

Daibochi (DPP MK)

Consumer Non-cyclical - Packaging

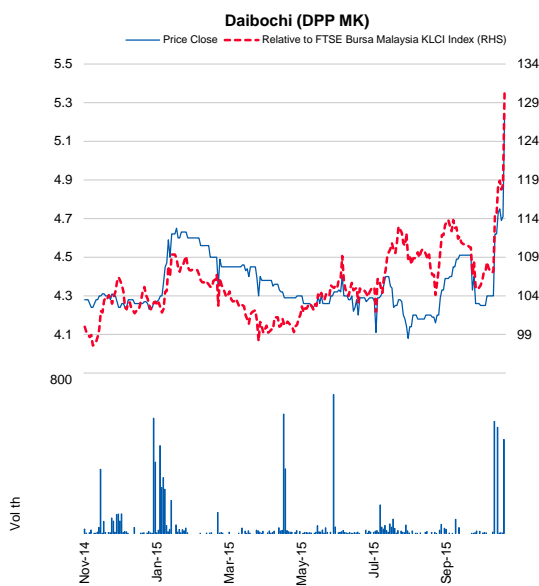
Market Cap: USD136m

Sell (Maintained)

Target Price: MYR3.80

Price: MYR5.24

Earnings Slippage

 Macro ◆◆
 Risks ◆◆
 Growth ◆◆
 Value ◆


Source: Bloomberg

Avg Turnover (MYR/USD)	0.14m/0.03m
Cons. Upside (%)	-26.9
Upside (%)	-27.5
52-wk Price low/high (MYR)	4.08 - 5.24
Free float (%)	33
Share outstanding (m)	114
Shareholders (%)	
Apollo Asia Fund Limited	9.3
Low Chan Tian	8.9
Lim Koy Peng	7.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	23.0	16.2	22.4	22.1	22.4
Relative	28.7	19.4	16.7	30.4	30.4

Shariah compliant

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Daibochi's 9M15 core earnings fell short of our expectations, making up only 63%/65% of our/consensus full-year forecasts. Maintain SELL with an unchanged TP of MYR3.80 (28% downside). YTD revenue and earnings remained flat, while declining local sales remain a concern amid weak local consumer sentiment. A third interim dividend of 3.5 sen was declared (3Q14: 2.5 sen).

- ◆ **Below expectations.** Daibochi's 9M15 core earnings of MYR18.2m (+1.8% YoY) came in below our/consensus estimates at 63%/65% of full-year estimates, on the back of flattish revenue (+0.5% YoY). 3Q revenue rose 3.5% YoY due to an increase in exports sales volume and higher ASP from a stronger USD translation, but was offset somewhat by weaker sales in the domestic market from local multinational corporation (MNC) and non-MNC customers.
- ◆ **Slight compression in EBIT margin.** While 3Q15 EBIT margin expanded 9.9% YoY – mainly driven by a favourable product mix and improved margin from a weaker MYR vis-à-vis a year earlier – it declined 7.9% QoQ. We think this could be due to a combination of lower operating leverage from lower sales volume and higher raw material cost during the quarter. We gather that prices for polyethylene, polypropylene and polyester films were 1-5% higher QoQ, while Daibochi's limited pricing power against its local non-MNC customers constrained its ability to pass on the higher costs.
- ◆ **Outlook and forecasts.** We trim our FY15-17 earnings forecasts by 6.9%/8.9%/10.6% respectively to take into account softer domestic sales. Risks to our earnings include: i) a sharp increase in raw material costs, and ii) plant accident/shutdown.
- ◆ **Maintain SELL with an unchanged TP.** We maintain our SELL recommendation as we are unable to justify its high P/E valuations. Our TP remains unchanged at MYR3.80, based on a target 15x FY16F P/E (from 14x), close to its 3-year forward P/E of 16.4x. Daibochi's local peer, Tomypak (TOMY MK, NR) and regional peer, Amcor Ltd (AMC AU, NR) are currently trading at 16.2x and 16.4x respectively, compared with Daibochi's 20.9x forward P/E.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	310	345	379	417	451
Reported net profit (MYRm)	27.5	23.7	26.8	28.5	30.3
Recurring net profit (MYRm)	27.5	23.7	26.8	28.5	30.3
Recurring net profit growth (%)	11.4	(13.5)	12.9	6.3	6.3
Recurring EPS (MYR)	0.24	0.21	0.24	0.25	0.27
DPS (MYR)	0.14	0.13	0.14	0.15	0.16
Recurring P/E (x)	21.7	25.1	22.2	20.9	19.7
P/B (x)	3.68	3.54	3.33	3.13	2.95
P/CF (x)	20.6	18.6	14.0	19.8	17.4
Dividend Yield (%)	2.8	2.5	2.7	2.9	3.0
EV/EBITDA (x)	11.9	13.2	11.4	10.7	10.1
Return on average equity (%)	17.6	14.4	15.4	15.4	15.4
Net debt to equity (%)	27.2	30.8	21.5	20.3	20.0
Our vs consensus EPS (adjusted) (%)			(3.9)	(10.6)	(21.7)

