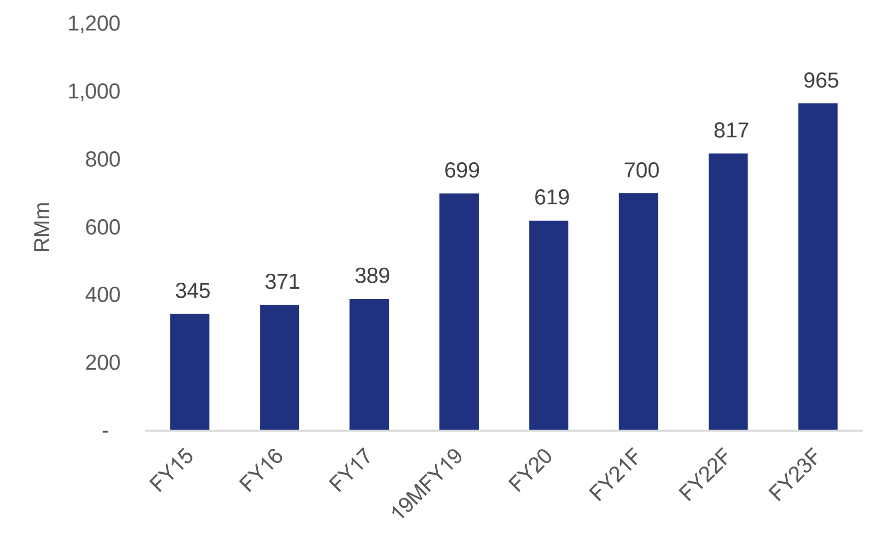
Daibochi has allocated a total CAPEX of RM100m for FY20-21. The purpose of the CAPEX is to add 21 new lines for printing, laminating and bagging. As of FY20, the group has commissioned seven new lines and now pending 14 new lines to be commissioned. The new 21 lines are expected to increase Daibochi's annual production capacity by 60% from around 1b meter. The expanding capacity is expected to meet the growing demands from Southeast Asia's expanding market. Moreover, this is expected to support its growing domestic and export clients. Note that 45% of its sales come from exports which are denominated in US Dolar. Therefore, this is expected to contribute to stronger sales with CAGR of 10% between FY21-FY23F.

Exhibit 1: Capacity is expected to grow at CAGR of 21% between FY17-FY21



Source: Company, KAF

Exhibit 2: Sales growth expected CAGR of 16% between FY21-FY23F



Source: Company, KAF

Integrated operations with Scientex

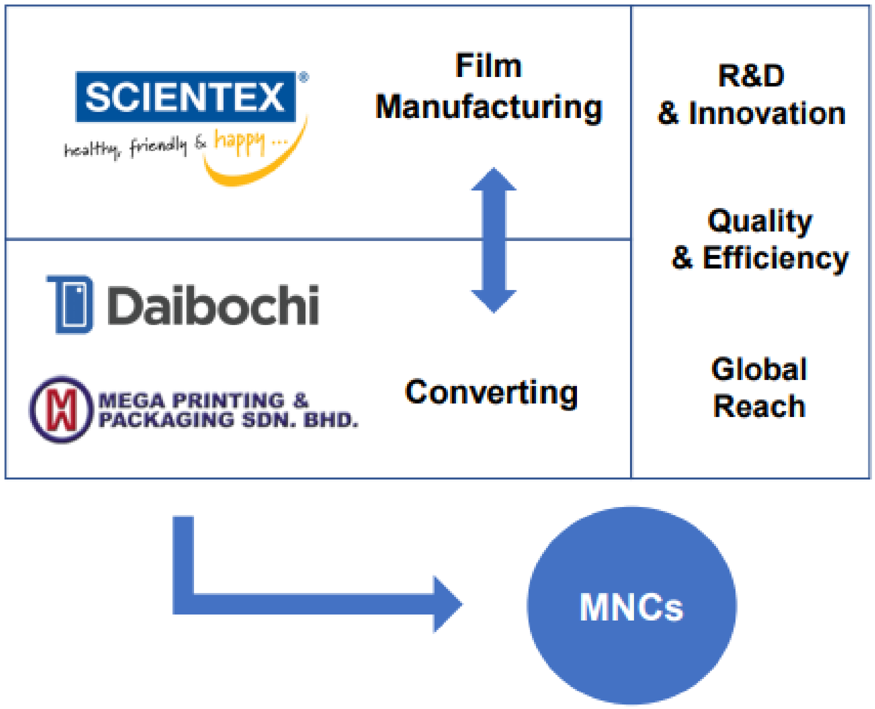
Scientex owns around 62% of Daibochi's holdings since February 2019 which allows the companies to integrate their operations. This is expected to benefit both companies through improvement in operational efficiencies. The efficiencies can be achieved via ongoing capacity expansions, reduced wastages and improvement in inventory controls.

Given Scientex's upstream film production capabilities, this enables Daibochi to focus on its converting business in order to serve customers competitively.

