

## Company Note

Malaysia

**REDUCE** (no change)

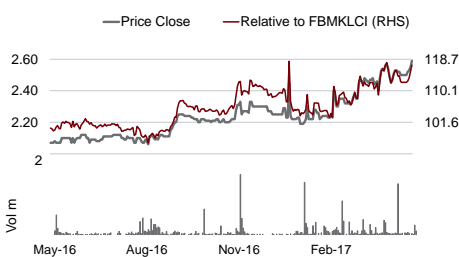
Consensus ratings\*: Buy 0 Hold 1 Sell 2

Current price:	RM2.59
Target price:	RM1.93
Previous target:	RM1.93
Up/downside:	-25.5%
CIMB / Consensus:	-13.6%
Reuters:	DPPM.KL
Bloomberg:	DPP MK
Market cap:	US\$163.1m
	RM707.7m
Average daily turnover:	US\$0.05m
	RM0.20m
Current shares o/s:	273.1m
Free float:	72.6%

\*Source: Bloomberg

### Key changes in this note

- FY17F EPS down by 23%.
- FY18F EPS down by 8%.
- FY19F EPS down by 8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	22.4.4	616.1.1	525.1.1
Relative (%)	11.4.4	111.5.5	717.9.9

Major shareholders	% held
Low Chan Tian	10.4
Apollo Asia Fund Ltd	9.4
Lim Koy Peng	7.6

### Analyst(s)



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# Daibochi Plastic & Packaging

## Growth to come from Myanmar

- Management targets for Myanmar JV operations to start in Jul. It expects to enjoy 5-year tax exemption from FY17F onwards.
- Penetration into the Indonesia market in 1Q17 was a positive surprise as this was the first time Daibochi penetrated this market.
- FY17-19EPS cut by 8-23%, even after including Myanmar JV earnings as we underestimated the company's raw material costs outlook.
- We raise TP to RM2.15, based on 20% premium to the 2018 target 13x P/E for the packaging sector, premium to justify Myanmar's attractive long-growth prospects.

### 1Q17 results briefing highlights

Daibochi's 1Q17 results briefing was led by MD Thomas Lim, ED Low Jin Wei and CFO Tan Gaik Hong. The briefing focused on the Myanmar joint venture (JV) and Daibochi's entry into the Indonesia market. Management is particularly bullish on the prospects for the Myanmar JV.

### Entered Indonesia market in 1Q17

We were positively surprised by the company's entry into the Indonesia market in 1Q17. In the past, Malaysian and Indonesian flexible packaging players did not get involved in one another's markets. The company started supplying to one F&B player in 1Q17 and is conducting trials for another multi-national company (MNC) F&B player. Daibochi is also undergoing the qualification process for an MNC that targets the Indonesia market.

### Myanmar JV slated to start in Jul 2017F

Given that approvals have been secured from the Myanmar authorities, management targets for the Myanmar JV (Daibochi owns 60% of the JV) to start operations in Jul. Management is bullish on the outlook for the Myanmar JV in view of the market's attractive long-term growth prospects. The flexible packaging industry in Myanmar is still young and not many MNCs are in the country yet but we believe this is only a matter of time.

### Strong earnings outlook for JV

We estimate that the Myanmar JV recorded around US\$2m net profit in FY16 and we forecast 3-year revenue CAGR of 27% (2017-19F) and higher net profit CAGR of 33%. We project higher net profit growth for FY17-19F because the JV should be tax-free in FY17-21F. We believe our earnings forecasts are conservative, as more MNCs are likely to come into this country soon.

### Cut FY17-19F EPS forecasts

We reduce FY17-19F EPS forecasts for Daibochi by 31-33% as we underestimated its raw material cost outlook. Including Myanmar JV earnings in our FY17-19F forecasts, EPS falls by a lower 8-23%. We project the steepest EPS decline in FY17F, as the Myanmar JV operations is not expected to contribute much this year due to start-up costs and product trials by new customers. Also, the Myanmar JV is only slated to commence operations in Jul.

