# Indochina + Myanmar Study Trip

## Do Not Miss The Bandwagon

***By Teh Kian Yeong l tehky@kenanga.com.my***

**Last week, we went on a road trip, ground checking on four Malaysian companies, namely PESTECH, NTPM, OCK and DAIBOCHI which have operations in Cambodia, Vietnam and Myanmar. They are involved in basic infrastructure for power utility and telco, as well as consumer related products that will definitely do well in these frontier markets as their products and services are the basic needs for economic development. We are especially excited about Myanmar which is liberalising its foreign investment stance after years of closed-door policy resulting in its development being at least 30 years behind us. Given the saturation in our domestic market and relatively small population, new markets in Indochina and Myanmar should enlarge these companies' earnings profile. However, we do see currency risk in Vietnam and Myanmar as well as political risk in Cambodia and Myanmar. Nonetheless, this study tour was a fruitful trip which has enriched our knowledge in these countries and we believe these four companies should do well there given their track records and partnerships with local firms.**

**The growing Cambodia market.** Cambodia is not unfamiliar to us as this is our third trip to Phnom Penh to meet up with **PESTECH (OP; TP: RM2.00)** and its key client, Electricite du Cambodge (EdC), an entity akin to our **TENAGA (OP; TP: RM17.17).** When we left the airport for meeting with PESTECH, road traffic was still as busy as our previous visit two years ago with several road extensions while new buildings are coming into the town centre. This signifies rapid development in this fast growing country. All these were concurred upon when we met up with EdC, the state-owned utility which showed us the country's power generation and infrastructure plans. The country's generation capacity is expected to increase by another 2,841MW over 2017-2025 from 1,592MW currently while transmission lines are set to reach 4,000km to cover the entire country by 2025 from 1,500km currently. This shows that the country is hungry for electricity supply to cater for rapid development where even capital city Phnom Penh is regularly facing power-cut. Thus, this definitely augurs well for PESTECH which already has track records there.

**Vietnam, the right location for Southern China and Thailand.** On the second day, we arrived at Ho Chi Minh City (HCMC) the largest city in Vietnam. Our impression is that Vietnam is more developed than Cambodia in terms of infrastructure and economy development. We visited **NTPM's (Not Rated)** plant in the Vietnam Singapore Industry Park, about an hour drive from HCMC. Currently, NTPM only produces tissue paper in Vietnam and it is in the Phase 2 of expansion with two new production lines set to be ready by mid-2018. This should result in a material impact to the group as the Vietnam production will account for 1/3 of the group's total tissue paper production from less than 10% currently once the expansion program is completed. Given the location, this Vietnam operations could be the export-base for Indochina, Southern China and Thailand. We also see great potential from this venture in view of the population size and growing tissue paper consumption trend and this Vietnam operations could be outgrow its Malaysian operation eventually.

**The new face of Myanmar.** We made our last stop with a 2-day stay in Yangon for meet up with **OCK (OP; TP: RM1.05)** and **DAIBOCI (Not Rated)**. We see abundance of opportunities in Myanmar which is now opened up for foreign investments from 2011 after years of closed economy under the military regime. We visited one of telco towers which is built and managed by OCK, about 66km outside of Yangon. At such distance, it took us more than 2 hours to reach the site given the bad road conditions. We saw on-going road extension and building of bridges along the journey. We reckon it needs lots of basic infrastructure to develop the country. Our last meeting in Yangon was a meeting with Myanmar Investment Committee where the authority revealed that the top two priorities for foreign investments are in the areas of manufacturing, especially in garment sector, and infrastructures including road, power utility as well as telco. I believe DAIBOCI made the right decision to venture there as MNC FMCGs are starting to open up in Myanmar. Needless to say, potential for OCK is great as well as telco towers are potentially estimated to reach 40,000 sites, from 13,000 sites currently, in order to cater to the market based on its population size. There is potential for PESTECH as well, which has just set up a subsidiary there recently, based on government's priority of development.