Improving product mix through R&D

On top of that, being part of an integrated operations allow Daibochi to share market expertise with Scientex hence offering customers more advanced and customized solutions through joint Research and Development (R&D). Moreover, Daibochi collaborates with local and international brands to adopt fully-recyclable laminates which is in line with global sustainability trends. The ability to R&D with market leaders has improved the group's product mix, and thus is expected to expand its profit margin.

Exhibit 3: Vertically integrated model to competitively serve customers



Source: Company, KAF

Business overview

Flexible plastic packaging (FPP) expert

Daibochi has over four decades of experience in producing primary FPP solutions to well-known brands. This involves lamination and printing of high quality as well as high performing FPP with comprehensive quality assurance and innovation capabilities. The types of packaging solutions offer various applications like;

- High barrier/performance: Coffee, nuts, potato chips.
- Cost effective barrier: snacks, biscuits, wafer, chocolates, cakes.
- General packaging: Outer pack, noodles, biscuits, wafers.
- Specialty applications: labelling, ice cream, frozen food, seasoning oil, tobacco, pet food.

Exhibit 4: FPP production process

Source: Company, KAF

Revenue breakdown

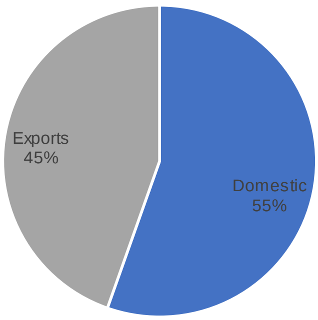
Being a leading FPP player in Southeast Asia and Oceania, Daibochi's portfolio of clients include globally renowned brands like Nestlé, Pepsico, Unilever and Mondelēz International. Furthermore, the group has a good balance of sales ratio between domestic (55%) and export (45%) markets. Its top export sales come from Australia, Thailand, Myanmar, Singapore and Philippines. Moreover, majority of its clients are from the F&B sector (95%) while the non-F&B sector (5%) includes products for home and personal care categories.

- **Portfolio of globally renowned clients;**

  Daibochi is a major supplier to Nestlé in Southeast Asia and Oceania region. While domestically, the group supplies to well-known clients like Mondelēz International, Dutch Lady, Hershey's, Ajinomoto, Mamee, and Power Root. Apart from that, Daiboci also serves leading pet food brands under *Nestlé and Mars* within the wet and dry segments in Australia.

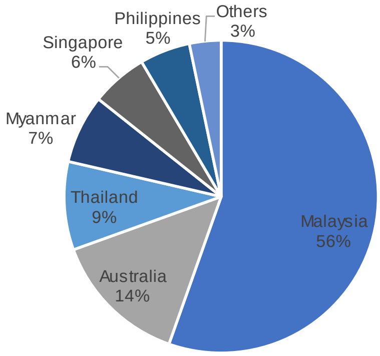
- **Serves domestic and overseas markets;**

Exhibit 5: Sales breakdown between domestic and exports



Source: Company, KAF

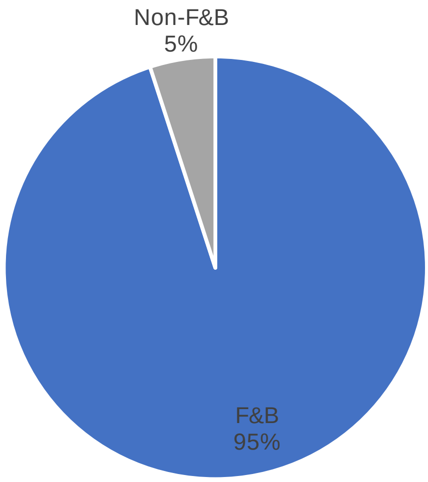
Exhibit 6: Sales breakdown according to countries



Source: Company, KAF

- **Majority of clients are from F&B sector;**

Exhibit 7: Clients are mainly from F&B sector as of FY20



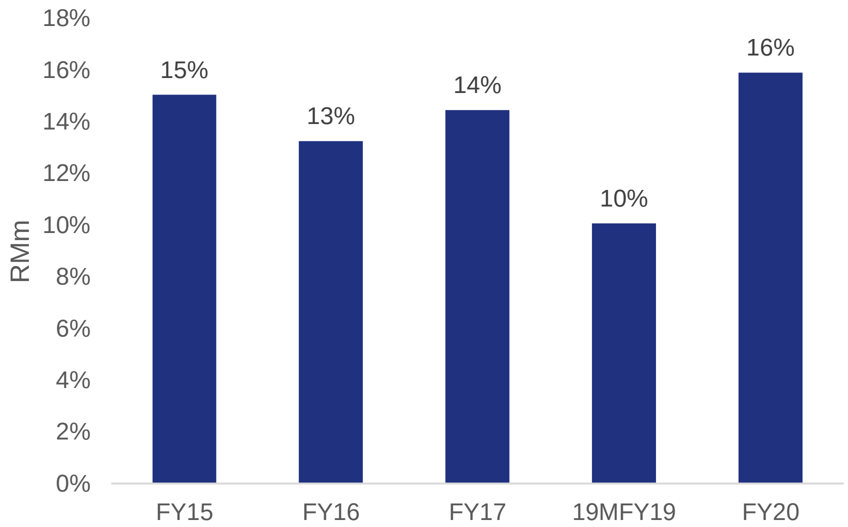
Source: Company, KAF

Pass-through costs of raw materials

Daibochi guided that any changes in raw material prices are generally able to be passed through to clients, which is stated in the supply contracts. Hence, any changes in raw material prices i.e. fossil fuel resin are transferred to customers while Daibochi earns profit through conversion of products. This is expected to cushion the impact of volatility in raw material prices to Daibochi.

