

# MPP merger likely to boost Daibochi's capacity

## Daibochi Bhd (May 6, RM2.19)

**Downgrade to sell from accept offer with an unchanged target price (TP) of RM1.60.** The acquisition of 4.5 million Mega Printing and Packaging Sdn Bhd (MPP) shares will be satisfied fully in cash, which will be funded by internally generated funds and/or bank borrowings. This may increase Daibochi's gearing level from 0.38 times to up to 0.92 times upon completion of the acquisition. MPP prints and manufactures flexible plastic packaging material mainly for the food and beverage industry. Set up in 1997, the Melaka-based company has a production capacity of 264 million metres per annum and a utilisation rate of 68.3% in 2018. According to its financial year 2018 (FY18) financial statement, 87% of its sales were from the domestic market and 13% from export markets. Based on its website, its clients include Nestle (Malaysia) Bhd, Mondelez International Inc, Munchy Food Industries Sdn Bhd, Oriental Food Industries Holding Bhd, Industri Makanan Snek Ku Sdn Bhd, Mamee Dou-

## Daibochi Bhd

| FYE DEC (RM MIL)             | 2016A | 2017A | 2018A | 2019E | 2020F |
|------------------------------|-------|-------|-------|-------|-------|
| 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  |
| Patmi                        | 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)                      | 29.4  | 27.8  | 47.3  | 31.4  | 28.5  |
| Net dividend (sen)           | 5.4   | 5.2   | 3.4   | 4.1   | 4.5   |
| Dividend yield (%)           | 2.5   | 2.4   | 1.5   | 1.9   | 2.1   |
| 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   |

Sources: Company, MIDF Research

ble-Decker Sdn Bhd, Power Root Bhd, Dole Food Company and the 3M Company.

Daibochi's expansion is happening sooner than expected since becoming a subsidiary of Scientex Bhd on Feb 19. Daibochi and MPP are in similar business and both will be able to enjoy econ-

omies of scale once merged. According to Daibochi, its capacity will increase by 33.3% to 1.06 billion metres per year with the addition of MPP. Moreover, MPP is in a net cash position of RM12.2 million. The deal values MPP at 16 times its FY17 price-earnings ratio (PER) and 17.9 times its FY18

PER, which is a slight discount to the price tag valued on Daibochi of 20 times FY17 PER. We deem this as fair given MPP's smaller production capacity.

Based on MPP's historical earnings, we estimate that the acquisition will contribute between 7% and 15% to Daibochi's earnings upon completion depending on the financing cost and potential synergies between the two entities. We leave our estimates unchanged at this juncture as details of the funding and earnings prospects of the combined entity are sketchy. The acquisition is subject to shareholders' approval at a later date to be announced while the completion is slated by the third quarter of 2019.

The stock is a "sell" now due to its recent share price rally. Daibochi shares have shot up about 26% after the conclusion of Scientex's mandatory general offer while its dividend yield is unappealing at 1.3%. Our TP of RM1.60 based on the dividend discount model-derived model (terminal growth of 3.2%) is unchanged for now until the upcoming earnings review. — MIDF Research, May 6