**Valuation Comparison**

| Company | Price (RM) | Market Cap (RM m) | PER(x) | | | Est. Div. Yld. | His. ROE | His. P/BV | NP Growth (%) | | Target Price (RM) | Rating |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | CY16 | CY17 | CY18 | (%) | (%) | (x) | CY17 | CY18 | | |
| PESTECH | 1.61 | 1,230.5 | 16.5 | 14.9 | 14.2 | 2.0 | 25.4 | 3.0 | 10.9 | 4.6 | 2.00 | OP |
| NTPM | 0.74 | 825.5 | 16.0 | 15.3 | 12.9 | 3.6 | 11.0 | 1.9 | 16.0 | 19.0 | NR | NR |
| OCK | 0.88 | 766.9 | 30.3 | 29.3 | 25.9 | 0.4 | 7.6 | 1.8 | 4.2 | 11.0 | 1.05 | OP |
| DAIBOCI | 2.30 | 752.9 | 30.6 | 27.7 | 21.9 | 2.2 | 12.9 | 4.0 | 15.9 | 25.7 | NR | NR |

*Source: Kenanga Research, Bloomberg*

# Pestech International

## Riding on a Powerful Wave

**OUTPERFORM ↔**

**Price: RM1.61**

**Target Price: RM2.00 ↔**

**PESTECH is expected to see its maiden recurring income next month when the BOT project Diamond Power start operations on 30th November under the 25-year concession agreement. With the plan of additional 2,500km transmission line to cover the entire Cambodia network by 2025, there are ample rooms for PESTECH to grow its earnings base there. In addition, this alternative power play also taps on the liberalisation of Myanmar for foreign investment as it has just established a subsidiary there.**

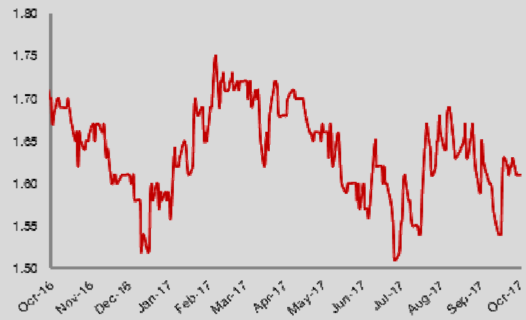
**BOT project on track.** Pestech (Cambodia) Ltd (PCL) just completed the EPC work for Diamond Power's BOT project in early of this month, ahead of the contract completion date of 30 November. As such, PESTECH should be able to see the maiden recurring income in 3Q18 results, which will last for 25 years. Meanwhile, the work progress for Alex Corp's West Phnom Penh-Sihanoukville line is at 60% completion for the 230kV portion while the 500kV portion has just started. This is on track to project completion date of 30 November 2019. Meanwhile, the 230kV Stung Tatay HPP to Phnom Penh line is still at early days with project completion date in December 2020.

**More opportunities to come.** According to Electricity Authority Cambodia, the country needs additional 2,841MW generation capacity over 2017-2025 from 1,592MW currently to power-up the country with a total of 4,000km transmission lines to connect the power supply by 2025 from 1,500km currently. This signifies that there are still many transmission line and substation contracts up for grab while PCL may look for IPP opportunity as power generations in Cambodia are mainly built and managed by IPPs

**What's next?** We were given to understand that PCL is currently looking for new projects in Cambodia, one direct negotiation and one open tender with no timeline disclosed. EdC shared with us that PCL is the preferred EPC contractor under the private funded projects given its track record. As such, it should stand a good chance to secure these contracts. Meanwhile, PCL has also established a subsidiary in Myanmar which should enable PCL to tap into this fast growing economy after years of closed-door policy under the military rule. The Myanmar Investment Committee shared with us that power infrastructure is one of the two main priorities for foreign investment.

