midf RESEARCH

17 August 2018 | 2QFY18 Results Review

Daibochi Berhad

Affected by high raw material costs

***Downgrade to* NEUTRAL**

***Adjusted* Target Price (TP):RM2.00**
(Previously RM2.59)

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings missed expectations**
- **2QFY18 PATAMI fell by 7.8%yoy and 28.5%qoq to RM4.7m**
- **PATAMI for FY18F/FY19F slashed by -28%/-31% to RM27.5m/RM30.8m**
- **Downgrade to NEUTRAL from BUY with lower TP of RM2.00 (previously RM2.59)**

1HFY18 earnings missed expectations. Daibochi's earnings were below estimates, making up 30% of ours and 32% of consensus' full year estimates. The negative deviation is caused by higher than expected raw material costs. It has announced an interim dividend of 0.8 sen, bringing YTD DPS to 1.85 sen, which missed our expectation of 6.1 sen.

PATAMI for the first half increased by 3.2%yoy to RM11.2m which is slower than the growth in revenue that was up by 16.7%yoy. Increasing sales from Myanmar and Malaysia plants were offset by higher raw material costs and unrealised forex loss amounting to RM1.5m. Exports continued to improve to 58.8% as of end-June from 55% in March.

2QFY18 PATAMI fell by 7.8%yoy and 28.5%qoq to RM4.7m mainly due to higher raw material prices and forex losses. However, revenue for the quarter rose to the highest at RM106.4m (22.5%yoy; 1.6%qoq). 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 may take time. We believe the underwhelming quarterly net profit is partially attributed to the lag in adjustment for pricing.

Daibochi Myanmar PBT dropped 33%qoq to RM1.0m from RM1.5m. This is due to the 16.3% lower sales, which is attributed to the 9-day long holiday in Myanmar during the quarter.

PATAMI for FY18F/FY19F slashed by -28%/-31% to RM27.5m/RM30.8m to reflect weaker than expected performance from Myanmar and higher raw material costs. We have also assumed lower profit margin going forward in view of the more competitive environment.

Downgrade to NEUTRAL from BUY with lower TP of RM2.00 (previously RM2.59) as we turn more cautious on the high material costs and potential further losses from Daibochi's USD borrowings worth USD4.6m. Our valuation method, based on the dividend discount model with a terminal growth rate of 3.2%, is unchanged.

RETURN STATS	
Price (16th August 2018)	RM2.05
Target Price	RM2.00
Expected Share Price Return	-2.4%
Expected Dividend Yield	+2.0%
Expected Total Return	**-0.4%**

STOCK INFO	
KLCI	1,777.27
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (m)	327.35
Market cap. (RM'm)	671.06
Price over NA	3.33
52-wk price Range	RM2.00– RM2.41
Beta (against KLCI)	0.33
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM0.04m
Major Shareholders (%)	
Chan Tian Low	10.34
Apollo Asia Fund Limited	9.38
Lim Koy Peng	8.48
Halley Sicav-Halley	5.89

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	345.0	371.2	388.7	439.0	473.3
Cost of goods sold	-293.1	-322.0	-366.2	-399.1	-431.1
Gross profit	51.9	49.2	39.9	39.9	42.2
Profit before tax	35.7	30.0	35.7	36.4	40.2
Income tax expense	-9.0	-5.4	-8.7	-7.1	-7.2
PAT	26.7	24.5	27.1	29.3	33.0
PATAMI	26.7	24.5	26.0	27.5	30.8
EPS (sen)	8.1	7.5	7.9	8.4	9.4
EPS growth (%)	-59.9	-8.3	6.0	6.1	6.1
PER (x)	27.4	29.8	28.2	26.5	23.7
Net dividend (sen)	5.9	5.4	5.2	4.6	5.0
Dividend yield (%)	2.5	2.4	2.3	2.0	2.2
Gross profit margin (%)	15.0	13.3	10.3	9.1	8.9
Profit before tax margin (%)	10.4	8.1	9.2	8.3	8.5
Net profit margin (%)	7.7	6.6	7.0	6.3	6.5

