26 February 2019 | Briefing Note

Daibochi Berhad

Aiming for higher sales

Maintain NEUTRAL

***Unchanged* Target Price (TP):RM1.60**

INVESTMENT HIGHLIGHTS

- **Order flow still healthy for Malaysia**
- **Daibochi Myanmar revenue should also increase**
- **Synergies with Scientex to be explored further**
- **Maintain NEUTRAL with unchanged TP of RM1.60**

Order flow still healthy for Malaysia. Management guided that it has been awarded contracts for new projects and expect revenue growth to be healthy in FY19F. Most of these contracts are from its existing MNC customers while it continues to explore opportunities with new customers. Some of the new contracts are worth a collective RM25m per annum. Management has allocated a capex sum of RM10.4m this year to further boost production. Although we are positive on Daibochi's revenue growth target, we note that its net profit did not grow in the same quantum partially due to high material costs, higher operating expenses and forex fluctuations.

Daibochi Myanmar revenue should also increase. In December, the company has started to import semi-finished materials to be further processed for its price-sensitive customers. On top of that, some of its MNC clients in Myanmar are doing their final stage of audit to approve Daibochi Myanmar as their supplier. Barring unforeseen circumstances, Daibochi Myanmar will be able to start production for some of the MNC customers soon. We note that PBT margin at Daibochi Myanmar has tapered off from about 20%-30% before 2017 due to higher raw material costs, labour and weak currency. We reckon that by increasing the volume to its price-sensitive customers, Daibochi Myanmar's profit margins are unlikely to hit the previous high levels.

Synergies with Scientex to be explored further. Management from both companies will need time to reap benefits from the merger. As it is, Scientex is Daibochi's upstream supplier. On top of economies of scale from raw material, both companies may also benefit through the collaboration in research and development for new products. Both companies can also share the machinery and manufacturing knowledge. The enlarged group could also enhance value proposition to new customers and MNCs. Given Scientex's M&A track record, we think that both companies will be able to benefit from the merger. However, it is still hard to quantify the benefits at this point as details are sketchy. Hence, we make no changes to our estimates for now.

Maintain NEUTRAL with unchanged TP of RM1.60. Our DDM-derived TP of RM1.60 with terminal growth of 3.2% is maintained. We opine that there is limited upside gain in the near-term while the 2.1% dividend yield is unappealing.

RETURN STATS	
Price (25th February 2019)	RM1.58
Target Price	RM1.60
Expected Share Price Return	+1.3%
Expected Dividend Yield	+2.1%
Expected Total Return	**+3.4%**

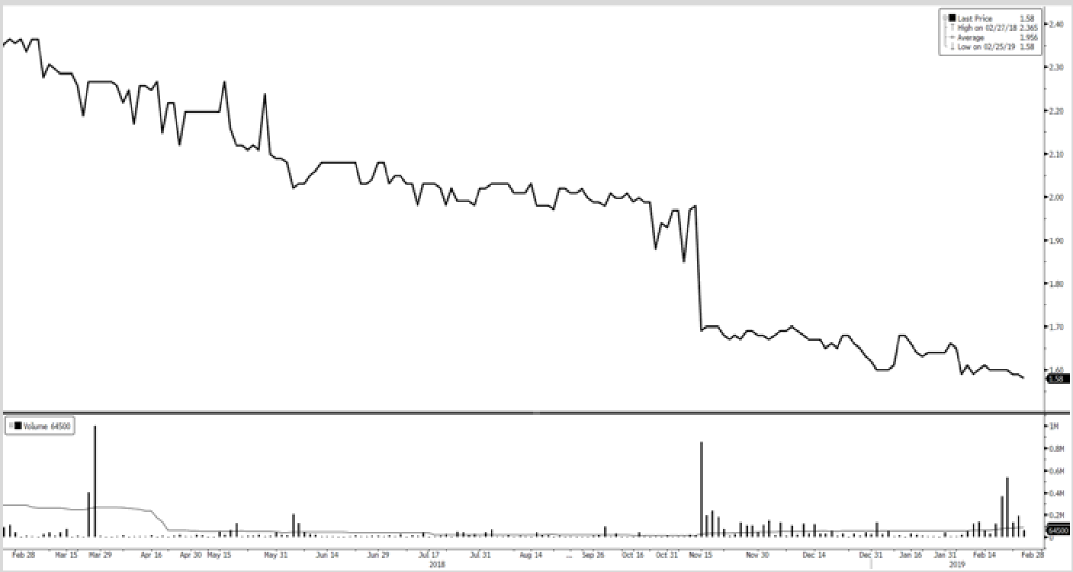
STOCK INFO	
KLCI	1,724.58
Bursa / Bloomberg	8125 / DPP MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	327.35
Market cap. (RM'm)	517.21
Price over NA	3.02
52-wk price Range	RM1.56– RM2.41
Beta (against KLCI)	0.42
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM0.10m
Major Shareholders (%)	
Scientex Bhd	42.48
Apollo Asia Fund Limited	9.38
Samarang UCITS	5.87

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	371.2	388.7	430.8	469.9	507.4
Gross profit	49.2	39.9	31.7	38.8	41.9
Profit before tax	30.0	35.7	20.6	28.8	31.7
Income tax expense	-5.4	-8.7	-3.8	-4.3	-4.8
Net profit	24.5	27.1	16.8	24.4	26.9
PATAMI	**24.5**	**26.0**	**15.2**	**23.0**	**25.3**
EPS (sen)	7.5	7.9	4.6	7.0	7.7
EPS growth (%)	-8.3	6.0	-41.3	50.7	10.1
PER (x)	21.1	20.0	34.0	22.6	20.5
Net dividend (sen)	5.4	5.2	3.4	4.1	4.5
Dividend yield (%)	3.4	3.3	2.1	2.6	2.9
Gross profit margin (%)	13.3	10.3	7.4	8.3	8.3
Profit before tax margin (%)	8.1	9.2	4.8	6.1	6.2
Net profit margin (%)	6.6	7.0	3.8	4.9	5.0

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg

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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 *rise* 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 *fall* 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.