**We remain bullish** on this alternative power play especially its Cambodia growth story. PCL, which aims for a listing in Cambodia next year, will be the hub for PESTECH's venture in Indochina and Myanmar. This is one of the fast growing economy zones in the world. With its track record, PCL should be able to ride on this bandwagon. On the other hand, PESTECH's valuation is not excessive anymore following lacklustre share price performance while earnings momentum remains strong. It remains an OUTPERFORM with price target of RM2.00/SoP share. Risks to our call include failure to replenish order-book and cost overruns.

### Share Price Performance




| | |
|---|---|
| KLCI | 1,743.99 |
| YTD KLCI chg | 6.2% |
| YTD stock price chg | 4.5% |

### Stock Information

| | |
|---|---|
| Shariah Compliant | Yes |
| Bloomberg Ticker | PEST MK |
| Market Cap (RM m) | 1,230.5 |
| Issued shares | 764.3 |
| 52-week range (H) | 1.77 |
| 52-week range (L) | 1.51 |
| 3-mth avg daily vol: | 335,603 |
| Free Float | 42% |
| Beta | 0.4 |

### Major Shareholders

| | |
|---|---|
| Ah Hock Lim | 33.3% |
| Pay Chuan Lim | 20.3% |
| Employees Provident | 4.5% |

### Summary Earnings Table

| FY June (RM m) | 2017A | 2018E | 2019E |
|---|---|---|---|
| Turnover | 508.2 | 695.0 | 762.9 |
| EBIT | 137.2 | 136.8 | 149.8 |
| PBT | 136.0 | 107.1 | 118.8 |
| **Net Profit (NP)** | 90.9 | 82.3 | 90.6 |
| **Core Profit** | 83.0 | 82.3 | 90.6 |
| Consensus (NP) | | N/A | N/A |
| Earnings Revision | | - | - |
| Core EPS (sen) | 9.6 | 11.0 | 12.1 |
| EPS growth (%) | 6.4 | -0.9 | 10.1 |
| NDPS (sen) | 2.9 | 3.3 | 3.6 |
| NTA/Share (RM) | 0.48 | 0.55 | 0.64 |
| Core PER (x) | 16.7 | 14.6 | 13.3 |
| Price/NTA (x) | 3.38 | 2.91 | 2.52 |
| Net Gearing (x) | 0.89 | 0.47 | 0.14 |
| Dividend Yield (%) | 1.8 | 2.1 | 2.3 |

## Transmission Line & Substations in Operation

| Name | Transmission Lines | Substations |
|---|---|---|
| 1. Southern system | 230 kV : 271 km(x2), 115 kV : 230 km(x1), 115 kV : 54 km(x2) | 12 substations: 6 in Phnom Penh, 1 in Takeo, 1 in Kampong Speu, 2 in Kampot, and 2 in Preah Sihanouk |
| 2. Western system | 115 kV : 241km(x1) | 5 substations: 1 in Poi Pet, 1 in Battambang, 1 in Banteay Meanchey, and 2 in Siem Reap(added one). |
| 3. Connection between Southern and western system | 230 kV : PP-BTB: 297 km(x2); OS-PS : 175km(x2);OS-Tatay: 79 km(x2) | 5 substations: 1 in Kampong Chhnang, 2 in Pursat, 1 in Battambong, and 1 in Tatay Koh Kong |
| 4. Connection Phnom Penh - Kampong Cham | 230 kV : 126 km(x2) | 2 substations: 1 in Phnom Penh, and 1 in Kampong Cham |
| 5. Lao PDR Border - Chheb District, Preah Vihear | 115 kV : 52km(x2) | 1 substation in Chheb District, Preah Vihear (it was constructed but it is temporarily operating 35kV) |
| **Total of infrastructures in operation** | **115-230kV= 1,525 km** | **25 substations supply directly to 14 provinces and indirectly to other 4 provinces** |