Even then, management continues to mitigate potential impact to the gross margin level by passing the costs to clients as well as introducing new products SKUs with innovative sustainable solutions and potentially higher product margins.

Exhibit 8: Gross margin is mitigated through cost pass-through and innovative products



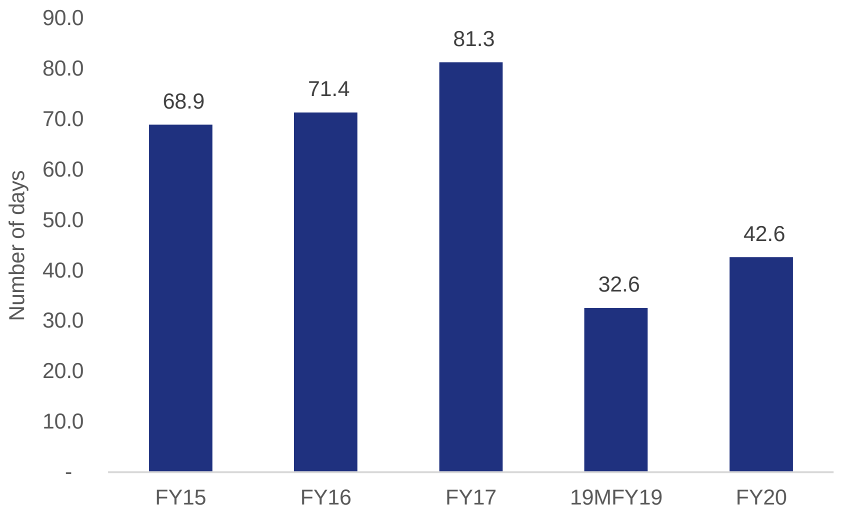
Source: Company, KAF

Faster inventory processing time

Following the acquisition by Scientex in 2019, we see Daibochi's inventory processing time improving at a faster rate from 81 days in FY17 to 33 days in FY19. This means it takes less time for the company to move its inventory to sales which signals improvement in operational efficiencies. The improvement in efficiencies is also due to Scientex taking over the film production activity which has allowed Daibochi to focus on the more downstream end of producing FPP.

While in FY20, the inventory processing time slowed by 10 days to 43 days as Daibochi embarks on aggressive capacity expansion activities through organic growth and M&A exercise. Moving forward, we believe management is able to manage its inventory processing time at a reasonable rate to ensure smooth operations and continuous operational efficiencies.

Exhibit 9: Average inventory period is faster after being acquired by Scientex



Source: Company, KAF

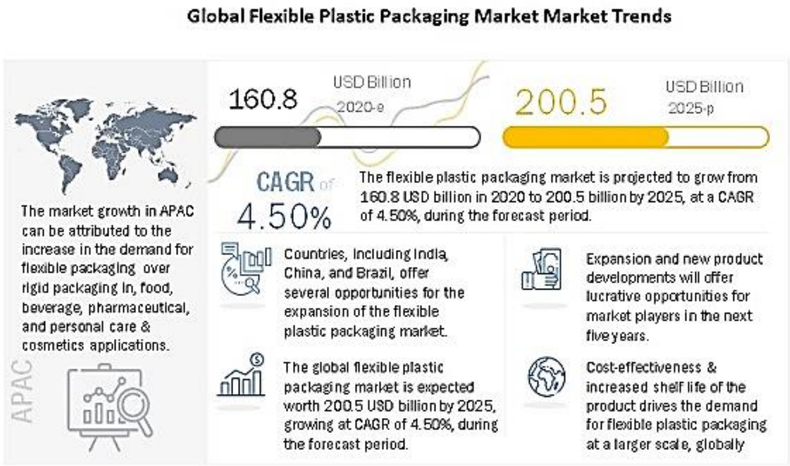
Industry overview

FPP growth is driven by increasing demand

According to Markets and Markets, the size of the global FPP market is projected to grow at a CAGR of 5% to USD201b between 2020 to 2025. The growth is expected to be attributable to increased demand in end-use industries (i.e. food and beverages, cosmetic, personal care and pharmaceutical). This is expected to be further supported by growth in modern retailing, increasing consumer income and acceleration in ecommerce activities especially in emerging economies.

Moreover, according to Technavio, 49% of the FPP growth is expected to come from the Asia Pacific region. This is due to an improving global economy, expanding working population and rising domestic demand for ready-to-eat and convenience food products. This is further supported by the functional properties offered by FPP like safety, cost-effectiveness, durability, lightweight, strength, handling convenience and eco-friendliness.