Source: Company data, RHB

Figure 1 : Daibochi's results review

FYE Dec (MYRm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	9M14	9M15	YoY (%)	Comments
Revenue	83.1	89.7	86.0	(4.1)	3.5	260.5	261.8	0.5	Higher revenue YoY due to higher export sales volume and a stronger USD, but this was offset somewhat by weaker local sales
EBITDA	10.1	12.1	11.3	(7.2)	11.7	33.4	33.7	1.1	
Depreciation	(2.9)	(2.9)	(3.1)	6.9	6.6	(8.2)	(8.9)	8.8	
EBIT	7.2	9.2	8.2	(11.7)	13.8	25.2	24.8	(1.4)	
<i>EBIT Margin (%)</i>	8.6	10.3	9.5	(7.9)	9.9	9.7	9.5	(2.0)	
Interest expense	(0.5)	(0.5)	(0.7)	30.0	26.1	(1.4)	(1.7)	19.3	
Interest income	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.	
Associates	0.0	0.4	0.4	(2.4)	1,312.9	0.2	1.8	894.9	
EI	0.0	0.4	1.2	n.a.	n.a.	0.0	2.0	n.a.	
Pretax profit	6.7	9.5	9.1	(4.3)	36.9	23.9	26.8	12.2	
<i>Pretax Margin (%)</i>	8.0	10.6	10.6			9.2	10.2		
Tax	(1.7)	(2.4)	(2.4)	1.1	43.5	(6.1)	(6.7)	10.1	
<i>Effective tax rate (%)</i>	(24.8)	(24.7)	(26.0)			(25.4)	(25.0)		
Minority Interest	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.	
Net Profit	5.0	7.2	6.8	(6.0)	34.7	17.8	20.1	12.9	
Core Profit	5.0	6.8	5.6	(18.6)	10.7	17.8	18.2	1.8	Below expectations
<i>Net Margin (%)</i>	6.0	7.6	6.5			6.8	6.9		