*Source: EAC*

## Upcoming Transmission Line & Substations

| Project | Transmission Lines | Substations |
|---|---|---|
| 1. Kampong Cham - Kratie - Steung Treng Grid, Steung Treng – Rattanakiri Grid, and Kratie – Mondul Kiri Grid | 230kV : 240 km (x2)<br>115 kV:105 km (x2)+ 140 km (x2) | construct 5 new substations in Kratie, Steung Treng Rattanakiri, mining site, and in Mondul Kiri |
| 2. Preah Sihanouk-Chamkaloung Grid, Chamkaloung – Phnom Penh Grid | 230 kV : 50 km (x2)<br>500 kV : 140 km (x2) | construct a new substation in Chamkaloung and a 500kV Substation in Bek Chan |
| 3. Phnom Penh - Prey Veng - Svay Reang Grid | 115 kV:155 km (x2)+ 40 km (x1) | construct 2 new substations in Prey Veng and 1 in Svay Reang |
| 4. Kampong Cham – Kampong Thom – Siem Reap – Battambang Grid | 230 kV : 326 km (x2) | construct 2 new substations: 1 in Kampong Thom, and 1 in Siem Reap |
| 5. Kampong Thom – Preah Vihear (Chheb) Grid | 115 kV : 138 km (x2) | construct a new substation in Kampong Thom |
| 6. Krolanh Siem Reap – Oddor Meanchey Grid | 115 kV : 53 km (x1) | construct a new substation in Oddor Meanchey |
| 7. Kampong Cham town – Prek Brosob (Kratie) Grid | 115kV : 95 km | construct a new substation in Prek Brosob (Kratie) |
| 8. Sre Ombel – Botumsakor Grid, and additional Grid in Koh Kong | 115kV : 27 km (x1);<br>230kV : 71 km (x2) | construct 3 new substations in Koh Kong |
| 9. Battambang – Pailin Grid | 115kV : 68 km (x1) | construct a new substation in Pailin |
| **Total Project** | **115kV - 230 kV - 500kV = 1,648 km** | **add 19 new substations and NG can supply directly to 25 city/provinces** |

*Source: EAC*

## Goal of National Grid Development by 2020


*Source: EAC*

## Meeting with Pestech


*Source: Kenanga Research*

# NTPM Holdings

## Everyone Needs Tissue Paper

**Not Rated**

**Price: RM0.740**

**Target Price: N/A**

**Given the population size and low tissue paper consumption currently, Vietnam is a big market for NTPM which could be bigger than its home turf operations eventually. The offshore operations is within its Phase 2 expansion which will see its tissue paper production capacity increasing by 4-fold to 50,800 mtpa by mid-2018. Demand side is not an issue given the increasing usage of tissue paper as imports are currently filling up the supply gap. In addition, this Vietnam base could be cater for export markets in Indochina, southern China as well as Thailand.**

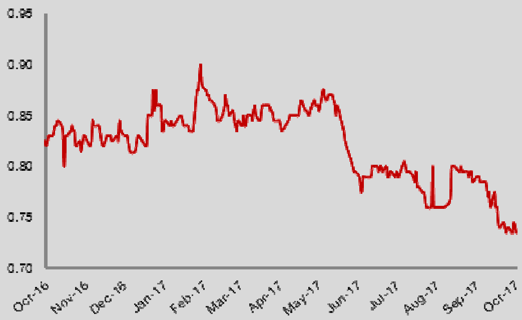
**Making big way in Vietnam.** NTPM's wholly-owned unit NTPM Vietnam (NTPMV) started operations in 2014 in Vietnam Singapore II Industrial Park and it is currently still loss-making owing to economies of scale but this could change come next year with its Phase 2 expansion which will see its capacity increasing 4x to 50,800 metric tonne per annum (mtpa) by June 2018, when the two new production lines come onstream, from currently 10,800 mtpa. This should help the plant to improve the economies of scale further and thus achieving profitability. Management expects this offshore operation to turn profitable in FY19.

**To be the largest tissue paper producer.** NTPMV is applying "just in time" and "total quality management" for its new manufacturing lines, targeted to be come online by April and June next year, respectively, which should help to improve production efficiency to enhance profitability. Currently, NTPMV's production capacity made up c.12% market share of the country's consumption demand of c.93,000 mtpa. NTPMV's products are solely for domestic consumption made up of mainly jumbo rolls which accounted for 77%. By mid-2018, NTPMV's installed capacity of 50,800 mtpa should outpace its largest competitor Saigon Paper which has a tissue paper production capacity of c.44,000 mtpa.

