

MONEY TALK

Daibochi (DPP MK)

2Q18: Earnings Momentum Capped By Higher Raw Material Costs

2Q18 RESULTS

Year to 31 Dec (RMm)	2Q18	qoq % chg	yoy % chg	1H18	yoy % chg
Turnover	106.4	1.6	22.5	211.1	16.7
EBITDA	10.5	(17.9)	(2.2)	23.3	6.5
EBIT	7.1	(24.7)	(4.0)	16.4	8.7
Net Profit	4.7	(28.2)	(7.8)	11.1	2.9
Core Net Profit	6.8	17.2	36.6	12.6	19.6
Margins (%)		qoq ppt chg	yoy ppt chg		yoy ppt chg
EBIT	6.6	(2.3)	(1.8)	7.8	(0.6)
Effective tax rate (%)	20.1	3.0	(4.1)	18.4	(4.9)
Core Net Profit	6.4	0.9	0.7	6.0	0.1

Source: Daibochi, UOB Kay Hian

- **Results in-line with ours but below street's.** Excluding net forex loss of RM2.2m, Daibochi's 2Q18 core net profit came in at RM6.8m (+17.2% qoq, +36.6% yoy), bringing 1H18 core net profit to RM12.6m (+19.6% yoy), accounting for 41% and 36% of our and consensus 2018 forecasts respectively. Earnings are in line with our full-year estimate as we expect stronger numbers in 2H18 ahead on higher contributions from Malaysia and Myanmar. Daibochi also declared an interim DPS of 0.8 sen, bringing 1H18 DPS to 2.3 sen (1H17: 2.3 sen). We expect 2018 DPS of 5.6 sen, implying a dividend yield of 2.7%.
- **Significantly higher revenue offset by increase in raw material costs.** 2Q18 revenue surged 22.5% yoy to RM106.4m primarily attributed to higher sales from Malaysia (driven by the ANZ region) and contribution from Myanmar, which was absent in 2Q17. Export revenue growth grew 4.4ppt to 58.8%. Nevertheless, net profit fell 7.8% yoy on: a) higher raw material prices, particularly for solvent and polyester film, and b) unrealised forex loss of RM2.2m. Stripping off forex loss, core net profit rose 36.6% yoy to RM6.8m.
- **Seasonality factor and higher costs limited 2Q18 sequential earnings growth.** 2Q18 revenue rose marginally by 1.6% qoq on the back of muted domestic demand and lower contribution from Daibochi Myanmar amid nine days of operational shut-down for the annual water festival in April. Coupled with higher raw material costs and a stronger ringgit, net profit plunged 28.2% yoy. Stripping off forex loss, core net profit improved 17.2% qoq.
- **Still expecting a strong 2018.** We expect stronger quarters in 2H18 on the back of: a) Daibochi Myanmar sales more than double, amid increasing its exports to cost-sensitive customers and major domestic consumer brands, b) maiden contribution from a MNC in the ANZ region in Apr 18, and c) two new contracts from multinational F&B and FMCG customers in Indonesia.
- No change to our earnings forecasts.
- **Maintain HOLD and target price of RM2.22**, pegged to 17x 2019F PE, in line with its 3-year mean PE. Entry price is RM2.00.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net Turnover	371.2	388.6	448.3	514.2	579.7
EBITDA	45.3	51.4	53.7	69.6	84.5
Operating Profit	32.6	37.6	39.6	55.1	69.6
Net Profit	24.5	27.1	30.8	43.0	54.2
Net Profit (Adjusted)	23.0	26.3	30.8	43.0	54.2
EPS (sen)	9.0	8.2	9.4	13.1	16.5
PE (x)	26.5	27.9	23.8	17.0	13.5
P/B (x)	3.2	3.6	3.4	3.2	2.9
EV/EBITDA (x)	17.0	15.7	14.4	10.9	8.8
Dividend Yield (%)	2.4	2.1	2.5	3.5	4.4
Net Margin (%)	6.2	6.8	6.9	8.4	9.4
Net Debt/(Cash) to Equity (%)	20.2	25.7	8.4	3.2	(2.7)
Interest Cover (x)	11.8	12.5	21.6	29.3	33.7
ROE (%)	12.1	13.1	14.4	18.6	21.5
Consensus Net Profit	-	-	35.4	40.8	44.6
UOBKH/Consensus (x)	-	-	0.9	1.1	1.2

Note: The 1-to-2 share split and 1-for-5 bonus issue exercises were completed on 22 Feb 16. There was a 2-for-10 bonus issue completed on 28 Jun 17.