Exhibit 10: Global FPP market is projected to grow at CAGR of 5% between 2020 – 2025



Source: Markets and Markets, KAF

Peers comparison

Globally, the FPP market is predominantly dominated by global players such as Sealed Air Corporation (US), Amcor (Australia), Berry Global Inc. (US), Mondi (South Africa), Sonoco (US), Huhtamaki (Finland), Coveris (Austria), Transcontinental Inc. (Canada), and Clondalkin Group (The Netherlands), among many others.

While domestically, Daibochi's closest competitor is Tomypak Holdings Berhad (Tomypak). Comparing Daibochi's valuation with Tomypak, we find that it is currently trading at a cheaper valuation of 14x PE based on FY21F EPS which is lower than Tomypak's FY21F based PE of 38x. This may due to consensus projecting Tomypak to deliver more than 100% EPS growth vs Daibochi's projection of 3% in FY21F.

On the other hand, looking at the plastic packaging companies' valuation as a whole, we find Daibochi to be trading lower than the peers' simple average FY21F PE of 17x but slightly higher than the market capital weighted PE average of 13x.

Exhibit 11: Peers comparison table for FY21F

Company	Rating	TP (RM)	Share price (RM)	Mkt Cap (RMm)	PE (x)	PB (x)	EPS Growth (%)	ROE (%)	Div Yield (%)
Daibochi	Buy	2.90	2.47	808.7	14.2	2.8	3.4	19.6	2.4
Scientex Berhad	Hold	4.12	4.04	6,262.0	13.2	2.4	(62.9)	16.0	2.5
Tomypak	NR	NA	0.74	312.2	38.2	1.5	>100	4.1	0.0
SCGM Bhd	NR	NA	2.29	442.0	12.9	2.3	32.6	17.8	3.1
SLP Resources Bhd	NR	NA	0.89	279.7	13.8	1.4	21.1	11.1	5.8
Thong Guan	NR	NA	2.46	934.8	12.0	1.4	7.1	13.3	2.3
Simple Average					**17.4**	**2.0**	**18.7**	**13.6**	**2.7**
Mkt Cap Weighted Average					**12.7**	**0.5**	**(36.4)**	**15.6**	**2.5**

Source: Bloomberg, KAF

Risk factors

Operations may delay due to COVID-19

Note that Malaysia is currently in its second round of Movement Control Order (MCO) period. Despite Daibochi being in essential services, implementation of MCO and stricter Standard Operating Procedures (SOPs) nationwide may have caused some delays in operations within the supply chain. Other than that, there is also a growing concern of positive cases in manufacturing facilities which could potentially result in closure of operations for sanitization and quarantine for up to two weeks.

Even then, the effect of COVID-19 is expected to be in its tailwinds considering positive news development on the roll out of vaccine globally. Moreover, Daibochi's operations are almost fully-automated and do not rely heavily on human workforce. Therefore, despite potential delay in operations, we expect earnings impact to be immaterial as we believe Daibochi will be able to pick-up in operations when needed.

Increasing raw material prices

We have extracted the price movement of Southeast Asia Low-density polyethylene (LDPE). This is expected to act as a reference point on changes in raw material costs which may impact Daibochi's costs of sales. Note that LDPE is commonly known to be used in food packaging.

According to Bloomberg, the price of LDPE has reached a five-year high after a prolonged downtrend. This was due to tightening of supplies from global producers. Given the increasing costs of LDPE, this is expected to increase Daibochi's costs of sales.

Even then, management is expected to mitigate level of gross margin by passing the costs to clients as well as introducing new products SKUs with innovative solutions and higher product margins.

Exhibit 12: Price of LDPE bouncing back after five-year downtrend

Source: Bloomberg, KAF

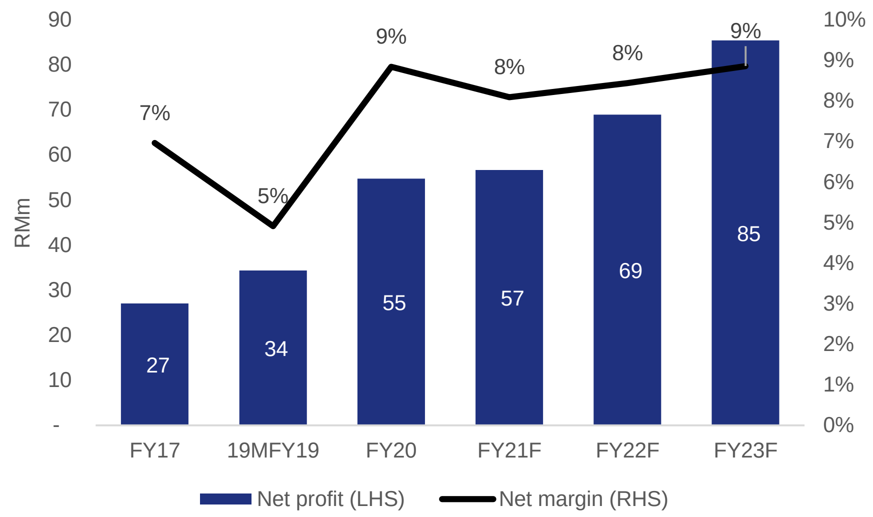
Earnings outlook

Earnings to be driven by margin expansion

In the near term, we are projecting Daibochi's earnings to grow at three-year CAGR of 8% between FY21-23F on the back of 1) aggressive expansion plans to increase production capacity; 2) improvement in operational efficiencies through process integration with Scientex; and 3) continuous R&D to introduce innovative FPP solutions to enhance product margins.