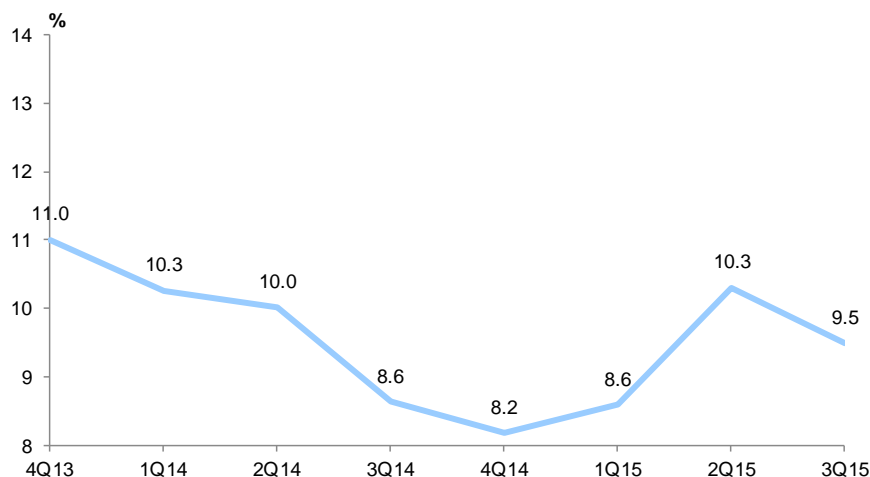
Source: Company data, RHB

Figure 2: Daibochi's quarterly results review

FYE Dec (MYRm)	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Revenue	80.2	90.4	87.0	83.1	84.0	86.2	89.7	86.0
Growth QoQ (%)		12.8	-3.8	-4.5	1.2	2.5	4.1	-4.1
Growth YoY					4.8	-4.7	3.1	3.5
EBITDA	11.2	11.8	11.5	10.1	9.8	10.3	12.1	11.3
<i>EBITDA Margin (%)</i>	14.0	13.0	13.2	12.1	11.6	12.0	13.5	13.1
Depreciation	(2.4)	(2.5)	(2.8)	(2.9)	(2.9)	(2.9)	(2.9)	(3.1)
EBIT	8.8	9.3	8.7	7.2	6.9	7.4	9.2	8.2
<i>EBIT Margin (%)</i>	11.0	10.3	10.0	8.6	8.2	8.6	10.3	9.5
Interest expense	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.7)
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Associates	0.3	0.0	0.1	0.0	0.8	0.9	0.4	0.4
EI	0.0	0.0	0.0	0.0	0.0	0.4	0.4	1.2
Pretax profit	8.7	8.9	8.4	6.7	7.1	8.1	9.5	9.1
<i>Pretax Margin (%)</i>	10.9	9.8	9.6	8.0	8.5	9.5	10.6	10.6
Tax	(1.8)	(2.3)	(2.1)	(1.7)	(1.2)	(2.0)	(2.4)	(2.4)
<i>Effective tax rate (%)</i>	20.5	25.7	25.6	24.8	17.3	24.1	24.7	26.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	6.9	6.6	6.2	5.0	5.9	6.2	7.2	6.8
Core Profit	6.9	6.6	6.2	5.0	5.9	5.8	6.8	5.6
<i>Net Margin (%)</i>	8.7	7.3	7.1	6.0	7.0	6.7	7.6	6.5

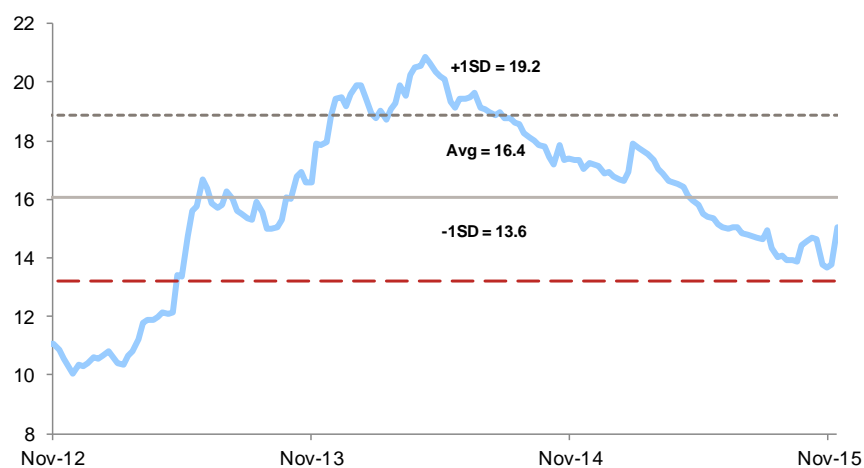
Source: Company data, RHB

Figure 3: Daibochi's EBIT margins for the past eight quarters



Source: RHB

Figure 4: Daibochi's 3-year forward P/E



Source: Bloomberg, RHB

Figure 5: Daibochi's peer comparison

Company	Bloomberg ticker	Rec	TP	Price	Mkt cap (USDm)	P/E (x)		P/BV(x)		DY (%)		ROE (%)	
						2015	2016	2015	2016	2015	2016	2015	2016
Tomyapak Holdings	TOMY MK	NR	NR	MYR2.88	71.9	18.4	16.2	2.6	2.5	1.6	2.8	15.1	15.9
Amcor Ltd	AMC AU	NR	NR	AUD13.4	11334.9	16.9	16.4	7.80	7.53	4.1	4.3	38.9	43.9
Average					5703.4	17.7	16.3	5.2	5.0	2.8	3.6	27.0	29.9

Source: Bloomberg, RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	310	345	379	417	451
Cost of sales	(258)	(312)	(325)	(359)	(388)
Gross profit	52	32	54	59	63
Gen & admin expenses	(10)	-	(12)	(13)	(14)
Selling expenses	(8)	-	(10)	(11)	(12)
Other operating costs	3	-	5	5	5
Operating profit	37	32	37	39	42
Operating EBITDA	47	43	49	53	56
Depreciation of fixed assets	(9)	(11)	(12)	(13)	(14)
Operating EBIT	37	32	37	39	42
Net income from investments	0	1	1	0	0
Interest expense	(1)	(2)	(2)	(2)	(2)
Pre-tax profit	36	31	36	38	40
Taxation	(9)	(7)	(9)	(10)	(10)
Profit after tax & minorities	27	24	27	29	30
Reported net profit	27	24	27	29	30
Recurring net profit	27	24	27	29	30

