

22 February 2018

D&O Green Technologies

A Robust 4Q17

FY17 NP beat expectation, thanks to better contribution from higher-margin Automotive products and better operational efficiency in 4Q17. Thus, we increase FY18E CNP by 8% while introducing FY19E NP (+19%). FY18/FY19 prospects are bright underpinned by: (i) better products portfolio, (ii) production capacity expansion, and (iii) higher stake in Dominant. However, upside is limited capped by its premium valuation. Maintain MP with a higher TP of RM0.690.

Above our, within consensus, expectations. The group recorded 4Q17 CNP of RM6.2m (+86% QoQ, -3% YoY), bringing FY17 CNP to RM19.5m (+25%) which made up 115%/97% of both our/consensus full-year estimates. The core NP has been adjusted mainly for a one-off product liability insurance claim settlement of RM8.8m, allowance for impairment losses of inventories and trade receivables (RM3.5m), and other immaterial items, after deducting the portion of Minority Interest. Positive deviation was due to better profitability which we believe was anchored by higher-margin Automotive products as well as better operational efficiency with higher Utilisation rate of 80% in 4Q17. Absence of dividend was as expected. We anticipated 5.0 sen total dividend to be paid for FY17, which have already been paid out on July 2017.

YoY, FY17 revenue increased by 8% with better Automotive sales (+19%) offsetting the weaker sales in Non-Automotive segment. This is in line with the group's strategy to exit the highly competitive and less profitable LED markets (for general lighting and LED TV) to focus on its core competency in the higher-margin Automotive segment. With better products portfolio as well as a better effective tax rate of 20.7% (-8.1ppts), core NP improved by 25%. **QoQ**, despite weaker USD/MYR and RMBMYR of 2-3%, 4Q17 revenue improved by 20% driven by higher ramp-up of its Automotive products. As results of better sales mix coupled with higher operational efficiency, adjusted EBIT soared by 45%.

Boiling point of expansion. As of 4Q17, the group's utilisation rate (UR) was running at an optimal rate of 80% (vs. 75% in 3Q17), contributed mainly by Automotive business. We are particularly positive on this as the earnings from Automotive segment have remained very steadfast given the stringent qualification stage as well as high barriers of entry. To cater for future growth, the group had on Oct 2016 purchased a land-cum-factory building to address the short-term capacity constraints and to cope with the anticipated medium-to-long-term demand growth in the Automotive Segment. Management plans to develop the new factory in stages over a period of five years from 2018. Upon full development of the new factory, management estimates that it would be able to increase its production capacity by c.3x from current level. For FY18E/FY19E, we only conservatively expect an additional 25%/30% capacity each year from existing capacity. All in, we estimate a 2-year CNP CAGR of 55% for the period of FY18E-FY19E, to be driven by: (i) 2-year revenue CAGR of 23% on the assumption of UR of 80% alongside capacity expansion of +25-30% each in FY18/FY19E, (ii) higher earnings contribution from Dominant (additional 27.95% stake acquisition) as well as EBIT margin assumptions of 9.1-10.7% (vs. current's 9.3%) on better operational efficiency.

Maintain MARKET PERFORM with a higher TP of RM0.690 (from RM0.650). Post model updates, we increased our FY18E CNP by 8% to account for higher EBIT margin (+2.0ppts) on higher contribution from Automotive products and better operational efficiency. All in, our TP is increased to RM0.690, still based on an ascribed 26.0x FY18E PER (average 3-year forward PER). This valuation is also in line with its closest peer JHM, which is trading at a forward PER of 26.0x. Even with a higher-than-industry valuation being applied (+44% of the high-end semiconductor industry players of 18.0x at 2-year forward PER) for its niche position in the auto LED market, we still see limited capital upside from here. Maintain MARKET PERFORM.

