

Daibochi Berhad

(8125 | DPP MK) Industrial Products & Services | Containers and packaging

Maintain BUY

Resilient earnings

Adjusted Target Price: RM2.66

(Previously RM2.60)

KEY INVESTMENT HIGHLIGHTS

- **9MFY20 results largely within**
- **Net profit for the period came in at RM36.5m and revenue at RM463.5m**
- **3QFY20 earnings fell 26%qoq as revenue dipped by 4.4%**
- **Investing RM60m for capacity expansion**
- **Maintain BUY with a revised TP of RM2.66**

9MFY20 results largely within. Daibochi's net profit for the nine months ended April 30 of RM36.5m was largely within our expectation, making up 81% of ours and 85% of consensus' estimates. A dividend of 2.0 sen was announced during the quarter.

Net profit for the period came in at RM36.5m and revenue at RM463.5m. There is no comparative preceding period due to the change in financial year end. During the period, local market made up 54.9% or RM254.5m of total sales while exports made up the remaining 45.1%.

3QFY20 earnings fell 26%qoq as revenue dipped by 4.4%. During the quarter, net profit for 3QFY20 was RM10.8m on the back of RM152.0m in revenue. The lower earnings can be attributed to exchange rate loss and loss on disposal of investment in an associate. The company was granted approval by MITI to continue operations during the Movement Control Order (MCO) by adhering to the strict guidelines imposed by the authorities. We think that the more stringent SOPs may have also lightly dampened Daibochi's operating margin. That said, we are not overly concerned as the company may improve its efficiency over time as it adapts to the new guidelines.

Investing RM60m for capacity expansion. In view of the sustained orders from its customers, the company is allocating RM60m in capex to purchase 13 new lines for its printing, lamination and bagging processes, which are expected to come on stream over the next six months. We think that the expanded capacity may contribute positively to its FY21F topline and bottomline. However, we are keeping our earnings forecast pending further details.

Maintain BUY with a revised TP of RM2.66 (previously RM2.60). Our TP is adjusted as we roll over our base year to FY21F. It is derived from an unchanged valuation of 19.0x PER FY21F EPS of 14.0 sen. We continue to like Daibochi for the resilience in earnings amid the uncertainties caused by the Covid-19 pandemic. This is premised on the strong demand for flexible packaging, which is used for the food and beverage and fast moving consumer goods industry. On top of that, it has a sizeable number of MNC customers, which anchors the certainty for payment collection.

RETURN STATISTICS

Price @ 22 th June 2020 (RM)	RM2.45
Expected share price return (%)	+8.6%
Expected dividend yield (%)	+1.7%
Expected total return (%)	+10.3%

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	-4.1
3 months	41.6	34.4
12 months	26.9	41.3

KEY STATISTICS

FBM KLCI	1,511.24
Syariah compliant	Yes
Issue shares (m)	327.35
Estimated free float (%)	29.33
Market Capitalisation (RM'm)	802.00
52-wk price range	RM1.45 - RM2.6
Beta vs FBM KLCI (x)	0.98
Monthly velocity (%)	0.00
Monthly volatility (%)	32.96
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.26
Top Shareholders (%)	
Scientex Bhd	61.89
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

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INVESTMENT STATISTICS

FYE July (RM'm)	FY18*	FY19F**	FY20E	FY21F	FY22F
Revenue	430.8	679.6	630.8	691.8	700.9
Profit before tax	20.6	27.0	59.8	60.9	61.5
Income tax expense	-3.8	-4.0	-12.0	-12.2	-12.3
Net profit	16.8	22.9	47.8	48.7	49.2
PATAMI	15.2	20.3	45.0	45.8	46.3
EPS (sen)	4.6	6.2	13.7	14.0	14.1
EPS growth (%)	-41.3	33.4	121.3	1.9	1.0
PER (x)	52.7	39.5	17.9	17.5	17.4
Net dividend (sen)	3.4	3.3	4.1	4.2	4.2
Dividend yield (%)	1.4	1.4	1.7	1.7	1.7

Source: Company, MIDFR

*Based on financial year ended December 31.

**Based on a period of 19 months due to the change in financial year end.

DAIBOCHI: 3QFY20 RESULTS SUMMARY

FYE Dec (RM'm)				Cumulative results
	3QFY20	2QFY20	QoQ (%)	9MFY19
Revenue	152.0	159.0	152.0	463.5
Profit from operations	16.1	21.2	16.1	53.8
Finance costs	(0.9)	(1.2)	(0.9)	(3.6)
Share of profit of equity-accounted associate	0.0	0.0	NM	0.0
Profit before tax	15.2	20.0	15.2	50.2
Income tax expense	(3.9)	(4.7)	(3.9)	(12.2)
Profit after tax	11.4	15.4	11.4	38.0
PATAMI	10.8	14.6	10.8	36.5
Basic EPS (sen)	3.3	4.5	3.3	11.1

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.