Operating under the umbrella of Scientex, we expect Daibochi's earnings margin to sustain at an average of 8% moving forward vs three-year average of 6% pre-acquisition by Scientex. This may be partially offset by increase in costs of sales due to rising raw material prices which may be pass-through to clients.

Exhibit 13: Net earnings CAGR of 16% between FY21-23F



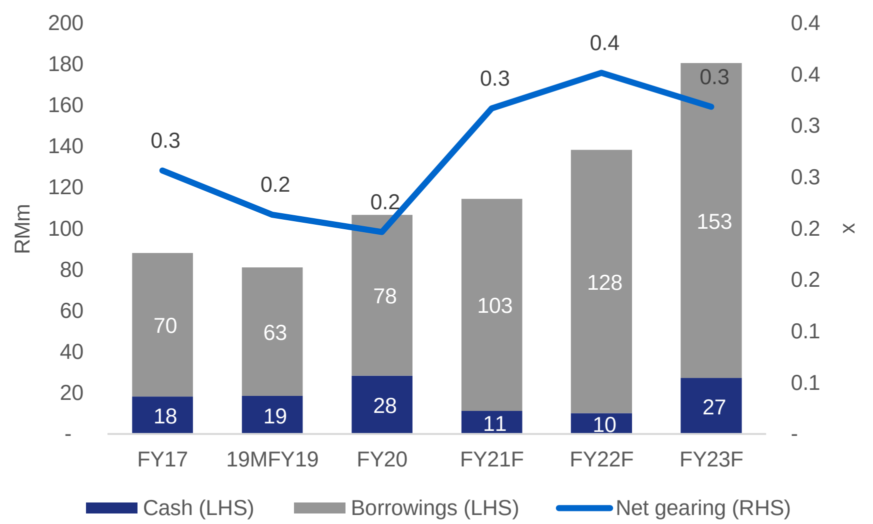
Source: Company, KAF

Balance sheet at comfortable level

Daibochi's net gearing level has been on an uptrend as the group enters into an aggressive expansion mode. This includes continuous purchase of new machineries to improve and enhance its production capabilities as well as entering into M&A exercises to widen its portfolio of clients.

We see this as a positive move as it is necessary for the group to incur more borrowings to support its long-term growth plan. Furthermore, management guided that they are managing the net gearing level so not to surpass 0.5x level.

Exhibit 14: Daibochi is comfortable with net gearing being below 0.5x



Source: Company, KAF

Quarterly financial update

Annually, Daibochi's revenue increased to RM157m (+3% YoY) in 1QFY21 on the back of stronger domestic sales which account for 57% of total sales. Consequently, pretax profit increased to RM17m (+15% YoY) with higher pretax margin of 11% (+1-ppts YoY) on the back of lower interest expenses and better product mix.

Quarterly, sales improved slightly (+1% QoQ) in 1QFY21, however, due to expanding product margins and operational efficiencies, pretax margin (+3-ppts QoQ) increased from a low base effect in the previous quarter.

No dividend was declared during the quarter under review (similar to 1QFY20).

Exhibit 15: Quarterly financial results analysis

FYE 31 Oct	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	Change (%)		KAF	
RMm	Oct-20	Jan-20	Apr-20	Jul-20	Oct-20	QoQ	YoY	FY21F	3M/F
Revenue	153	159	152	156	157	1	3	700	22%
EBITDA	**23**	**26**	**25**	**23**	**24**	**2**	**4**	**113**	**21%**
Depreciation	(5)	(5)	(6)	(6)	(6)	(7)	13		
EBIT	18	20	19	17	18	6	1	81	22%
Net interests	(1)	(1)	(1)	(1)	(0)	(27)	(69)		
Exceptional items	(1)	1	(3)	(3)	(0)	(91)	(80)		
Minority interests	(0)	(1)	(1)	2	(0)	nm	(87)		
Pretax profit	15	20	15	13	17	31	15	76	23%
Taxation	(4)	(5)	(4)	(3)	(4)	25	19		
Reported profit	11	15	11	11	13	14	17	57	23%
Normalised net profit	**12**	**14**	**14**	**14**	**13**	**(10)**	**6**	**57**	**23%**
Basic EPS (sen)	3	4	3	3	4	14	17		
Normalised EPS (sen)	4	4	4	4	4	(10)	6		
DPS (sen)	0	0	2	3	0	nm	nm		
						%-pts	**%-pts**		
Effective tax rate (%)	24	23	25	26	25	(1)	1		
EBITDA margin (%)	15	16	16	15	15	0	0		
Pretax profit margin (%)	10	13	10	8	11	3	1		
Normalised net margin (%)	8	9	9	9	8	1	0		