### Raise target price but still a Reduce

We raise our target price basis from 13x FY18 target P/E (domestic packaging sector average) to 15.6x FY18 P/E (at 20% premium over sector average) in view of the Myanmar JV's attractive long-term prospects. Our TP rises from RM1.93 to RM2.15 but the stock remains a Reduce as stock valuation remains expensive, in our view. Possible de-rating catalysts are further operational cost pressures and slowdown in domestic

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (RMm)	345.0	371.1	423.0	503.0	562.0
Operating EBITDA (RMm)	46.20	45.20	55.70	69.60	77.20
Net Profit (RMm)	26.64	24.50	28.36	37.52	43.02
Core EPS (RM)	0.10	0.09	0.10	0.14	0.16
Core EPS Growth	11.9%	(8.0%)	15.8%	32.3%	14.7%
FD Core P/E (x)	26.55	28.87	24.94	18.85	16.44
DPS (RM)	0.059	0.054	0.060	0.060	0.060
Dividend Yield	2.28%	2.08%	2.32%	2.32%	2.32%
EV/EBITDA (x)	15.97	16.13	13.27	10.30	8.80
P/FCFE (x)	21.81	43.19	NA	15.95	11.98
Net Gearing	16.8%	11.2%	15.2%	4.2%	(10.9%)
P/BV (x)	3.89	3.63	3.39	3.04	2.75
ROE	15.2%	13.0%	14.1%	17.0%	17.6%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.92	1.03	0.93

SOURCE: COMPANY DATA, CIMB FORECASTS

## Growth to come from Myanmar

### Raw material costs up in 1Q17

On average, raw material costs went up 12% yoy in 1Q17, which we believe was mainly due to higher average crude oil prices in 1Q17 compared to 1Q16. More than 80% of Daibochi's revenue comes from MNCs and the trigger price mechanism in its contracts allows Daibochi to raise its selling prices to MNCs in May onwards. This would be positive for the company. 1Q17 net profit would have been worse if not for cost savings from lower wastage control during the quarter.

### Lower cost in Myanmar compared to Malaysia

Operating costs in Myanmar are much lower than in Malaysia. Its pretax profit margin is above 25% in Myanmar compared to only 8% in Malaysia. Daibochi could pass the production of lower-value products to Myanmar, while domestic operations focus on R&D and higher-value products. Daibochi has already started production in Myanmar for customers in Malaysia that ordered low-valued products. In addition, we understand that the JV is expected to get a 5-year tax exemption from the Myanmar government soon.

**Figure 1: Earnings revisions**

YE Dec (RMm)	Old			New		
	FY17	FY18	FY19	FY17	FY18	FY19
Revenue	402.5	442.8	487.1	423.1	503.1	562.0
EBITDA	57.1	62.5	68.4	55.7	69.6	77.2
PBT	46.1	51.0	56.9	37.3	51.2	59.0
<b>Net profit</b>	<b>36.8</b>	<b>40.7</b>	<b>46.7</b>	<b>28.4</b>	<b>37.5</b>	<b>43.0</b>

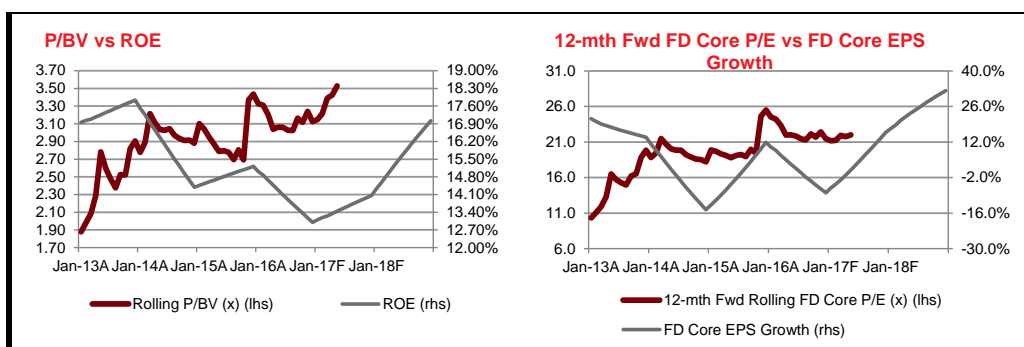
SOURCES: CIMB, COMPANY REPORTS

**Figure 2: Sector comparison**

Company	Bloomberg Ticker	Recom.	Target Price		Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)	Recurring ROE (%)			EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2017	CY2018			CY2017	CY2017	CY2018	CY2017	CY2018	CY2017	CY2018
Daibochi Plastic & Packaging	DPP MK	Reduce	RM2.59	RM2.15	163	17.4	14.3	22.3%	3.39	17.9%	18.5%	12.8	11.2	3.1%	3.5%	
Thong Guan Industries	TGI MK	Add	RM4.44	RM5.72	127	6.9	6.4	7.6%	1.14	17.3%	16.7%	5.0	4.0	4.3%	4.7%	
Tomypak Holdings	TOMY MK	Reduce	RM2.20	RM0.98	84	14.3	13.4	15.0%	2.40	17.6%	16.9%	7.3	6.3	2.4%	2.4%	
<b>Sector average</b>					<b>125</b>	<b>12.9</b>	<b>11.4</b>	<b>14.9%</b>	<b>2.3</b>	<b>17.6%</b>	<b>17.4%</b>	<b>8.3</b>	<b>7.2</b>	<b>3.2%</b>	<b>3.5%</b>	

