

15 November 2018 | 3QFY18 Results Review

Daibochi Bhd

Recovery takes longer than expected

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings missed expectations**
- **PATAMI for 9MFY18 declined by 6.4% to RM16.8m**
- **PATAMI cut by 16.0%/16.6% to RM23.1m/RM25.7m for FY18F/FY19F**
- **Share swap with Scientex**
- **Under Review pending more details (previously RM2.00)**

9MFY18 earnings missed expectations. Daibochi's earnings were below estimates, making up 61% of ours and 57% of consensus' full year estimates. It has announced an interim dividend of 1.0sen, bringing cumulative 9MFY18 dividend to 2.85sen, which missed our expectation of 4.6sen.

PATAMI for 9MFY18 declined by -6.4%yoy to RM16.8m even though revenue rose by +13.2%yoy to RM320.3m. The decrease in net profit for the period can be attributed to higher raw material costs and forex loss amounting to RM2.9m. Growth in revenue is primarily due to the higher sales to Malaysia (+9.6%yoy) and Australia (+1.4%yoy) as well as the additional contribution from Myanmar.

3QFY18 net profit dropped by -21%yoy to RM5.7m mainly because of higher raw material costs and forex losses. The drop in profit can also be attributed to lower PBT contribution from Daibochi Myanmar that plunged by -72%yoy to RM0.5m from RM1.85m in 3QFY18. However, revenue for the quarter rose to the highest at RM109.2m, which is higher +7.0%yoy and +2.7%qoq due to higher demand in Malaysia and Australia.

Sequentially, 3QFY18 net profit rose +22.4%yoy as revenue increased by +2.7%yoy mainly due to lower forex losses of RM1.4m compared to RM2.2m in 2QFY18. The increase in revenue is mainly because of higher local sales that grew +4.3%qoq. Exports sales stood at 56.4% for the quarter compared to 58.8% as of end-June.

UNDER REVIEW
(previously **NEUTRAL**)
Implied Offer Price:RM1.60
(Previously **RM2.00**)

RETURN STATS

Price (14 th November 2018)	RM1.99
Implied Offer Price	RM1.60
Expected Share Price Return	-19.6%
Expected Dividend Yield	+0.0%
Expected Total Return	-19.6%


STOCK INFO

KLCI	1,688.41
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.35
Market cap. (RM'm)	651.42
Price over NA	3.23
52-wk price Range	RM1.86– RM2.41
Beta (against KLCI)	0.39
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.02m
Major Shareholders (%)	
Chan Tian Low	10.34
Apollo Asia Fund Limited	9.38
Lim Koy Peng	8.48
Halley Sicav-Halley	5.89

Challenging near-term outlook for Daibochi Myanmar. Sales contribution from Daibochi Myanmar dropped by -27.9%qoq to RM6.5m due to the 15% depreciation of Myanmar Kyat against USD. The steep depreciation of Myanmar Kyat led to weak consumer sentiment in Myanmar. Meanwhile, exports from Daibochi Myanmar to the Malaysia plant was halted due to sales tax imposed on the imports of packaging materials that constrained sales growth in the near future. Operationally, there is a slight increase in labour cost in Myanmar that is in-line with the annual wage adjustment.

PATAMI cut by -16.0%/-16.6% to RM23.1m/RM25.7m for FY18F/FY19F to reflect the weaker than expected performance from Myanmar and slower than expected recovery in profit margin.

Share swap with Scientex. Daibochi has also announced that 14 shareholders (including family members of the founder) are signing a heads of agreement (HOA) to swap a collective of 139.1m Daibochi shares representing 42.4% of Daibochi's share base for RM222.5m, which will be fulfilled through the issuance of new Scientex Bhd shares at the ratio of 5.5 Daibochi shares for 1 Scientex share. The purchase consideration by Scientex values Daibochi shares at RM1.60 per unit and at a historical price-to-earnings ratio (PER) of 20x and price-to-book value (PBV) of 2.62x. Both are higher than Daibochi's 10 year average of PER at 17.1x and PBV at 2.3x. On the flip side, the offer price represents a 18.8% discount to Daibochi's five-day weighted average share price of RM1.97. The PER of 20x is higher than its comparable peers' average of approximately 17.8x. The HOA will take effect for 2 months or longer if mutually agreed upon, during which the conditional share sale agreement (CSSA) has to be carried out. The deal is subject to approval from Scientex shareholders, Bursa, relevant authorities as well as the completion of a due diligence on Daibochi. Once the CSSA becomes conditional, Scientex will have to extend a mandatory take-over offer to acquire the remaining shares and warrants not already held by Scientex. Scientex intends to maintain Daibochi's listing status, Daibochi's management and employees in the event the CSSA becomes unconditional.

