

08 May 2017 | Briefing Note

Daibochi Plastic & Packaging Industry

Indonesia and Myanmar to drive growth

INVESTMENT HIGHLIGHTS

- **Indonesia expected to contribute 7% to FY18 sales**
- **Progress in Myanmar on schedule**
- **Margins expected to stabilise in coming quarters**
- **Upgrade to BUY with higher TP of RM3.02 (previously RM2.54)**

Indonesia expected to contribute 7% to FY18 sales. We are pleasantly surprised to find out that Daibochi's inroad to Indonesia is going well. It is securing new clients and orders in Southeast Asia's biggest consumer market faster than expected. It has started production for a customer and is currently running trial production for another FMCG customer. More importantly, it is close to securing its third new food and beverage MNC customer in Indonesia, which could see a more sizeable contract. Jobs from the two new Indonesian customers are expected to start in 2HFY17. All in, we estimate that these three clients could contribute 7% to its topline in FY18.

Progress in Myanmar on schedule. Daibochi is working closely with Myanmar Smart Pack Industrial Co Ltd (MSP) in closing operational gaps. Both parties are at a mature stage of preparation for an official commencement targeted in June including getting orders from new customers there. We are maintaining our estimates of +5% and +20% contributions from Myanmar to Daibochi's FY17 and FY18 PBT respectively. We are positive on this venture as Daibochi will be able to serve its more price-sensitive customers through the lower cost the Myanmar unit can offer. Daibochi can also tap into Myanmar's labour resources more directly through its 60%-owned subsidiary.

Margins expected to stabilise in coming quarters. Daibochi will pass on the costs of higher raw material price, which increased by double digit in the past few months, to its major customers under the agreed pricing mechanism. Moreover, raw material prices and USD/MYR exchange rates have stabilised. The management had reduced operating costs by 5.4% during the first quarter through better wastage control and operational efficiency.


Target price. We roll over our valuation base year to FY18 based on the dividend discount model. As a result, we increase our TP to RM3.02 from RM2.54 previously.

Upgrade to BUY
(Previously NEUTRAL)

Higher Target Price (TP): RM3.02
(Previously RM2.54)

RETURN STATS	
Price (5 May 2017)	RM2.59
Target Price	RM3.02
Expected Share Price Return	+16.6%
Expected Dividend Yield	+2.7%
Expected Total Return	+19.3%

STOCK INFO	
KLCI	1,762.40
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	273.25
Par Value (RM)	1.00
Market cap. (RM'm)	707.69
Price over NA	3.74
52-wk price Range	RM2.03– RM2.64
Beta (against KLCI)	0.48
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM0.21m
Major Shareholders (%)	
Chan Tian Low	10.32
Apollo Asia Fund Limited	9.37
Lim Koy Peng	8.46
Halley Sicav-Halley	5.88

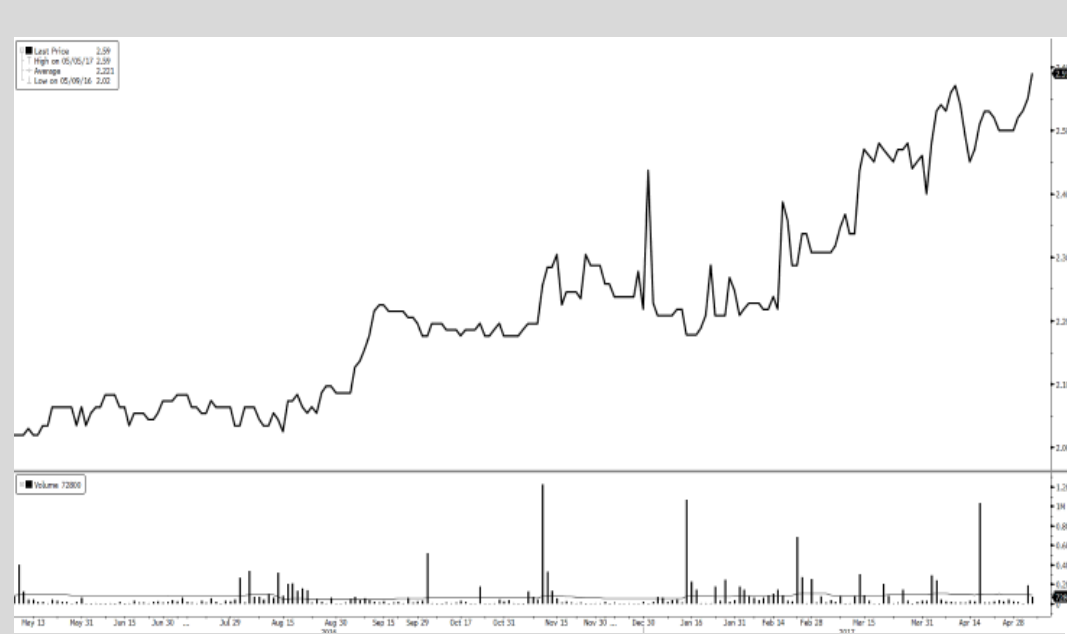
Upgrade to BUY. We are positive on potential growth from Indonesia and Myanmar. We expect profit growth of 20% in FY18 driven by Indonesia and Myanmar, which are high-growth markets that the group was previously absent from. Daibochi could also enjoy tax breaks from its Myanmar investment for up to five years. Besides that, we believe that the cost pressure it encountered last year should be easing as management resolves its labour resources issue. Going forward, management will continue its operational efficiency enhancement efforts. All factors considered, we upgrade the stock recommendation to BUY. 

INVESTMENT STATISTICS

FYE 31 st Dec (RM'm)	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Revenue	345.0	371.2	402.2	440.8	476.1
Cost of goods sold	(308.4)	(338.6)	(362.7)	(395.3)	(427.0)
Gross profit	36.6	32.6	39.5	45.5	49.1
Finance costs	(2.4)	(2.8)	(3.3)	(3.5)	(2.0)
Profit before tax	35.7	30.0	36.2	41.9	47.1
Income tax expense	(9.0)	(5.4)	(8.0)	(8.2)	(8.5)
Net profit	26.7	24.5	28.3	33.8	38.6
EPS (sen)	9.8	9.0	10.3	12.4	14.1
EPS growth (%)	12.7	(7.9)	15.0	19.5	12.2
PER (x)	26.5	28.8	25.0	21.0	18.3
Net dividend (sen)	5.9	5.4	6.6	7.0	7.8
Dividend yield (%)	2.5	2.1	2.5	2.7	3.0
Net profit margin (%)	7.7	6.6	7.0	7.5	7.9

Source: MIDFR, Company

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 >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.