**… for high demand growth market.** We see there is no problem for the market to absorb NTPMV's additional productions given that currently, local demand is met by imported products as locally produced tissue paper is still insufficient to match demand. On the other hand, growth potential in Vietnam is massive given its relatively low tissue paper usage consumption of 1kg per person per annum as opposed to 4kg in Malaysia. This is expected to increase to 3kg in 5 years' time. In addition, Vietnam has a population size of 93.4m which is 3 times larger than Malaysia. As such, the demand growth is expected to rise significantly in the coming future. Further, due to its location, Vietnam could be a base for export to southern China or even other Indochina countries as well as Thailand. As such, we would not be surprised if the Vietnam operations could be bigger than that of Malaysia production in the future.

**Fair valuation with high earnings potential.** We are positive on its Vietnam venture which serves as new earnings avenue diversifying from the already limited growth potential in Malaysia. With the population size, growing consumption trend and potential export-base for Indochina, southern China and Thailand, NTPMV is poised to grow bigger in the future and could potentially outgrow the Malaysian operations. Based on 14x CY18 PER (-0.5SD to 5-year average of 16x) and consensus estimates, NTPM is fair valued at RM0.81/share.

### Share Price Performance




| | |
|---|---|
| KLCI | 1,743.99 |
| YTD KLCI chg | 6.2% |
| YTD stock price chg | -11.4% |

### Stock Information

| | |
|---|---|
| Shariah Compliant | Yes |
| Bloomberg Ticker | NTPM MK |
| Market Cap (RM m) | 825.5 |
| Issued shares | 1,123.1 |
| 52-week range (H) | 0.91 |
| 52-week range (L) | 0.73 |
| 3-mth avg daily vol: | 268,379 |
| Free Float | 55% |
| Beta | 0.5 |

### Major Shareholders

| | |
|---|---|
| See Jin Lee | 28.2% |
| Chong Choon Lee | 11.8% |
| Kota Beras Sendirian | 4.7% |

### Summary Earnings Table

| FY Apr (RM m) | 2017A | 2018E | 2019E |
|---|---|---|---|
| Revenue | 645.5 | 687.0 | 768.0 |
| Operating Profit | 77.0 | 88.5 | 104.0 |
| PBT | 72.4 | 81.9 | 97.9 |
| **Net Profit (NP)** | **49.9** | **57.9** | **68.9** |
| **Core NP** | **49.9** | **57.9** | **68.9** |
| Core EPS (sen) | 4.4 | 5.1 | 6.1 |
| Core EPS growth (%) | -13.5 | 16.0 | 19.0 |
| NDPS (sen) | 1.6 | 2.7 | 3.2 |
| BV/Share (RM) | 0.40 | 0.41 | 0.47 |
| Core PER (x) | 16.8 | 14.5 | 12.1 |
| PBV (x) | 1.9 | 1.8 | 1.6 |
| Dividend Yield (%) | 2.1 | 3.6 | 4.3 |

*Note: Forecast is based on Bloomberg*

**NTPMV RE Plant**

*Source: Kenanga Research*

**NTPMV Phase 2 Expansion**

*Source: Kenanga Research*

**NTPMV Phase 2 Expansion**

*Source: Kenanga Research*

**NTPMV Curent Plant**

*Source: Kenanga Research*

**NTPMV Curent Plant**

*Source: Kenanga Research*

**NTPMV Curent Plant**

*Source: Kenanga Research*

# OCK Group

## An Independent ASEAN Tower Co

# OUTPERFORM ↔

**Price: RM0.88**

**Target Price: RM1.05 ↔**

**We like OCK's TowerCo Leasing business, which not only offers recurring income for up to 27 years, but also a lucrative business which fetches higher profit margin than the contract business back home. Although earnings contribution to the group is still not impactful, with tower sites expected to double up next year and more tenancy agreement under co-location arrangement, its profitability is set to improve further. OCK remains OUTPERFORM at target price of RM1.05/DCF share.**

