

27 March 2018

## D&O Green Technologies

### High Growth Priced In

We came away from D&O's plant visit and meeting still feeling **POSITIVE**, expecting a 2-year CNP CAGR of 55% anchored by: (i) better products portfolio, (ii) production capacity expansion, and (iii) higher stake in Dominant. However, upside is limited, capped by premium valuations. We made no changes to our FY18E/FY19E earnings. Maintain MP with a lower TP of RM0.640 after ascribing a lower PER of 24.0x (from 26.0x).

**Beginning of the high margin era.** Since the group rejigged its portfolio three years ago with the exit from the highly competitive and less profitable LED markets (for general lighting and LED TV) to focus on its core competency in Automotive LED, profitability has improved by leaps and bounds; with a 3-year core EBIT CAGR of 51% despite a flat revenue CAGR of 3%. Meanwhile, the recently concluded FY17 CNP continued to scale new high, with another 25% growth YoY at CNP level on the back of decent topline growth (+10%) and better core EBIT margin (+1.9ppts at 9.3%) on better product mix. As of FY17, sales contribution from Automotive LED is already at 95% compared to 50% three years ago, with utilisation rate running at an optimal rate of 75%.

**Expansionary plan on track.** From our latest meeting with the management, we were delighted to gather that its 5-year expansionary plan is still intact. Recall that the group had on Oct 2016 purchased an adjacent land-cum-factory building (at RM11m, measuring 2.41 hectare) to address the short-term capacity constraints and cope with the anticipated medium-to-long term demand growth in the Automotive LED. Note that construction will be completed in 12 months' time, with its head office the first to move in. Thereafter, existing plant will be fully catered for production purpose, which could see capacity doubling as early as FY20, notwithstanding any utilisation of space in new plant. For FY18E/FY19E, we only conservatively expect an additional 25%/30% capacity from existing capacity.

**Better products portfolio to anchor growth.** In terms of D&O's Automotive products breakdown, higher-margin (by certain ppts) exterior lightings contributed only 30% of total Automotive revenue in FY17. We expect higher growth of 15-20% from this segment, with close to 45% share in FY19 to be anchored by supply contract wins with Tier 1 Automotive LED customers. In terms of end application, we believe they are Day Running Lights, Side signals, Position Lamps, Rear Combination Lamps which are currently seeing robust adoption in new vehicles. All in, we forecast higher CNP margin of 6.7%/6.9% in FY18E/FY19E (or 2.5ppts/2.7ppts) even after assuming weaker USD/MYR assumption of RM3.90/USD for both years. Meanwhile for its interior lightings, we gather that the group is already working on its smart RGB products (interior lighting) which would see commercialisation by 2020. Note that this single product, could see ASP of at least 3x-4x higher than existing interior LED lightings.

**Maintain MARKET PERFORM with a lower TP of RM0.640 (from RM0.690).** While we made no changes to our FY18E/FY19E earnings, we lower our TP from RM0.690 to RM0.640 after ascribing a lower PER multiple of 24x from 26x as we review its latest 3-year mean forward PER. Even with higher than peers and industry's valuations being applied (14% higher than its closest global peer- OSRAM (Germany) at 1-year forward PER of 21.0x and +71% above the high-end semiconductor industry players of 14.0x at 1-year forward PER), we still see limited capital upside from here. Maintain MARKET PERFORM. **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.

## MARKET PERFORM ↔

**Price:** RM0.610  
**Target Price:** RM0.640 ↓

**Expected Capital Gain:** RM0.030 +4.9%  
**Expected Divd. Yield:** RM0.007 +1.2%  
**Expected Total Return:** RM0.037 +6.1%

**KLCI Index** 1,859.91

### Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	1,008.3
Market Cap (RM m)	615.1
Par value per share (RM)	0.10
52-week range (H)	0.80
52-week range (L)	0.53
Free Float	57%
Beta	1.8
3-mth avg daily vol	2,670,782

### Major Shareholders

Prt Capital Pte Ltd	16.1%
Keen Capital Investments	15.3%
Omega Riang Sdn Bhd	11.3%

### 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
<b>Net Profit</b>	22.4	39.5	47.0
<b>Core PATAMI</b>	19.5	39.5	47.0
Consensus (NP)	-	40.2	51.6
Earnings Revision	-	-	-
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)	2.9	3.0	2.7
PER (x)	33.0	23.1	19.4
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%	1.2%	1.4%

