midf RESEARCH

15 May 2018 | 1QFY18 Results Review

Daibochi Plastic & Packaging Industry

Maintain BUY

Largely in-line

Maintain Target Price (TP): RM2.59

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings broadly in-line**
- **PAT for the quarter increased by 22.8% yoy to RM7.1m**
- **Qoq, PAT fell by 16.8% due to higher raw material prices**
- **Daibochi Myanmar continues growing its topline by 27% to RM10.7m qoq**
- **BUY with unchanged TP of RM2.59**

1QFY18 earnings broadly in-line. Daibochi's earnings came in broadly within expectation, making up 18% of ours and 20% of consensus' full year estimates. We expect sales to catch up in the coming quarters as Daibochi continues to grow its export markets. It has announced an interim dividend of 1.05 sen, which is largely within our full year expectation of 6.1 sen.

PAT for the quarter increased by 22.8% yoy to RM7.1m as sales grew 11.3% to RM104.7m from RM94.1m a year earlier mainly due to contribution from Myanmar as well as new contracts for the Malaysian arm. Exports improved marginally to 55% of its topline.

Qoq, PAT fell by 16.8% due to higher raw material prices. Although revenue dipped by 1% to RM104.7m, net profit for the period fell 16.8% from RM8.5m to RM7.1m due to the rise in raw material costs. We expect Daibochi to pass on some of the rising raw material costs to its customers in the time to come but price revisions for some of these contracts and jobs take time.

Daibochi Myanmar continues growing its topline by 27% to RM10.7m qoq as the group enlarge its customer base. However, PBT for the unit declined to RM1.5m from RM1.7m as a result of higher raw material prices and the strengthening of ringgit against Myanmar Kyat.

Growth to be supported by Myanmar and Malaysia plants. Daibochi has started to export flexible packaging to an MNC in the ANZ region in April. This is expected to contribute to 2QFY18 earnings. At the meantime, it has also received the new flexographic printer in March, which is expected to increase productivity and achieve better quality.

BUY with unchanged TP of RM2.59. We maintain our BUY recommendation as we make no changes to our earnings estimates for now pending an analyst briefing later today. Our valuation method, based on the dividend discount model with a terminal growth rate of 3.2%, is unchanged. We like Daibochi as a proxy to the consumer industry while most of its customers are reputable multinational companies.

RETURN STATS	
Price (14th May 2018)	RM2.23
Target Price	RM2.59
Expected Share Price Return	+16.0%
Expected Dividend Yield	+2.8%
Expected Total Return	**+18.9%**

STOCK INFO	
KLCI	1,868.0
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.9
Market cap. (RM'm)	731.21
Price over NA	3.69
52-wk price Range	RM2.11– RM2.41
Beta (against KLCI)	0.33
3-mth Avg Daily Vol	0.03m
3-mth Avg Daily Value	RM0.08m
Major Shareholders (%)	
Chan Tian Low	10.32
Apollo Asia Fund Limited	9.37
Lim Koy Peng	8.46
Halley Sicav-Halley	5.88

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	345.0	371.2	388.7	451.0	488.0
Cost of goods sold	(293.1)	(322.0)	(366.2)	(399.1)	(431.1)
Gross profit	51.9	49.2	39.9	51.9	56.9
Profit before tax	35.7	30.0	35.7	48.3	54.9
Income tax expense	(9.0)	(5.4)	(8.7)	(9.4)	(9.9)
Net profit	**26.7**	**24.5**	**27.1**	**38.9**	**45.0**
PATAMI	26.7	24.5	26.0	36.5	42.1
EPS (sen)	8.1	7.5	7.9	11.1	12.8
EPS growth (%)	(59.9)	(8.3)	6.0	40.7	15.1
PER (x)	27.4	29.8	28.2	20.0	17.4
Net dividend (sen)	5.9	5.4	5.2	6.3	7.2
Dividend yield (%)	2.5	2.4	2.3	2.8	3.2
Gross profit margin (%)	15.0	13.3	10.3	11.9	12.2
Profit before tax margin (%)	10.4	8.1	9.2	11.1	11.8
Net profit margin (%)	7.7	6.6	7.0	8.1	8.6

Source: Company, MIDFR

DAIBOCHI: 1QFY18 Results Summary

FYE Dec (RM'm)					Cumulative results		
	1QFY18	**1QFY17**	**YoY (%)**	**QoQ (%)**	**FY18**	**FY17**	**YoY (%)**
Revenue	104.7	94.1	11.3	(0.9)	104.7	94.1	11.3
Profit from operations	**9.4**	**7.8**	20.7	(16.9)	**9.4**	**7.8**	20.7
Finance costs	(0.9)	(0.7)	25.3	(3.5)	(0.9)	(0.7)	25.3
Share of profit of equity-accounted associate	0.0	0.4	(93.4)	(97.0)	0.0	0.4	(93.4)
Profit before tax	**8.5**	**7.4**	14.9	(23.5)	**8.5**	**7.4**	14.9
Income tax expense	(1.5)	(1.7)	(12.4)	(46.1)	(1.5)	(1.7)	(12.4)
Profit after tax	**7.1**	**5.8**	22.8	(16.3)	**7.1**	**5.8**	22.8
Basic EPS (sen)	2.0	1.8	11.9	(18.2)	2.0	1.8	11.9
			+/(-) ppts				
PBT margin (%)	8.2	7.9	0.3	(2.4)	8.2	7.9	0.3
PAT margin (%)	6.8	6.1	0.6	(1.2)	6.8	6.1	0.6
Tax rate (%)	17.1	22.4	(5.3)	(7.2)	17.1	22.4	(5.3)
Geographical Segments							
Revenue							
Malaysia	81.0	77.6	4.3	3.5	81.0	77.6	4.3
Australia	15.3	15.5	(1.2)	(22.1)	15.3	15.5	(1.3)
New Zealand	0.4	1.0	(59.6)	(57.7)	0.4	1.0	(59.6)
Myanmar	8.1	0.0	N.A.	17.8	8.1	0.0	N.A.
Non-current assets							
Malaysia	26.9	138.7	(80.6)	(79.3)	26.9	138.7	(80.6)
Myanmar	42.8	0.0	N.A.	(0.3)	42.8	0.0	N.A.
Australia	0.1	0.1	(42.1)	(31.3)	0.1	0.1	(42.1)
Non-current assets margin (%)							
Malaysia	0.3	1.7	1.2	-1.3	0.3	1.7	(1.4)
Myanmar	5.3	0.0	N.A.	-1.0	5.3	0.0	N.A.

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 *rise* 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 *fall* 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.