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	37	32	37	39	42
Depreciation & amortisation	9	11	12	13	14
Change in working capital	(8)	(6)	6	(9)	(8)
Other operating cash flow	(0)	3	(1)	(0)	(0)
Operating cash flow	39	40	54	43	48
Interest received	0	0	-	-	-
Interest paid	(1)	(1)	(2)	(2)	(2)
Tax paid	(9)	(7)	(10)	(11)	(12)
Cash flow from operations	29	32	43	30	34
Capex	(35)	(25)	(15)	(15)	(20)
Other investing cash flow	0	0	-	-	-
Cash flow from investing activities	(34)	(25)	(15)	(15)	(20)
Dividends paid	(16)	(15)	(16)	(17)	(18)
Shares repurchased	(3)	(2)	-	-	-
Increase in debt	30	1	(1)	2	2
Other financing cash flow	1	0	2	2	2
Cash flow from financing activities	12	(17)	(15)	(14)	(14)
Cash at beginning of period	7	14	8	20	21
Total cash generated	6	(9)	12	1	0
Forex effects	(0)	-	-	-	-
Implied cash at end of period	14	5	20	21	21

Source: Company data, RHB

Financial Exhibits

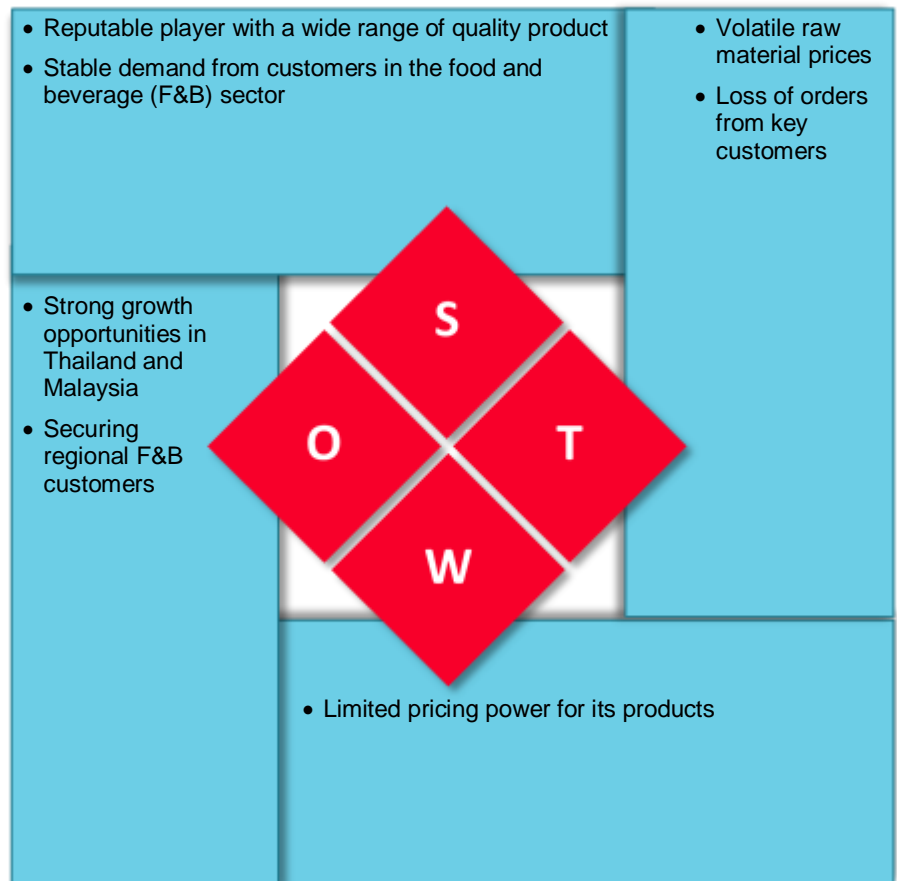
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	14	8	20	21	21
Inventories	57	63	62	69	74
Accounts receivable	73	77	75	82	89
Other current assets	0	0	0	0	0
Total current assets	144	148	157	173	185
Total investments	24	23	24	24	24
Tangible fixed assets	110	123	126	128	134
Total other assets	3	0	0	0	0
Total non-current assets	137	146	150	152	158
Total assets	281	294	307	324	343
Short-term debt	46	46	47	48	49
Accounts payable	51	55	59	65	70
Other current liabilities	2	1	1	1	1
Total current liabilities	99	102	107	114	120
Total long-term debt	12	13	12	12	13
Other liabilities	8	11	9	8	7
Total non-current liabilities	20	24	21	20	20
Total liabilities	119	126	128	134	140
Share capital	114	114	114	114	114
Other reserves	48	54	65	77	89
Shareholders' equity	162	168	179	190	203
Total equity	162	168	179	190	203
Total liabilities & equity	281	294	307	324	343