Source: Daibochi, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM2.05
Target Price	RM2.22
Upside	8.3%

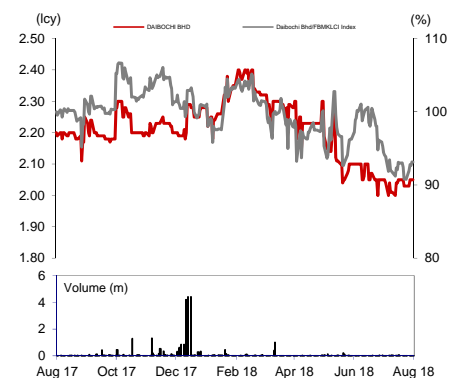
COMPANY DESCRIPTION

Daibochi is a flexible-packaging company with a focus on clients in the F&B and FMCG sectors.

STOCK DATA

GICS sector	Materials
Bloomberg ticker	DPP MK
Shares issued (m)	327.3
Market cap (RMm)	671.1
Market cap (US\$m)	163.5
3-mth avg turnover (US\$m)	0.0

PRICE CHART



Source: Bloomberg

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Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios (x)	12/16	12/17	12/18E	12/19E	
15/5/2018	33%	0%	67%	P/E	24.8	28.9	19.5	17.1	
Target Price			2.52	EV/EBIT	20.8	21.9	-	-	
Upside			14%	EV/EBITDA	14.8	16.0	11.9	10.6	
				P/S	1.6	1.9	1.4	1.3	
				P/B	3.2	3.7	3.4	3.1	
				Div Yield (%)	2.4%	1.5%	2.8%	3.0%	
Income Statement (Rmm)	12/16	12/17	12/18E	12/19E	Profitability Ratios (%)	12/16	12/17	12/18E	12/19E
Revenue	371	389	481	529	Gross Margin	13.2	-	11.9	12.2
Gross Income	49	-	57	65	EBITDA Margin	11.8	13.2	13.0	13.4
Operating Income	31	38	-	-	Operating Margin	8.4	9.7	-	-
Pretax Income	30	36	46	54	Profit Margin	6.6	6.7	7.4	7.7
Net Income Adjusted	25	26	35	41	Return on Assets	8.1	7.7	12.3	13.4
EPS Adjusted (RM)	0.08	0.08	0.11	0.12	Return on Equity	13.2	13.3	15.3	16.3
Dividends Per Share (RM)	0.05	0.03	0.06	0.06					
Payout Ratio (%)	60	41	54	52					
EBITDA	44	51	63	71					

Peer Comparison	Ticker	Share Price 16 Aug 18 (RM)	Market Cap (US\$)	-----PE-----		-----P/B-----		Yield FY18 (%)
				FY18 (x)	FY19 (x)	FY18 (x)	FY19 (x)	
Tomyak Holdings	TOMY MK	0.76	77.7	29.2	21.1	4.7	4.4	3.0
Scientex	SCI MK	8.19	975.8	14.8	12.6	2.1	1.8	2.3
BP Plastics Holding	BPP MK	1.12	51.2	n.a.	n.a.	n.a.	n.a.	n.a.
Thong Guan Industries	TGI MK	3.03	100.6	7.9	7.5	0.9	0.8	3.4
SCGM	SCGM MK	1.66	78.0	18.3	25.5	1.9	1.6	2.1
SLP Resources	SLPR MK	1.30	102.0	18.1	16.1	2.2	2.0	2.6
Average				17.6	16.6	2.4	2.1	2.7
Daibochi Plastic & Packaging Industry	DPP MK	2.05	163.5	23.8	17.0	3.4	3.2	2.5

Technical View



Source: Bursa Station Professional

Daibochi Plastic & Packaging (DPP MK)

Technical BUY on breakout with +12.2% potential return

Last price : RM2.05

Target price : RM2.29, RM2.39

Support : RM2.00

Stop-loss : RM1.99

BUY on breakout with a target price of RM2.39 and stop-loss at RM1.99. Based on our last SELL call on 15 May 18, DPP hit our targets at RM2.11 and RM2.00 before rebounding to current levels. Based on the daily chart, the stock appears to have formed a firm base above the psychological level of RM2.00 after pulling back from an all-time high of RM2.41. Selling pressure appears to have subsided as reaffirmed by lower trading volumes and the flat signal from the RSI. But we expect DPP to continue to form higher highs and higher lows when selling momentum diminishes. We peg our targets at RM2.29 and RM2.39 once the stock penetrates above the breakout level of RM2.13.

Expected Timeframe: 2 to 3 weeks

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