SOURCES: CIMB, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>Total Net Revenues</b>	<b>345.0</b>	<b>371.1</b>	<b>423.0</b>	<b>503.0</b>	<b>562.0</b>
<b>Gross Profit</b>	<b>46.2</b>	<b>45.2</b>	<b>55.7</b>	<b>69.6</b>	<b>77.2</b>
<b>Operating EBITDA</b>	<b>46.2</b>	<b>45.2</b>	<b>55.7</b>	<b>69.6</b>	<b>77.2</b>
Depreciation And Amortisation	(11.0)	(12.6)	(15.1)	(15.4)	(15.7)
<b>Operating EBIT</b>	<b>35.2</b>	<b>32.6</b>	<b>40.6</b>	<b>54.2</b>	<b>61.5</b>
Financial Income/(Expense)	0.8	(2.6)	(3.3)	(3.0)	(2.5)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>36.0</b>	<b>30.0</b>	<b>37.3</b>	<b>51.2</b>	<b>59.0</b>
Exceptional Items	0.0	0.0			
<b>Pre-tax Profit</b>	<b>36.0</b>	<b>30.0</b>	<b>37.3</b>	<b>51.2</b>	<b>59.0</b>
Taxation	(9.4)	(5.5)	(6.8)	(7.4)	(8.2)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>26.6</b>	<b>24.5</b>	<b>30.5</b>	<b>43.8</b>	<b>50.8</b>
Minority Interests	0.0	0.0	(2.2)	(6.2)	(7.8)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>26.6</b>	<b>24.5</b>	<b>28.4</b>	<b>37.5</b>	<b>43.0</b>
Recurring Net Profit	26.6	24.5	28.4	37.5	43.0
<b>Fully Diluted Recurring Net Profit</b>	<b>26.6</b>	<b>24.5</b>	<b>28.4</b>	<b>37.5</b>	<b>43.0</b>

### Cash Flow

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
<b>EBITDA</b>	<b>46.20</b>	<b>45.20</b>	<b>55.70</b>	<b>69.60</b>	<b>77.20</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	5.85	(8.61)	(8.40)	(7.60)	0.00
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.79	0.79	0.79	0.79	1.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(9.40)	(10.00)	(6.75)	(7.44)	(8.18)
<b>Cashflow From Operations</b>	<b>43.44</b>	<b>27.38</b>	<b>41.34</b>	<b>55.35</b>	<b>70.02</b>
Capex	(10.00)	(10.00)	(33.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	(1.00)	(1.00)	(1.00)	(1.00)	(1.00)
<b>Cash Flow From Investing</b>	<b>(11.00)</b>	<b>(11.00)</b>	<b>(34.00)</b>	<b>(11.00)</b>	<b>(11.00)</b>
Debt Raised/(repaid)			(25.00)	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(16.20)	(14.70)	(15.24)	(16.80)	(18.47)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(16.20)</b>	<b>(14.70)</b>	<b>(40.24)</b>	<b>(16.80)</b>	<b>(18.47)</b>
Total Cash Generated	16.24	1.68	(32.91)	27.55	40.55
<b>Free Cashflow To Equity</b>	<b>32.44</b>	<b>16.38</b>	<b>(17.66)</b>	<b>44.35</b>	<b>59.02</b>
<b>Free Cashflow To Firm</b>	<b>32.44</b>	<b>16.38</b>	<b>7.34</b>	<b>44.35</b>	<b>59.02</b>