Under Review pending more details (*Previously NUETRAL with TP of RM2.00*). We put Daibochi Under Review pending more details of the latest corporate exercise during the upcoming briefing on Friday. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	345.0	371.2	388.7	439.0	473.3
Gross profit	51.9	49.2	39.9	39.9	42.2
Profit before tax	35.7	30.0	35.7	28.9	32.2
Income tax expense	(9.0)	-5.4	-8.7	-4.3	-4.8
Net profit	26.7	24.5	27.1	24.6	27.4
PATAMI	26.7	24.5	26.0	23.1	25.7
EPS (sen)	8.1	7.5	7.9	7.0	7.8
EPS growth (%)	-59.9	-8.3	6.0	-11.0	11.4
PER (x)	24.4	26.6	25.1	28.3	25.4
Net dividend (sen)	5.9	5.4	5.2	4.1	4.6
Dividend yield (%)	2.5	2.7	2.6	2.1	2.3
Gross profit margin (%)	15.0	13.3	10.3	9.1	8.9
Profit before tax margin (%)	10.4	8.1	9.2	6.6	6.8
Net profit margin (%)	7.7	6.6	7.0	5.3	5.4

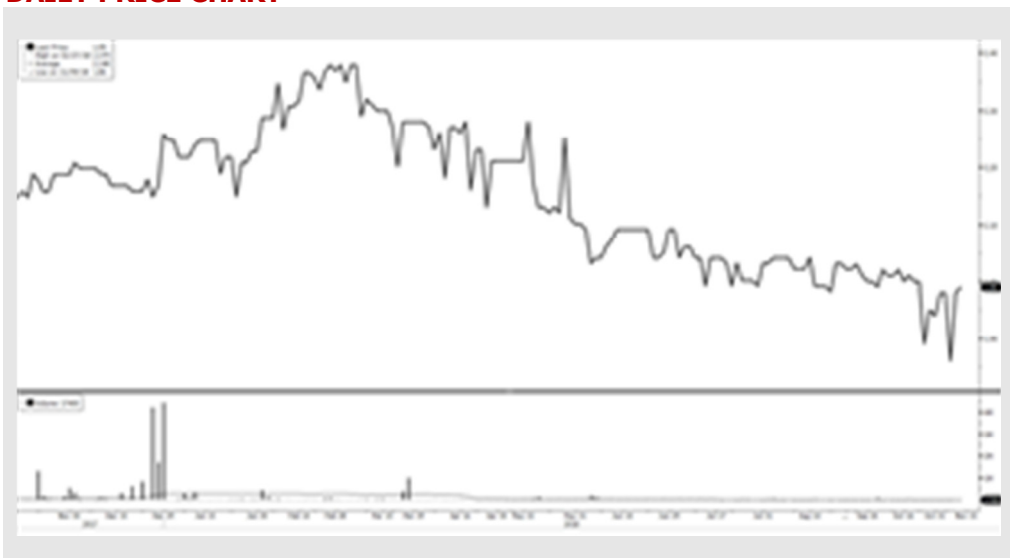
Source: Company, MIDFR

DAIBOCHI: 3QFY18 Results Summary

FYE Dec (RM'm)	Quarterly				Cumulative		
	3QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	109.2	102.0	7.0	2.7	320.3	283.0	13.2
Profit from operations	7.4	11.2	(34.3)	4.1	23.8	26.3	(9.6)
Finance costs	(1.0)	(0.8)	31.9	8.4	(2.8)	(2.1)	32.0
Share of profit of equity-accounted associate	0.1	0.1	5.0	(56.6)	0.2	0.4	(38.9)
Profit before tax	6.4	10.5	(38.9)	2.1	21.2	24.6	(13.6)
Income tax expense	(0.5)	(2.7)	(80.1)	(57.2)	(3.3)	(6.0)	(45.5)
Profit after tax	5.9	7.8	(24.6)	17.0	18.0	18.6	(3.4)
PATAMI	5.7	7.2	(21.0)	22.4	16.8	18.0	(6.4)
Basic EPS (sen)	1.7	2.2	(21.4)	21.8	5.1	5.5	(6.9)
			<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT margin (%)	5.9	10.3	(4.4)	(0.0)	6.6	8.7	(2.1)
PAT margin (%)	5.4	7.6	(2.2)	0.7	5.3	6.4	(1.1)
Tax rate (%)	8.4	25.9	(17.4)	(11.7)	8.4	25.9	(17.4)
Geographical Segments							
<i>Revenue</i>							
Malaysia	79.3	75.3	5.3	(2.1)	241.3	220.1	9.6
Australia	23.1	18.9	22.3	51.0	53.7	53.0	1.4
New Zealand	0.3	1.4	-77.1	(22.5)	1.1	3.5	(67.5)
Myanmar	6.5	6.5	0.4	(20.0)	22.6	6.5	250.8

Source: Company, MIDFR

DAILY PRICE CHART



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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.