

23 October 2018 | Visit Note

Daibochi Berhad

Expanding offerings

INVESTMENT HIGHLIGHTS

- **Flexographic printer commissioned and running**
- **Additional space for increasing production capacity**
- **ASP adjustments for some MNC customers may kick in in the coming quarters**
- **Maintain NEUTRAL with unchanged TP of RM2.00**

Flexographic printer commissioned and running. We recently visited Daibochi's plants in Jasin and Ayer Keroh. Its new flexographic printing machine was installed in July. Wastage from the new printer is estimated at three times less than its existing gravure printers while it would also be able to save ink costs. Comparatively, it takes about 1.5 hours to set up a new run for the gravure printing line but the flexographic printer requires only 30 to 40 minutes. Currently, Daibochi has 11 gravure printing lines and only 1 flexographic printer. Hence we reckon that the savings from the flexographic printer will not be significant in the near term, as most of the printing is still done through the gravure printing lines.

Additional space for increasing production capacity. Daibochi's plants in Ayer Keroh and Jasin have production floor space of 385,000 sq ft and 135,000 sq ft respectively. The Jasin plant, which houses Daibochi's blown film production, cast film production and metalised film production lines, still have a room of 50% to 60% for future expansion. Meanwhile, its printing plant in Ayer Keroh can potentially house one more flexographic printer and up to two more gravure printing lines. The overall production utilisation is estimated at 60% to 70% so we reckon that Daibochi may only increase its capacity gradually once it hits a higher utilisation rate.

ASP adjustments for some MNC customers may kick in in the coming quarters. Management has reaffirmed that the cost pass through mechanism agreement with its MNC customers is still in place. We expect the new average selling prices (ASP) to only take effect in the next few quarters given the 3 to 6 months lag.

Myanmar plant on track to potentially double up production by end-2019. The expansion plan for the Myanmar plant is on-going and is expected to be commercially ready by 2HFY19. It has allocated USD1.3m (RM5.4m) for new machines there. The additional production capacity upon completion is planned for the Myanmar-based MNCs. On top of that, Daibochi Myanmar will also be able to serve Daibochi Malaysia's price-sensitive customers.

Maintain NEUTRAL with unchanged TP of RM2.00. We make no changes to our assumptions as the information gathered during the visit has been factored in. Our valuation method, based on the dividend discount model with a terminal growth rate of 3.2%, is unchanged. 

Maintain NEUTRAL
Unchanged Target Price (TP):RM2.00

RETURN STATS	
Price (22 nd October 2018)	RM2.00
Target Price	RM2.00
Expected Share Price Return	0.00%
Expected Dividend Yield	+2.0%
Expected Total Return	+2.0%

STOCK INFO	
KLCI	1,722.47
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (m)	327.35
Market cap. (RM'm)	654.70
Price over NA	3.24
52-wk price Range	RM1.91– RM2.41
Beta (against KLCI)	0.34
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

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	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	11.9
PER (x)	24.5	26.8	25.3	23.8	21.3
Net dividend (sen)	5.9	5.4	5.2	4.6	5.0
Dividend yield (%)	2.5	2.7	2.6	2.3	2.5
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

PICTURES FROM THE VISIT



Cast film line



Blown film production area



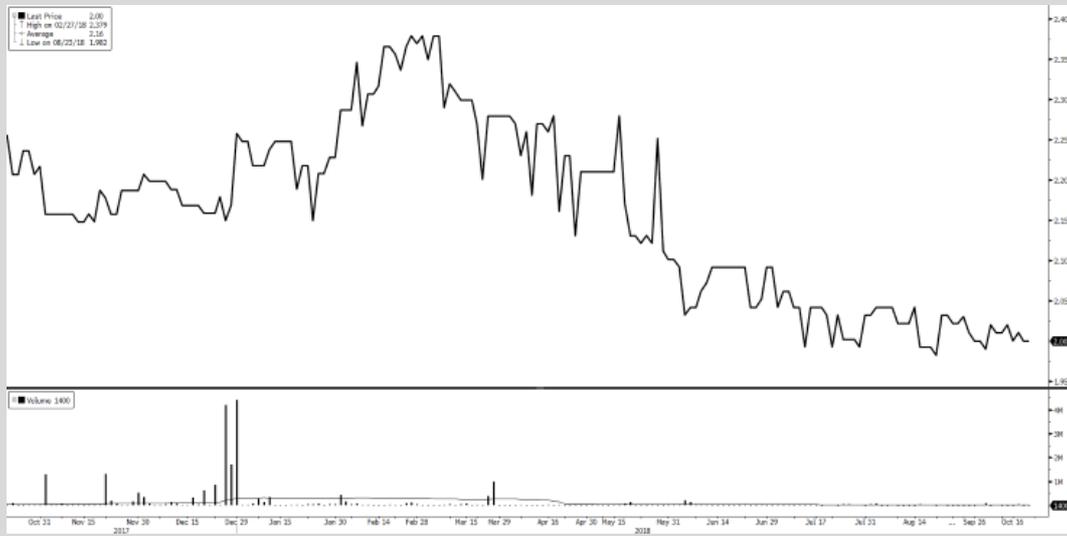
Flexographic printer



Gravure printing line

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 <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.