Source: Company, KAF

Recommendation

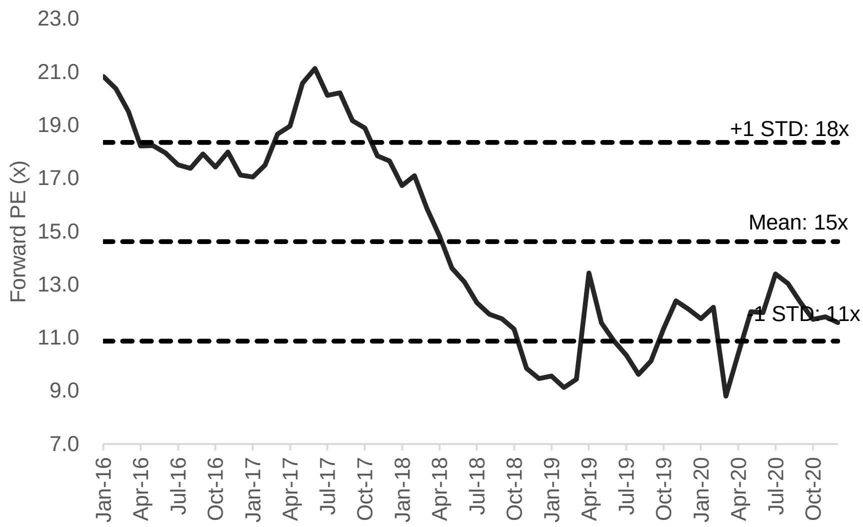
Initiate with Buy rating and TP of RM2.90

We initiate coverage on Daibochi with a BUY rating and TP of RM2.90 pegged to 15x PE based on CY21F EPS. This is in-line with its five-year forward mean PE.

Justification of our buy call is on the back of three-year earnings CAGR of 16% between FY21-23F through 1) aggressive expansion plans to be market leader in FPP; 2) expanding profit margins from integrated operations with Scientex and 3) innovative FPP solutions with higher product margins as well as meeting clients' sustainability efforts.

Risks to our rating include 1) increasing raw material prices which may experience delay is passing-on to customers; and 2) increasing COVID-19 cases globally which may slow down operations due to stricter lockdown measures.

Exhibit 16: Five-year forward PE band chart



Source: Company, KAF

Share price performance

Share price has increased by 72% after touching a five-year low back in March-2020 as it catches up with its fundamentals. Currently, it is trading at 12x PE which is around -0.5SD below its five year-forward mean PE of 15x. Hence we find the stock to be undervalued.

Exhibit 17: Stock recovered from a five-year low

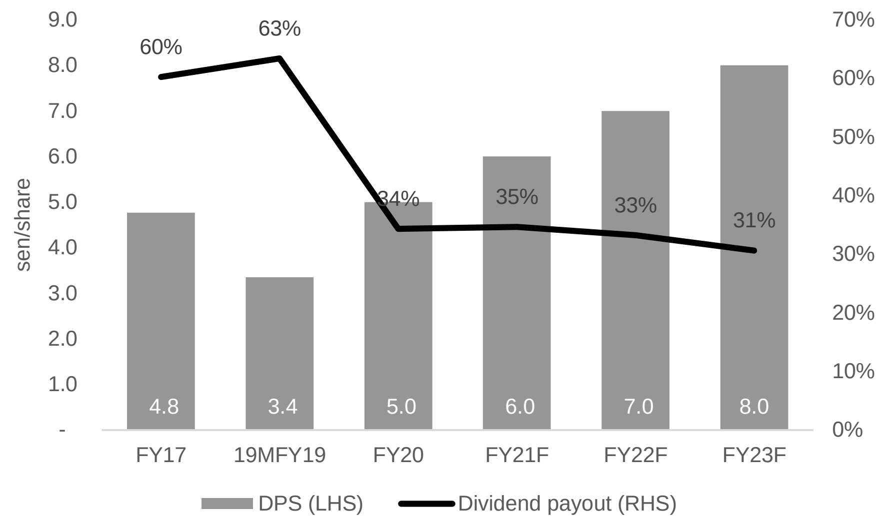
Source: Company, KAF

Dividend payout policy

Daibochi currently has a dividend payout policy of not less than 30% of earnings. Note that prior to merging with Scientex, the group had a dividend payout policy of not less than 60% of earnings. The lower dividend payout policy level is so to meet future capital requirements given the aggressive growth plans.

Moreover, any increase in earnings are expected to result in increasing DPS level. Therefore, with projected DPS of 6-8sen for FY21-23F, this implies a dividend yield of 2-3% currently.

Exhibit 18: Daibochi has a dividend payout policy of not less than 30%



Source: Company, KAF

Additional background

Corporate information

Daibochi was founded in 1972 and established itself as a leading end-to-end FPP supplier for MNCs in the F&B and FMCG sectors based in Melaka, Malaysia. Its top clients are Nestle, Mondelez International, PepsiCo, and Mars. Moreover, Daibochi has acquired a comprehensive quality and food safety certifications from ISO:9001, ISO: 14001 and Scheme for Food Safety Management Systems (FSSC) for FSSC:22000 since its establishment.