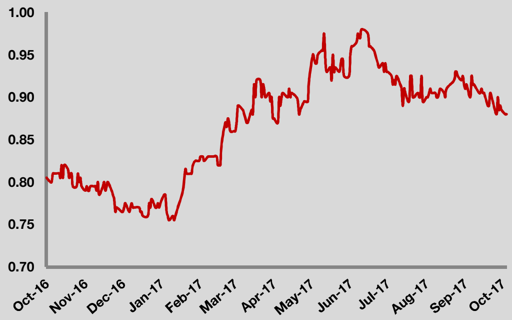
**A total breakthrough.** Its inroad into Myanmar is a total change in the earnings structure for OCK, from a contractor to a concession-like asset owner with recurring incomes. Out of the 920 contracted telco towers by Telenor Myanmar, OCK Yangon (OCKY) has delivered 622 units so far. The delivery of towers has slow down since 2H16 as a result of holding back by Telenor Myanmar owing to new coordinates planning of sites which is line with the Ministry of Communication, Information and Technology of Myanmar's plan to have 93% population coverage instead of 93% area coverage previously. With this plan, more tower sites will be allocated to populous areas.

**Tower counts to double by next year.** OCKY also extended its TowerCo's leasing business to other telco operators in Myanmar; it signed co-location agreement with MPT, the largest telco operator in Myanmar, in April, and new-built and lease as well as co-location agreements with Mytel in July. Currently, OCKY has a total of 518 towers firm order-book, including 204 for Telenor Myanmar, 309 for Mytel and 5 for MPT, and 133 co-locations. We understand that should the 309 tower sites go well for Mytel, the client will allocate another 300 sites next year. With this, the towers managed by OCKY are likely to double next year from 622 sites currently.

**Profit margins to improve further.** TowerCo leasing is a lucrative business compared to the contract business in Malaysia. This is reflected in the group's latest results where OCK reported better EBITDA margin of 20.7% in 1H17 as opposed to 12.8% as OCKY started its maiden contribution in 3Q16. Nonetheless, this is not going to stop here as the co-location arrangement will enhance margin further as the towers are designed to allocate up to three tenants while costs remain the same. The current tenancy ratio for the current 622 sites is at 1.26x. With more co-location order-book in the future, the tenancy ratio should increase further and thus the profit margins.

**Reiterate OUTPERFORM.** We continue to like OCK for its growth story especially growing its recurring earnings steams from the TowerCo leasing business in Myanmar and Vietnam. We see great potential from this visit as Myanmar is liberalising to attract foreign investments, where telco infrastructure as one of the priorities should benefit OCKY. We maintain OUTPERFORM on the stock with unchanged DCF-derived price target of RM1.05/share. Risks to our call include project execution risk, dependence on directors and key personnel as well major customers and contracts.

### Share Price Performance




| | |
|---|---|
| KLCI | 1,748.99 |
| YTD KLCI chg | 6.5% |
| YTD stock price chg | 15.8% |

### Stock Information

| | |
|---|---|
| Shariah Compliant | Yes |
| Bloomberg Ticker | OCK MK |
| Market Cap (RM m) | 766.9 |
| Issued shares | 871.5 |
| 52-week range (H) | 0.99 |
| 52-week range (L) | 0.75 |
| 3-mth avg daily vol: | 429,847 |
| Free Float | 48% |
| Beta | 0.7 |

