

11 August 2017 | Briefing Note

## Daibochi Plastic & Packaging Industry

**Maintain BUY**

**Prospects for 2HFY17 to remain intact**

**Maintain Target Price (TP): RM2.51**

### INVESTMENT HIGHLIGHTS

- **2HFY17 is expected to be better than 1HFY17**
- **Daibochi Myanmar is a force to be reckoned with**
- **Investing in new machines to stay up-to-date**
- **Maintain BUY with TP of RM2.51 per share**

**2HFY17 is expected to be better than 1HFY17.** We come back from Daibochi's analyst briefing feeling reaffirmed that its prospects for 2HFY17 are intact. The stronger second half estimation is attributed to contribution from new contracts from two Indonesian customers and Daibochi Packaging (Myanmar) Co Ltd (DPM), which has started operations since July 1 2017. On top of that, the company is negotiating for another FMCG client, which could bring about potential sales of RM20m per year starting next year.

**Daibochi Myanmar is a force to be reckoned with.** Among others, DPM has delivered its first exports of consumer packaging since beginning of August 2017. DPM is also looking at producing a new beverage labelling. We estimate that DPM could contribute 8% to 12% to Daibochi's PBT this year. We expect contribution from DPM to at least double next year due to the full year impact as well as potentially higher sales due to the export strategies carried out. DPM is applying for certification of standards so that it can explore opportunities with MNC customers, which usually require a more stringent set of practices.

**Investing in new machines to stay up-to-date.** Daibochi is allocating RM9.8m in the second half for new machines. The capex budgeted is for one unit of flexographic printer, two units of high-speed slitting machines and one unit of seaming and inspection machine. This investment is in-line with one of its key food and beverage MNC customers' plans to standardise its worldwide supply. The flexographic printer is expected to reduce wastage and improve efficiency due to the fixed number of colours used in the printing process. As the user does not need to change the ink components and clean the printer before starting a new batch, this machine is also suitable for short runs and will reduce downtime. We believe this is long-term positive for Daibochi as it continues to keep up with new printing technology while open doors for customers who prefer this printing method.

RETURN STATS	
Price (10 <sup>th</sup> Aug 2017)	RM2.18
Target Price	RM2.51
Expected Share Price Return	+15.1%
Expected Dividend Yield	+2.7%
<b>Expected Total Return</b>	<b>+17.8%</b>

STOCK INFO	
KLCI	1,777.77
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.69
Market cap. (RM'm)	714.32
Price over NA	3.78
52-wk price Range	RM1.71– RM2.38
Beta (against KLCI)	0.43
3-mth Avg Daily Vol	0.04m
3-mth Avg Daily Value	RM0.10m
Major Shareholders (%)	
Chan Tian Low	10.33
Apollo Asia Fund Limited	9.37
Lim Koy Peng	8.47
Halley Sicav-Halley	5.89

**Maintain BUY with TP of RM2.51.** We make no changes to our assumptions and earnings as Daibochi's prospects are still intact. We maintain our BUY recommendation with a TP of RM2.51, which is based on the dividend discount model with a terminal growth rate of 3.2%.

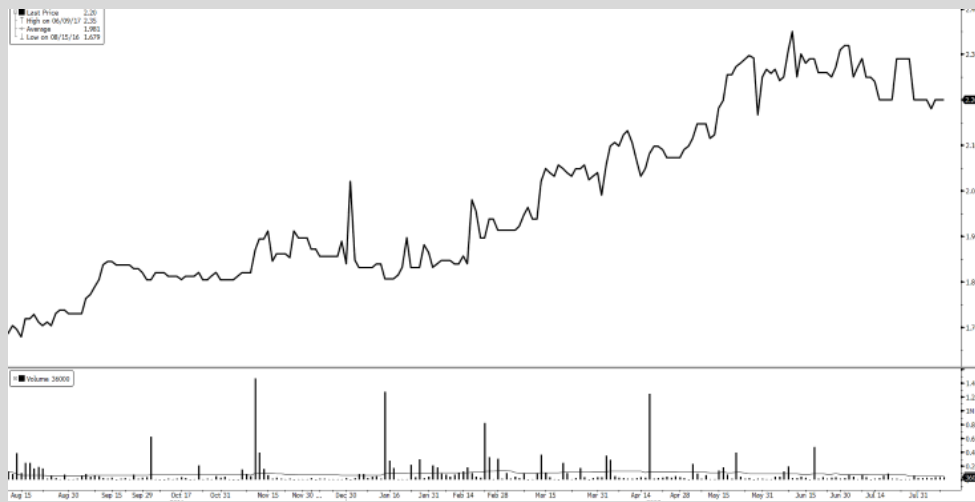


## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> 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)
<b>Net profit</b>	<b>26.7</b>	<b>24.5</b>	<b>28.3</b>	<b>33.8</b>	<b>38.6</b>
EPS (sen)	8.1	7.5	8.6	10.3	11.8
EPS growth (%)	(6.1)	(7.8)	14.79	19.5	14.3
PER (x)	26.8	29.0	25.3	21.2	18.5
Net dividend (sen)	14.5	4.5	5.5	5.9	6.5
Dividend yield (%)	6.2	2.1	2.5	2.7	3.0
Gross profit margin (%)	10.6	8.8	9.8	10.3	10.3
Profit before tax margin (%)	10.4	8.1	9.0	9.5	9.9
Net profit margin (%)	7.7	6.6	7.0	7.5	7.9
Tax rate (%)	25.2	18.0	22.0	19.5	18.0

Source: Company, MIDFR

## DAILY PRICE CHART



Source: Bloomberg

Ng Bei Shan  
ng.bs@midf.com.my  
03-21738461

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.