Source: Company data, RHB

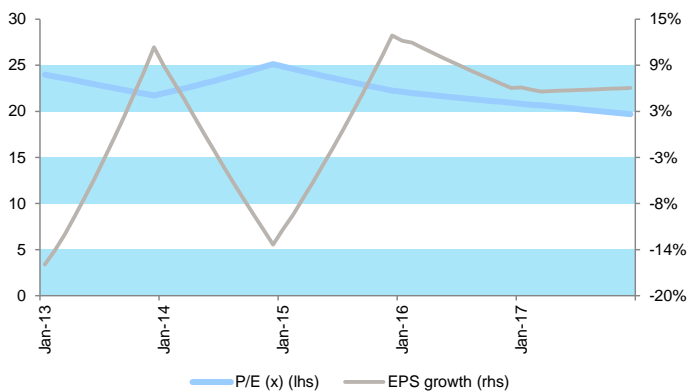
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	11.3	11.0	10.0	10.1	8.0
Operating profit growth (%)	7.5	(13.5)	14.2	7.7	6.4
Net profit growth (%)	11.4	(13.5)	12.9	6.3	6.3
EPS growth (%)	11.4	(13.5)	12.9	6.3	6.3
BVPS growth (%)	7.8	3.9	6.4	6.4	6.4
Operating margin (%)	11.9	9.3	9.7	9.4	9.3
Net profit margin (%)	8.9	6.9	7.1	6.8	6.7
Return on average assets (%)	10.6	8.3	8.9	9.0	9.1
Return on average equity (%)	17.6	14.4	15.4	15.4	15.4
Net debt to equity (%)	27.2	30.8	21.5	20.3	20.0
DPS	0.14	0.13	0.14	0.15	0.16
Recurrent cash flow per share	0.25	0.28	0.37	0.26	0.30

Source: Company data, RHB

SWOT Analysis

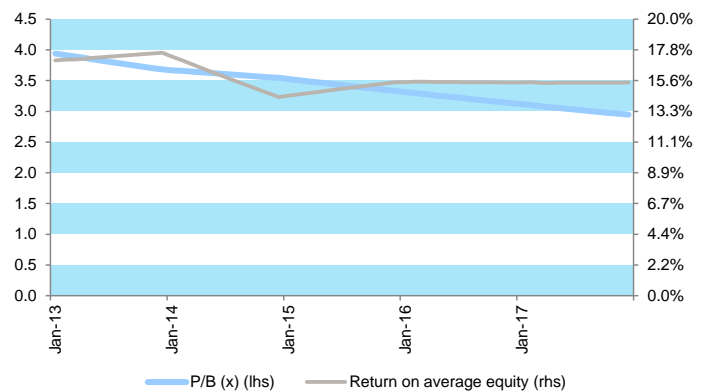


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Daibochi Plastic & Packaging Industry (Daibochi) manufactures a wide range of sophisticated, multi-layer packaging materials mainly to cater to the high-end markets as well as various local MNC players in the consumer food & beverage (F&B) sector.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-05-08	Sell	3.80	4.29
2015-02-13	Sell	3.80	4.60
2015-02-12	Neutral	4.10	4.63
2014-10-24	Neutral	4.10	4.25
2014-10-23	Neutral	4.10	4.21
2014-07-25	Neutral	4.10	4.43
2014-07-24	Take Profit	3.75	4.40
2014-05-14	Take Profit	3.53	4.40
2014-02-21	Neutral	3.53	4.10
2013-08-23	Neutral	3.53	3.44

Source: RHB, Bloomberg

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