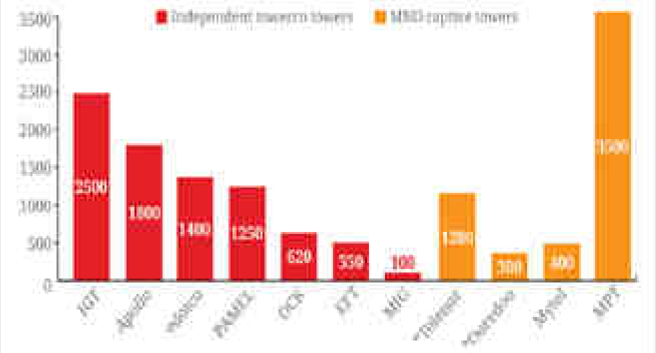
### Major Shareholders

| | |
|---|---|
| Aliran Armada Sdn Bh | 36.7% |
| Lembaga Tabung Angkasa Tentera | 12.4% |
| Affin Trust Management | 3.3% |

### Summary Earnings Table

| FY Dec (RM m) | 2016A | 2017E | 2018E |
|---|---|---|---|
| Turnover | 401.5 | 549.9 | 644.9 |
| EBIT | 52.4 | 81.2 | 104.6 |
| Pretax profit | 41.7 | 58.1 | 76.9 |
| **Net Profit** | **26.6** | **34.5** | **38.3** |
| **Core Net Profit** | **31.7** | **34.5** | **38.3** |
| Consensus (NP) | | 37.3 | 36.2 |
| Earning Revision | | - | - |
| EBITDA margin | 16.3% | 21.2% | 22.7% |
| Core EPS (sen) | 2.9 | 3.0 | 3.4 |
| EPS growth (%) | -28.2 | 4.2 | 11.0 |
| DPS (sen) | - | 0.4 | 0.4 |
| BV/Share (RM) | 0.5 | 0.4 | 0.5 |
| Core PER | 30.3 | 29.3 | 25.9 |
| Reported PER | 36.2 | 29.3 | 25.9 |
| Price/BV (x) | 1.8 | 2.1 | 2.0 |
| Net Gearing (x) | 0.0 | 0.1 | 0.1 |
| Dividend Yield (%) | 0.0 | 0.4 | 0.4 |

### Telco Towers In Myanmar




*Source: TowerXchange*

### OCKY Order Book @ Sep 2017

| Customers | Towers on air | Confirmed order book | Total |
|---|---|---|---|
| Telenor | 622 | 204 | 826 |
| Mytel | 0 | 309 | 309 |
| MPT | 0 | 5 | 5 |
| | **622** | **518** | **1,140** |

*Source: OCK*

### Tower Site Visit

*Source: Kenanga Research*

### Tower Site Visit

*Source: Kenanga Research*

### Tower Site Visit


*Source: Kenanga Research*

### Tower Site Visit

*Source: Kenanga Research*

# Daibochi Plastic & Packaging

## First Mover Advantage

**Not Rated**

**Price: RM2.30**
**Target Price: N/A**

**DAIBOCI is seeing maiden earnings contribution in 3Q17 results which is due next month from DPM as the Yangon-base JV started operations in July. Contribution is likely to be immaterial in the near term given the size of the manufacturing facility while the plant is only operating at 50% utilisation. However, this could change as its capacity will triple in size by 2020 and Myanmar is slowly liberalising to attract foreign investments. As such, there is more to offer in this once closed-economy country.**

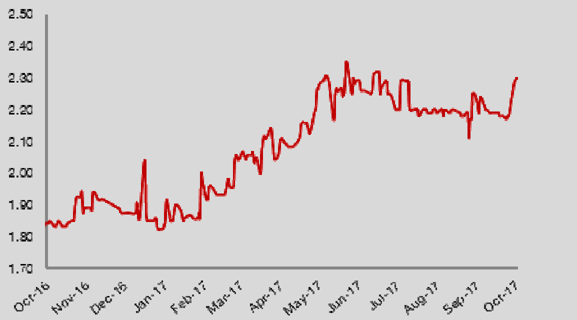
**A 60:40 JV in brownfield factory.** DAIBOCI was looking to enter new market in Myanmar when it received approval from the Myanmar Investment Committee in May this year to set up a 60:40 JV namely, Daibochi Packaging Myanmar (DPM) with Smart Pack Industrial Co. Ltd (SPI) to take over the latter's flexible packaging factory with production capacity of 75m meters per annum (mpa) in Yangon. DAIBOCI invested USD6.8m for the 60% stake in the JV. Under the agreement, DPM leases the existing factory land from SPI with 5+5 year-lease agreement with free lease rental for the first two years. Meanwhile, DPM also enjoyed tax exemption for 5 years.