With regards to Daibochi's facilities, the group has two manufacturing plants located in Melaka, Malaysia which also where the head office is situated in. Daibochi also has a sales and manufacturing site in Yangon, Myanmar to cater to local Myanmar market. In order to serve clients across Southeast Asia and the Oceania regions, Daibochi also has sales and warehousing facilities in Thailand, Philippines and Australia.

Exhibit 19: Ayer Keroh, Melaka facilities with head office

Source: Company, KAF

Exhibit 20: Teluk Emas, Melaka facilities

Source: Company, KAF

Exhibit 21: Yangon, Myanmar plant

Source: Company, KAF

Recent corporate exercises

- **Acquired by Scientex;**

  On 19 February 2019, Daibochi became a subsidiary of Scientex Berhad (Scientex) following a share sale and mandatory general offer. This resulted in Scientex holding a 62% stake in Daiboching after the completion of a mandatory general offer. Following the corporate exercise, Daibochi benefited from Scietex through integrated supply chain operations via more efficient operations. Costs of raw materials are also lower as Scientex is able to purchase at economies of scale for being a leader in the FPP upstream market. Hence, being acquired by Scientex allows Daibochi to expand its product margins hence improve profitability.

- **Acquired MPP;**

  Then on 5 August 2019, Daibochi completed the acquisition of Melaka based FPP manufacturer; Mega Printing & Packaging Sdn Bhd (MPP). The acquisition expanded Daibochi's capacity and increased its portfolio of customers to include a larger Malaysian base. MPP has an annual production capacity of 264mn meters with a utilization rate of close to 70%. Note that 87% of its clients are domestic and the other 13% are from overseas. Examples of its customers include brands like Nestle, Munchy Food, Oriental Food and Power Root. Therefore, acquiring MPP has allowed Daibochi to increase its sales and widen its reach to a larger pool of customers to grow its business.

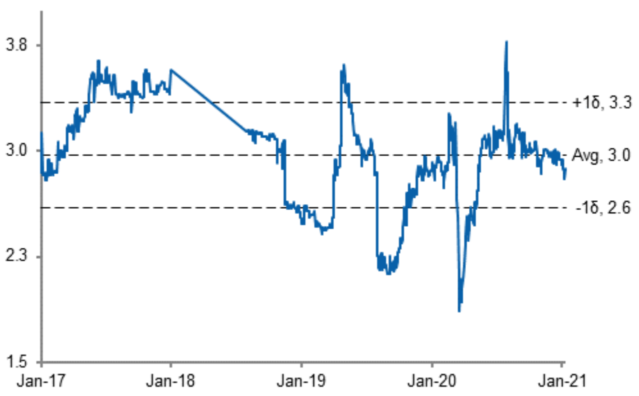
Board of Directors

Exhibit 22: Board of Directors

Board members	Personal details	Background and experiences
Heng Fu Joe Independent Non-Executive Director (Chairman)	Malaysian, Male, 40 years old	Chartered Accountant of the Malaysian Institute of Accountants, a fellow member of the Chartered Accountants in Australia and New Zealand, a Chartered member of the Institute of Internal Auditors Malaysia, a Certified Public Accountant and an Approved Auditor with the Kampuchea Institute of Certified Public Accountants and Auditors, Cambodia. Past experience includes being the Manager of RSM in Australia and a Finance Analyst of Goldman Sachs International in London, United Kingdom. Currently a Partner and the Chief Operating Officer of Baker Tilly, Malaysia.
Chang Chee Siong Managing Director	Malaysian, Male, 48 years old	Holds a Master in Manufacturing and Production Management from Wawasan Open University and is a member of the Chartered Institute of Marketing (UK). Joined the Company in 1994 and was appointed as the Head of Department, Marketing and Sales in 2006 and the General Manager, Marketing and Sales in 2014. Has extensive experience in sales and marketing.
Low Geoff Jin Wei Executive Direcor	Australian, Male, 38 years old	Graduated from the University of Sydney, New South Wales, Australia with a Bachelor of Commerce (Major in Finance & Marketing). Prior to this, was the Managing Director/Project Director of GlassKote (Malaysia) Sdn Bhd from 2005 to 2010.
Caroline Ang Choo Bee Independent Non-Executive Director	Malaysian, Female, 51 years old	Chartered Accountant of the Malaysian Institute of Accountants, a fellow member of the Association of Chartered Certified Accountants (ACCA), United Kingdom and an associate member of the Malaysian Institute of Chartered Secretaries and Administrators. After obtaining the ACCA qualification, gained extensive experience while being attached to the Audit and Corporate Recovery and Insolvency departments of Ernst & Young, Kuala Lumpur. Then gained further experience in finance and business while holding the position of Accountant in Honeywell Engineering Sdn Bhd, a fully owned subsidiary of Honeywell Inc., a Fortune 100 Public Listed Company in the USA.
Faris Salim Cassim Independent Non-Executive Director	Australian, Male, 46 years old	Holds Bachelor of Laws and Bachelor of Commerce degrees from the University of Western Australia, Australia. Practised as a solicitor in Sydney, Australia specialising in corporate, mergers and acquisitions law, and then in corporate finance with major financial institutions, also in Sydney, Australia. Past experience includes working as a Chief Financial Officer and Director for a healthcare technology start-up. Has extensive experience and knowledge in corporate and mergers and acquisitions law, corporate finance and equity capital markets. Currently a Director of Novis Pte. Ltd, which is a private investment and business advisory services company based in Singapore.
Heong Mun Foo Executive Director (CFO)	Malaysian, Male, 34 years old	Graduated with a Bachelor of Accounting with Honours from National University of Malaysia in 2009 and holds a qualification from the ACCA, United Kingdom. Also a member of the Malaysian Institute of Accountants. Prior to joining Scientex Berhad's group of companies in 2015, he was attached to Deloitte from 2009 to 2015 and has experience in the fields of auditing, initial public offering (IPO) and liquidation.