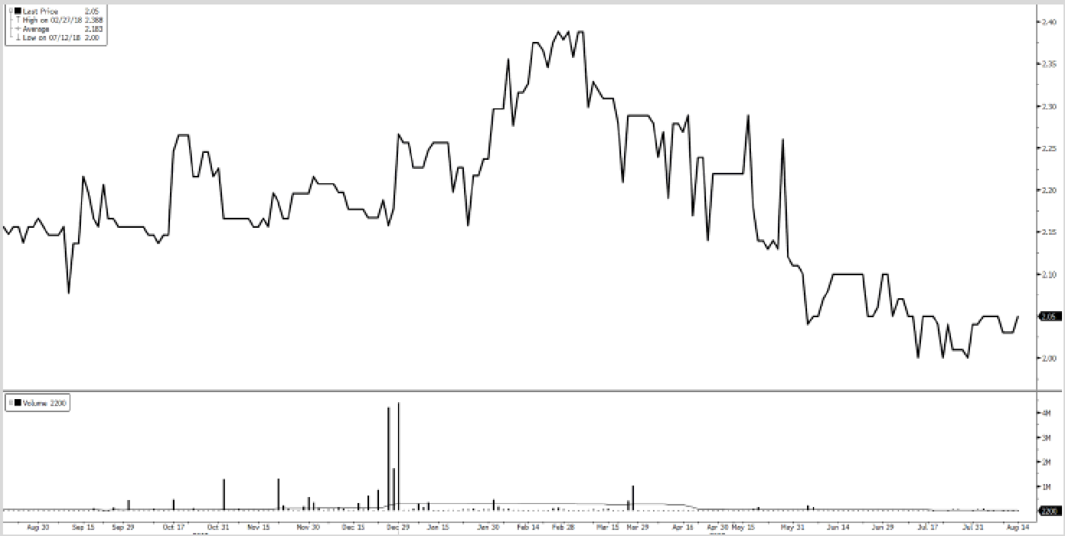
Source: Company, MIDFR

DAIBOCHI: 2QFY18 Results Summary

FYE Dec (RM'm)					Cumulative results		
	2QFY18	**2QFY17**	**YoY (%)**	**QoQ (%)**	**FY18**	**FY17**	**YoY (%)**
Revenue	106.4	86.8	22.5	1.6	211.1	181.0	16.7
Profit from operations	7.1	7.4	(4.0)	(24.7)	16.4	15.1	8.7
Finance costs	(0.9)	(0.7)	39.1	8.1	(1.8)	(1.4)	32.1
Share of profit of equity-accounted associate	0.1	(0.0)	(539.4)	530.4	0.2	0.3	(47.2)
Profit before tax	6.3	6.7	(5.7)	(26.6)	14.8	14.1	5.2
Income tax expense	(1.3)	(1.6)	(21.6)	(13.8)	(2.7)	(3.3)	(16.9)
Profit after tax	5.0	5.0	(0.6)	(29.2)	12.1	10.8	11.9
PATAMI	4.7	5.0	(7.8)	(28.5)	11.2	10.8	3.2
Basic EPS (sen)	1.4	1.5	(7.8)	(41.3)	3.4	3.3	2.7
			+/(-) ppts				
PBT margin (%)	5.9	7.7	(1.8)	(4.7)	7.0	7.8	(0.8)
PAT margin (%)	4.7	5.8	(1.1)	(3.3)	5.3	6.0	(0.7)
Tax rate (%)	20.1	24.2	(4.1)	(4.2)	20.1	24.2	(4.1)
Geographical Segments							
Revenue							
Malaysia	81.0	77.6	4.3	3.5	81.0	77.6	4.3
Australia	15.3	15.5	-1.29	(22.1)	15.3	15.5	(1.3)
New Zealand	0.4	1.0	-59.61	(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.