MARKET PERFORM ↔

Price: RM0.650
Target Price: RM0.690 ↑

Expected Capital Gain: RM0.040 +6.2%
Expected Divd. Yield: RM0.007 +1.1%
Expected Total Return: RM0.047 +7.3%

KLCI Index 1,858.17

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	1,007.5
Market Cap (RM m)	654.9
Par value per share (RM)	0.10
52-week range (H)	0.80
52-week range (L)	0.39
Free Float	58%
Beta	1.6
3-mth avg daily vol	3,282,500

Major Shareholders

Prt Capital Pte Ltd	16.0%
Keen Capital Investments	15.2%
Omega Riang Sdn Bhd	11.2%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	463.3	568.7	700.0
EBITDA	78.4	90.9	104.3
PBT	45.7	55.4	65.9
Net Profit	22.4	39.5	47.0
Core PATAMI	19.5	39.5	47.0
Consensus (NP)	-	34.0	-
Earnings Revision	-	+8%	-
Core EPS (sen)	1.9	2.7	3.2
Core EPS growth (%)	21.3	42.8	18.9
NDPS (sen)	0.5	0.7	0.8
NTA per Share (RM)	0.21	0.21	0.23
Price to NTA (x)	3.1	3.1	2.8
PER (x)	34.9	24.4	20.6
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	4%	7%	8%
Return on Equity (%)	9%	13%	14%
Net Div. Yield (%)	0.8%	1.1%	1.3%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.5%	-3.0%	62.5%
Relative (%)	-2.9%	-10.8%	53.7%

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Risks to our call include: (i) disruption of dies supply, (ii) replacement/obsolescence of LED technology, (iii) adverse currency fluctuations, and (iv) adverse foreign labour policy.

Results Highlights								
	4Q		3Q	QoQ		4Q		YoY
FYE Dec (RM'm)	FY17	FY17	FY17	Chg	FY16	Chg	FY17	FY16
Turnover	132.5	110.7	110.7	19.7%	128.6	3.0%	463.3	430.1
EBIT	15.5	15.4	15.4	0.6%	12.7	21.8%	47.8	32.0
Adjusted EBIT	14.3	9.9	9.9	45.1%	17.7	-19.2%	43.2	39.9
PBT/(LBT)	15.0	14.9	14.9	0.9%	12.2	23.4%	45.7	29.6
Taxation	-3.4	-3.8	-3.8	10.4%	-4.9	30.2%	-9.5	-8.5
PAT	11.6	11.0	11.0	4.8%	7.2	59.8%	36.3	21.1
Core PAT	10.4	5.5	5.5	88.9%	12.2	-15.0%	31.6	29.0
Net Profit (NP)	6.9	6.7	6.7	3.1%	3.8	82.7%	22.4	11.3
Core NP	6.2	3.4	3.4	85.8%	6.4	-2.8%	19.5	15.5
EPS (sen)	0.7	0.6	0.6	2.2%	0.4	76.0%	2.1	1.1
DPS (sen)	0.0	0.0	0.0		0.0		0.5	0.0
EBIT margin	11.7%	13.9%	13.9%		9.9%		10.3%	7.4%
Adjusted EBIT margin	10.8%	8.9%	8.9%		13.8%		9.3%	9.3%
PBT margin	11.3%	13.4%	13.4%		9.5%		9.9%	6.9%
NP margin	4.7%	3.0%	3.0%		5.0%		4.2%	3.6%
Effective tax rate	-22.9%	-25.8%	-25.8%		-40.5%		-20.7%	-28.8%

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q		3Q	QoQ		4Q		YoY
Total Revenue (RM'm)	FY17	FY17	FY17	Chg	FY16	Chg	FY17	FY16
Total Revenue (RM'm)	132.5	110.7	110.7	19.7%	128.6	3.0%	463.3	430.1
Automotive	126.9	105.0	105.0	20.8%	121.4	4.5%	441.9	372.5
Non-automotive	5.7	5.7	5.7	-0.2%	7.3	-22.2%	21.4	57.6

Source: Company, Kenanga Research

22 February 2018

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.**

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