

9 Mar 2021

Buy

Price
RM2.35

Target Price
RM2.90

Bloomberg code
DPP MK

Equity | Malaysia | Consumer
Flashnote

Daibochi

1HFY21: results within estimates

Financial Highlights

FYE Jul	2019	2020	2021F	2022F	2023F
Revenue (RMm)	699	619	700	817	965
Core net profit (RMm)	34	55	57	69	85
Core EPS (Sen)	10.5	16.7	17.3	21.1	26.1
EPS growth (%)	27.0	59.4	3.4	21.7	24.0
DPS (Sen)	3.4	5.0	6.0	7.0	8.0
Core PE (x)	23.3	14.6	14.2	11.6	9.4
Div yield (%)	1.4	2.0	2.4	2.9	3.3
ROE (%)	16.7	21.7	19.6	20.5	21.6
Net Gearing (%)	21.4	19.7	31.7	35.2	31.9
PBV(x)	3.7	3.0	2.7	2.3	1.9

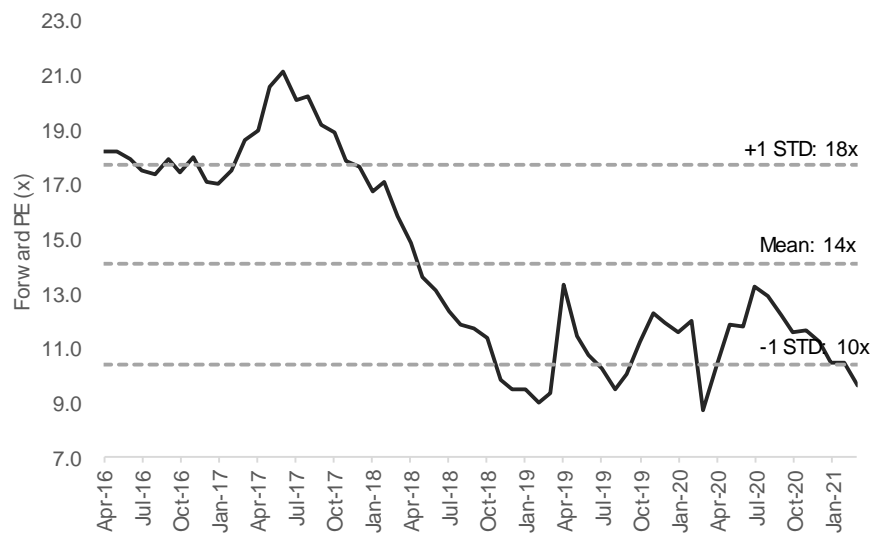
Source: Company, KAF

- Maintain Buy rating with TP of RM2.90 pegged to 15x forward PE based on CY21F EPS.
- Daibochi 1HFY21 core earnings was flattish at RM27m came in within our and consensus estimates. It accounted for 47% and 48% of our and consensus full-year forecasts respectively.
- No dividend was declared during the quarter under review.
- Revenue in 1HFY21 increased slightly to RM318m (+2% YoY) on the back of higher domestic sales contributions which accounted for 56% of total sales (vs 44% of export sales).
- Operating profit however declined to RM33m (-15% YoY) due to higher raw material prices and freight costs.
- Moving forward, we are projecting earnings to grow at three-year CAGR of 16% between FY21-23F. This is attributable to its integrated operations with Scientex and continuous R&D to deliver innovative sustainable FPP solutions to its clients.
- On top of that, efficiencies can be achieved via ongoing capacity expansions, reduced wastages and improvement in inventory controls. Note that the group has approved and contracted RM12m worth of capital commitments as of 2QFY21.
- Furthermore, Daibochi collaborates with local and international brands to adopt fully-recyclable laminates which is in line with global sustainability trends.
- Risks to earnings growth is the global shortage of shipping containers which may increase freight costs in the near term coupled with increasing costs of raw materials.
- Other than that, Daibochi's manufacturing operations in Myanmar experienced sporadic halt in operations due to uncertain socioeconomic and political environment in the country since February 2021.
- Even then, Myanmar's contributions are expected to be less than 10% of the group's total sales and Daibochi plans to continue monitor the situation.
- The share price has declined by 10% as situations in Myanmar worsens. The stock is currently trading at 10x forward PE which is -1SD below its five-year forward mean PE of 14x.
- We find the stock to be oversold as we see strong growth in future earnings driven by increasing demand for its innovative and sustainable flexible plastic packaging solutions in Southeast Asia and Oceania region.
- With projected DPS of 6-8sen for FY21-23F, this implies a dividend yield of 2-3% at current levels.

Exhibit 1: Quarterly financial results analysis

FYE Jul RMm	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	Change (%)		Cumulative		Chg (%)	KAF	
	Jan-20	Apr-20	Jul-20	Oct-20	Jan-21	QoQ	YoY	1HFY20	1HFY21	YoY	FY21	6M/F
Revenue	159	152	156	157	161	3	1	312	318	2	700	45%
EBITDA	26	25	23	24	21	(10)	(17)	49	45	(9)	113	40%
Depreciation	(5)	(6)	(6)	(6)	(6)	2	12	(11)	(12)	12		
EBIT	20	19	17	18	15	(14)	(25)	38	33	(15)	81	40%
Net interests	(1)	(1)	(1)	(0)	(0)	(10)	(65)	(2)	(1)	(67)		
Exceptional items	1	(3)	(3)	(0)	1	nm	74	(1)	1	nm		
Minority interests	(1)	(1)	2	(0)	(0)	39	(92)	(1)	(0)	(90)		
Pretax profit	20	15	13	17	16	(6)	(19)	35	33	(5)	76	44%
Taxation	(5)	(4)	(3)	(4)	(1)	(78)	(79)	(8)	(5)	(36)		
Reported profit	15	11	11	13	15	18	3	26	28	9	57	49%
Normalised net profit	14	14	14	13	14	7	(0)	26	27	0	57	47%
Basic EPS (sen)	4	3	3	4	5	18	3	8	9	9		
Normalised EPS (sen)	4	4	4	4	4	7	(0)	8	8	0		
DPS (sen)	0	2	3	0	0	nm	nm	0	0	nm		
						%-pts	%-pts			%-pts		
Effective tax rate (%)	23	25	26	25	6	(19)	(17)	24	16	(8)		
EBITDA margin (%)	16	16	15	15	13	(2)	(3)	16	14	(2)		
Pretax profit margin (%)	13	10	8	11	10	(1)	(3)	11	10	(1)		
Normalised net margin (%)	9	9	9	8	9	0	(0)	9	8	(0)		

Source: Company, KAF

Exhibit 2: Five-year forward PE band chart

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF Equities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)