**JV operation started in July.** DAIBOCI should be able to see DPM's first earnings contributions in the upcoming 3Q17 results as the JV operation officially started in July. DPM already planned USD5.5m capex for capacity expansion over the next three years to 215m mpa by 2020. However, the new factory facilities do not enjoy the free 2-year lease rental as the existing factory. Meanwhile, 50% of production capacity currently is taken up by SPI's related party EAC Myanmar which is involved in FMCG business. In fact, consumer product giant Unilever is also on a 60:40 JV with EAC for the latter's FMCG business in Myanmar which was announced in May.

**First mover advantage.** Although DPM currently only serves the local brand clients, with the country gradually liberalising its political and economic landscapes, adopts pro-business policies and encourages foreign investment, more MNCs will be setting up factories in Myanmar soon. As DAIBOCI already has the track record with MNCs all these years, DPM should have the first mover advantage in Myanmar. In fact, due to its location and low cost advantage, Myanmar could be a base for DPM to explore regional export opportunities, such as Bangladesh, Thailand and Indochina.

**But demanding valuation.** Although we are excited about its new Myanmar venture, valuation of DAIBOCI is demanding at 22x CY18 PER as opposed to the peers' 16x. However, this stock had always traded at premium over its peers given its earnings quality but this has changed as other players improved in terms on their profitability through efficiency over the years. In our recent sector updates, we valued DAIBOCI at 17.7x PER which is based on 19% discount to the rubber glover's 2-year average PER of 21.8x. Based on consensus estimates, the stock is fairly valued at RM1.85/share based on 17.7x CY18 earnings multipliers.

### Share Price Performance




| | |
|---|---|
| KLCI | 1,743.99 |
| YTD KLCI chg | 6.2% |
| YTD stock price chg | 23.8% |

### Stock Information

| | |
|---|---|
| Shariah Compliant | Yes |
| Bloomberg Ticker | DPP MK |
| Market Cap (RM m) | 752.9 |
| Issued shares | 327.3 |
| 52-week range (H) | 2.38 |
| 52-week range (L) | 1.81 |
| 3-mth avg daily vol: | 37,792 |
| Free Float | 72% |
| Beta | 0.5 |

### Major Shareholders

| | |
|---|---|
| Chan Tian Low | 10.3% |
| Apollo Asia Fund Lim | 9.4% |
| Lim Koy Peng | 8.5% |

### Summary Earnings Table

| FY Dec (RM m) | 2016A | 2017E | 2018E |
|---|---|---|---|
| Revenue | 371.2 | 412.5 | 472.0 |
| Operating Profit | 31.1 | 40.6 | 54.2 |
| PBT | 30.0 | 34.8 | 46.6 |
| **Net Profit (NP)** | **24.5** | **28.4** | **35.7** |
| **Core NP** | 24.5 | 28.4 | 35.7 |
| Core EPS (sen) | 7.5 | 8.3 | 10.5 |
| Core EPS growth (%) | -8.2 | 15.9 | 25.7 |
| NDPS (sen) | 4.5 | 5.1 | 5.3 |
| BV/Share (RM) | 0.58 | 0.59 | 0.66 |
| Core PER (x) | 30.6 | 27.7 | 21.9 |
| PBV (x) | 4.0 | 3.9 | 3.5 |
| Dividend Yield (%) | 2.0 | 2.2 | 2.3 |

*Note: forecast is based on Bloomberg*

**DPM Plant Visit**

*Source: Kenanga Research*

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*Source: Kenanga Research*

**Stock Ratings are defined as follows:**

**Stock Recommendations**

| | |
|---|---|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

**Sector Recommendations*****

| | |
|---|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***



Published and printed by:

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