

16 May 2018 | Briefing Note

Daibochi Plastic & Packaging Industry

Second half could be stronger

INVESTMENT HIGHLIGHTS

- **Revising prices for higher raw material costs to cushion impact**
- **Further expansion for Daibochi Packaging Myanmar**
- **Malaysia unit targets more MNC orders**
- **BUY with unchanged TP of RM2.59**

Revising prices for higher raw material costs to cushion impact. Higher raw material prices had impacted Daibochi's margins in 1QFY18 qoq. The company reviews some of its contracts with major MNC customers on a half yearly basis. As the review periods for the agreements vary, we expect margins to recover gradually as Daibochi adjust prices for its contracts. Hence, we anticipate for margins to improve more substantially in the second half.

Further expansion for Daibochi Packaging Myanmar. Daibochi Packaging (Myanmar) Co Ltd (DPM) is still at a high growth stage and is on track to contribute as much as RM100m to Daibochi's topline by FY19. Recall that DPM recorded sales growth of 27%qoq to RM10.7m in 1QFY18 due to wider customer base and higher production. The momentum for this growth is expected to continue as DPM is undergoing expansion of its existing factory, which is expected to be completed by year end. Management has allocated RM8m for new machineries for DPM.

Malaysia unit targets more MNC orders. Meanwhile in Malaysia, Daibochi has started to export flexible packaging to an MNC in the ANZ region in April, which is expected to contribute positively to 2QFY18 earnings. On top of that, it is also exploring new contracts with existing and potential customers to further boost sales. The new flexographic printer it acquired is expected to be installed in May. The new machine could help reduce ink usage and wastage while cutting setup time between jobs that lead to higher efficiency and productivity.

BUY with unchanged TP of RM2.59. We maintain our BUY recommendation as we make no changes to our earnings estimates. 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 more than 80% of its sales are contributed by reputable multinational companies. 

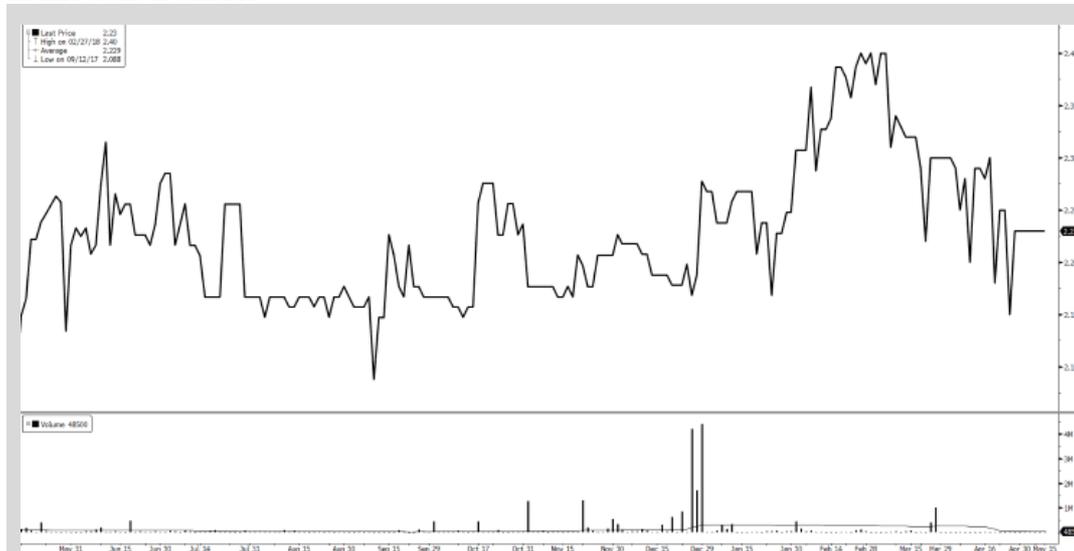
Maintain BUY

Unchanged Target Price (TP): RM2.59

RETURN STATS	
Price (15 th 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	1,848.20
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

DAILY PRICE CHART



Source: Bloomberg

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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

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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.