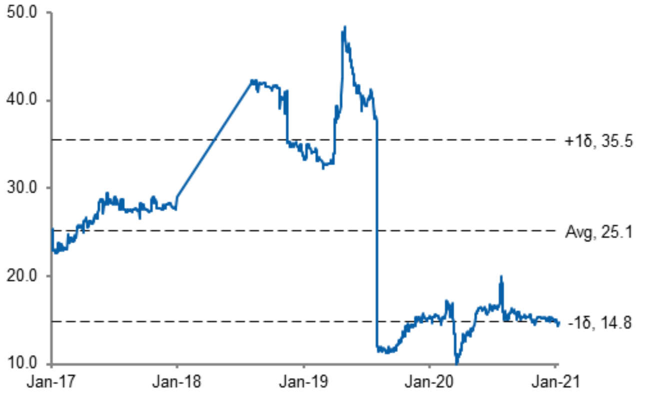
Source: Company, KAF

Exhibit 23: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 24: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Revenue	699	619	700	817	965
EBITDA	86	104	113	142	175
Depreciation/Amortisation	(23)	(23)	(32)	(43)	(52)
Operating income (EBIT)	46	74	81	99	123
Other income & associates	2	0	0	0	0
Net interest	(6)	(4)	(6)	(7)	(9)
Exceptional items	(17)	(7)	0	0	0
Pretax profit	**25**	**63**	**76**	**92**	**114**
Taxation	(5)	(16)	(19)	(23)	(28)
Minorities/pref dividends	(3)	0	0	0	0
Net profit	**17**	**48**	**57**	**69**	**85**
Core net profit	34	55	57	69	85

Balance Sheet

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	139	200	268	325	373
Intangible assets	32	76	76	76	76
Other long-term assets	19	4	4	4	4
Total non-current assets	**191**	**280**	**348**	**405**	**453**
Cash & equivalent	19	28	11	10	27
Stock	62	72	82	96	114
Trade debtors	89	103	117	136	161
Other current assets	4	0	0	0	0
Total current assets	174	203	211	243	302
Trade creditors	54	96	109	128	151
Short-term borrowings	57	76	101	126	151
Other current liabilities	0	4	4	4	4
Total current liabilities	**112**	**176**	**214**	**257**	**305**
Long-term borrowings	5	2	2	2	2
Other long-term liabilities	17	27	27	27	27
Total long-term liabilities	**23**	**30**	**30**	**30**	**30**
Shareholders' funds	**206**	**253**	**290**	**336**	**395**
Minority interests	24	25	25	25	25

Cash flow Statement

FYE Jul (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	25	63	76	92	114
Depreciation/Amortisation	23	23	32	43	52
Net change in working capital	3	33	(11)	(15)	(19)
Others	11	1	(19)	(23)	(28)
Cash flow from operations	**61**	**121**	**77**	**97**	**118**
Capital expenditure	(15)	(26)	(100)	(100)	(100)
Net investments & sale of fixed assets	1	0	0	0	0
Others	(17)	(84)	0	0	0
Cash flow from investing	**(31)**	**(110)**	**(100)**	**(100)**	**(100)**
Debt raised/(repaid)	(5)	13	25	25	25
Equity raised/(repaid)	0	1	2	3	4
Dividends paid	(15)	(9)	(20)	(23)	(26)
Others	(8)	(7)	(2)	(3)	(4)
Cash flow from financing	**(28)**	**(2)**	**5**	**2**	**(1)**
Net cash flow	**1**	**9**	**(17)**	**(1)**	**17**
Net cash/(debt) b/f	**18**	**19**	**28**	**11**	**10**
Net cash/(debt) c/f	**19**	**28**	**11**	**10**	**27**

Key Ratios

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue growth (%)	79.9	(11.4)	13.0	16.7	18.1
EBITDA growth (%)	60.6	21.3	8.6	25.4	22.9
Pretax margins (%)	35.4	64.3	66.5	69.3	72.8
Net profit margins (%)	4.9	8.8	8.1	8.4	8.9
Interest cover (x)	7.5	17.6	13.6	13.5	14.0
Effective tax rate (%)	18.5	24.7	25.0	25.0	25.0
Net dividend payout (%)	63.4	34.3	34.7	33.2	30.6
Debtors turnover (days)	47	60	61	61	61
Stock turnover (days)	33	43	43	43	43
Creditors turnover (days)	28	57	57	57	57

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

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