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	19.4	31.7	42.4	40.0	71.0
Total Debtors	66.7	73.4	80.7	87.0	90.0
Inventories	76.4	84.0	92.4	99.0	107.0
Total Other Current Assets	0.1	0.1	1.0	1.0	1.0
<b>Total Current Assets</b>	<b>162.6</b>	<b>189.2</b>	<b>216.5</b>	<b>227.0</b>	<b>269.0</b>
Fixed Assets	122.2	120.6	138.5	126.2	113.6
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	22.6	22.6	22.6	22.6	22.6
<b>Total Non-current Assets</b>	<b>144.8</b>	<b>143.2</b>	<b>161.1</b>	<b>148.8</b>	<b>136.2</b>
Short-term Debt	38.5	42.0	42.0	27.0	27.0
Current Portion of Long-Term Debt					
Total Creditors	66.7	73.4	80.7	86.0	97.0
Other Current Liabilities	0.7	0.7	0.7	0.7	0.7
<b>Total Current Liabilities</b>	<b>105.9</b>	<b>116.1</b>	<b>123.4</b>	<b>113.7</b>	<b>124.7</b>
Total Long-term Debt	11.5	11.5	32.0	22.7	16.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8.1	10.0	14.0	7.0	7.0
<b>Total Non-current Liabilities</b>	<b>19.6</b>	<b>21.5</b>	<b>46.0</b>	<b>29.7</b>	<b>23.0</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>125.5</b>	<b>137.6</b>	<b>169.4</b>	<b>143.4</b>	<b>147.7</b>
Shareholders' Equity	181.9	194.9	208.4	232.6	257.2
Minority Interests					
<b>Total Equity</b>	<b>181.9</b>	<b>194.9</b>	<b>208.4</b>	<b>232.6</b>	<b>257.2</b>

### Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	0.1%	7.6%	14.0%	18.9%	11.7%
Operating EBITDA Growth	14.6%	(2.2%)	23.2%	25.0%	10.9%
Operating EBITDA Margin	13.4%	12.2%	13.2%	13.8%	13.7%
Net Cash Per Share (RM)	(0.11)	(0.08)	(0.12)	(0.04)	0.10
BVPS (RM)	0.67	0.71	0.76	0.85	0.94
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	26.0%	18.3%	18.1%	14.5%	13.9%
Net Dividend Payout Ratio	44.4%	49.0%	48.5%	50.1%	50.4%
Accounts Receivables Days	76.12	69.09	66.49	60.85	57.48
Inventory Days	85.14	90.07	87.65	80.60	77.55
Accounts Payables Days	74.21	78.67	76.57	70.20	68.89
ROIC (%)	11.0%	10.6%	12.9%	15.4%	17.8%
ROCE (%)	16.4%	13.6%	15.3%	19.2%	21.1%
Return On Average Assets	11.8%	10.0%	11.2%	14.2%	15.6%

### Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
ASP (% chg, main prod./serv.)	5.0%	5.0%	5.0%	5.0%	5.0%
Unit sales grth (% , main prod./serv.)	7.0%	7.0%	7.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	70.0%	70.0%	70.0%	70.0%	70.0%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit Raw Material ASP (% Change)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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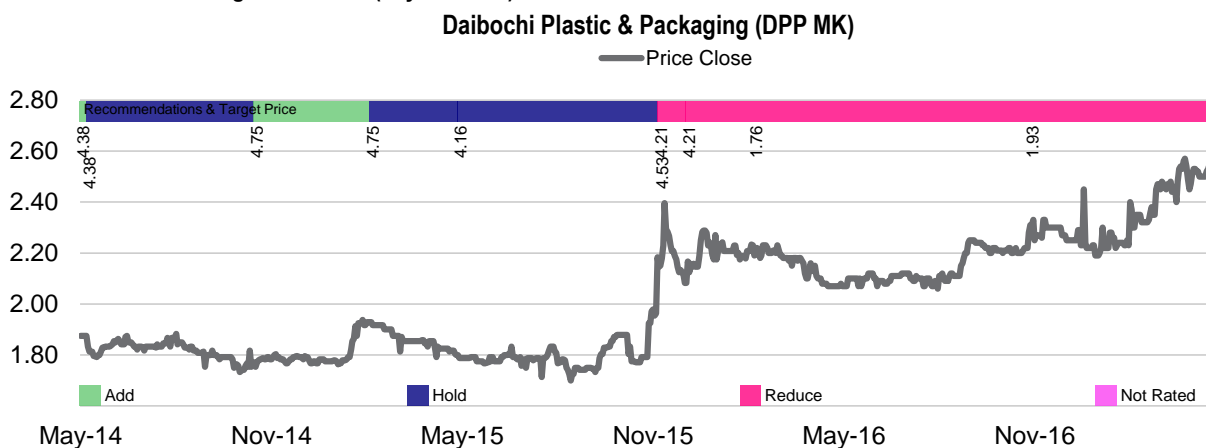
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1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

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*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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