### Share Price Performance



	1 mth	3 mths	12 mths
<b>Absolute (%)</b>	-6.2%	-20.3%	-3.9%
<b>Relative (%)</b>	-6.1%	-25.2%	-10.5%

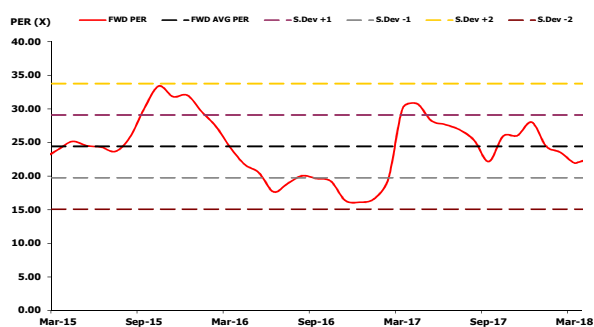
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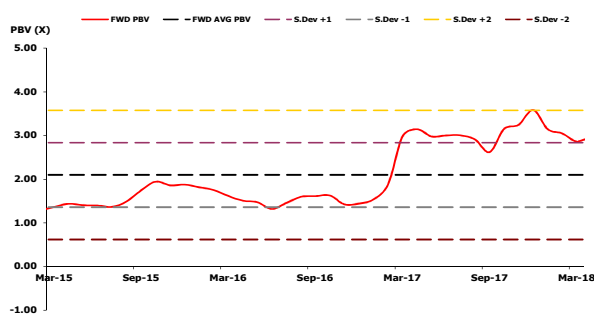
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	433.1	430.1	463.3	568.7	700.0	<b>Growth (%)</b>					
EBITDA	46.7	59.1	78.4	90.9	104.3	Turnover	3%	-1%	8%	23%	23%
D&A	-23.2	-27.2	-30.6	-33.4	-36.3	EBITDA	48%	27%	33%	16%	15%
Operating Profit	23.5	32.0	47.8	57.5	68.0	Operating Profit	148%	36%	50%	20%	18%
Other Income	18.4	6.0	0.0	0.0	0.0	PBT	256%	56%	55%	21%	19%
Interest Exp.	-3.1	-2.4	-2.1	-2.1	-2.1	Adj. Net Profit	727%	51%	25%	103%	19%
Associate	-1.4	0.0	0.0	0.0	0.0	Adj. FD EPS	729%	49%	21%	43%	19%
PBT	19.0	29.6	45.7	55.4	65.9	<b>Profitability (%)</b>					
Taxation	-1.4	-8.5	-9.5	-11.5	-13.6	EBITDA Margin	11%	14%	17%	16%	15%
Minority Interest	7.3	9.8	13.9	4.4	5.3	Operating Margin	5%	7%	10%	10%	10%
Net Profit	10.2	11.3	22.4	39.5	47.0	PBT Margin	4%	7%	10%	10%	9%
Core NP	10.3	15.5	19.5	39.5	47.0	Core Net Margin	2%	4%	4%	7%	7%
						Effect. Tax Rate	7%	29%	21%	14%	14%
						ROA	2%	3%	4%	7%	8%
						ROE	6%	8%	9%	13%	14%
						<b>DuPont Analysis</b>					
						Net Margin (%)	2%	4%	4%	7%	7%
						Assets Turnover (x)	1.0	0.9	1.0	1.1	1.2
						Leverage Factor (x)	1.7	1.6	1.5	1.7	1.7
						ROE (%)	6%	8%	9%	13%	14%
						<b>Leverage</b>					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
						Net Cash/(Debt)	1.5	5.6	-4.9	8.2	17.5
						Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.1
						<b>Valuations</b>					
						EPS (sen)	1.0	1.5	1.9	2.7	3.2
						NDPS (sen)	-	-	0.5	0.7	0.8
						BVPS (RM)	0.19	0.19	0.21	0.21	0.23
						PER (x)	59.2	39.7	32.7	22.9	19.3
						Net Div. Yield (%)	-	-	0.8	1.2	1.4
						PBV (x)	3.3	3.1	2.9	2.9	2.6
						EV/EBITDA (x)	12.8	10.3	7.7	6.8	6.0

Source: Kenanga Research

### Fwd Core PER Band



### Fwd PBV Band



Source: Bloomberg, Kenanga Research

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**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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