

24 May 2018

D&O Green Technologies Within Expectations

1Q18 CNP in line, so was the absence of DPS. We expect higher PATAMI contribution from the consolidation of Dominant from 2Q18 onwards (from 61.84% to 89.8% stake). FY18/FY19 prospects are bright underpinned by: (i) better products portfolio, (ii) production capacity expansion, and (iii) higher stake in Dominant. We made no changes to our FY18E/FY19E earnings. Maintain MP with an unchanged TP of RM0.640 (24.0x FY18E PER).

Within expectations. The group recorded 1Q18 CNP of RM6.5m (+4% QoQ, -11% YoY) which made up 17%/16% of both our/consensus full-year estimates. The core NP has been adjusted mainly for inventories and PPE write-down (RM1.4m), and other immaterial items (RM0.5m), after deducting the portion of minority interest. We deemed the results to be within expectation as 1Q18 is typically the seasonally weakest quarter (on long lunar new year holidays in China). Moreover, we expect higher PATAMI contribution from the consolidation of Dominant (from 61.84% to 89.8% stake) in 2Q18 alongside the gradual ICPS conversion (up to 450m; 1Q18 saw an issuance of 733.6k shares). Looking at the core PAT level, 1Q18 had indeed made up 22% of our FY18E PAT. Absence of dividend was as expected. We expect 0.7 sen total dividend (representing 27% DPR, similar of FY17 payout) to be paid for FY18.

YoY, 1Q18 revenue decreased by 5% on slower Automotive sales (-6%, on adverse forex translations). Note that both USD and CNY weakened by 12% and 4%, respectively, against MYR. Ex-currency effects, revenue would have increased by 2% YoY, underpinned by resilient automotive sales. Segmental-wise, automotive contributed 94% of the total revenue, which is in line with the group's strategy to exit the highly competitive and less profitable LED market (for general lighting and LED TV) to focus on higher-margin Automotive business. While better adjusted EBIT margin was observed (+0.8ppts to 10.9%) which boosted adjusted EBIT by 3% YoY from resilient Automotive sales, core NP indeed dropped by 11%. This was mainly due to the higher effective tax of RM2.2m (nearly 2x; with ETR of 22.5% vs. 14.0% in 1Q17). **QoQ**, revenue dropped by 15% on weaker seasonality augmented by adverse forex translations (MYR strengthened 6% and 2% against USD and CNY). At the adjusted EBIT level, better margin was observed with a slight uptick of 0.1ppt, sending EBIT to RM12.3m with a narrower drop of 14%. With marginally higher consolidation from Dominant (1 month effect from 61.84% to 89.8% stake) alongside lower effective tax rate of 22.5% (vs. 22.9%), core NP increased 4%.

Expansionary plan on track. From our last meeting with management, we gathered 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, the existing plant will be fully 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. All in, we estimate a 2-year CNP CAGR of 55% for the period 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/FY19, (ii) higher earnings contribution from Dominant (additional 27.95% stake acquisition) as well as EBIT margin assumptions of 9.7-10.1% on better operational efficiency.

Maintain MARKET PERFORM with an unchanged TP of RM0.640. We made no changes to our FY18E/FY19E earnings as our assumptions are still intact. Thus, our TP of RM0.64 remains unchanged. Maintain MP (24.0x FY18E PER, being its 3-year mean forward PER).

MARKET PERFORM ↔

Price: RM0.655
Target Price: RM0.640 ↔

Expected Capital Gain: -RM0.015 -2.3%
Expected Divd. Yield: RM0.007 +1.1%
Expected Total Return: -RM0.008 -1.2%

KLCI Index 1,804.25

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,037.7
Market Cap (RM m)	679.7
Par value per share (RM)	0.10
52-week range (H)	0.80
52-week range (L)	0.53
Free Float	59%
Beta	2.1
3-mth avg daily vol	777,115

Major Shareholders

Prt Capital Pte Ltd	15.6%
Keen Capital Investments	14.8%
Omega Riang Sdn Bhd	10.9%

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)	-	40.2	-
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)	3.1	3.1	2.8
PER (x)	35.2	24.6	20.7
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 (%)	4.8%	0.0%	2.3%
Relative (%)	8.1%	3.0%	0.5%

Desmond Chong
cwchong@kenanga.com.my
+603-2172 2637

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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								
	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
FYE Dec (RM'm)								
Turnover	113.1	132.5	-14.7%	118.4	-4.5%	113.1	118.4	-4.5%
EBIT	10.3	15.5	-33.3%	8.7	18.2%	10.3	8.7	18.2%
Adjusted EBIT	12.3	14.3	-14.0%	12.0	2.8%	12.3	12.0	2.8%
PBT/(LBT)	9.9	15.0	-34.3%	8.2	20.7%	9.9	8.2	20.7%
Taxation	-2.2	-3.4	35.4%	-1.1	-94.2%	-2.2	-1.1	-94.2%
PAT	7.6	11.6	-33.9%	7.0	8.8%	7.6	7.0	8.8%
Core PAT	9.6	10.4	-7.5%	10.3	-6.3%	9.6	10.3	-6.3%
Net Profit (NP)	5.1	6.9	-26.1%	5.0	2.9%	5.1	5.0	2.9%
Core NP	6.5	6.2	3.5%	7.3	-11.3%	6.5	7.3	-11.3%
EPS (sen)	0.3	0.7	-48.4%	0.5	-30.5%	0.3	0.5	-30.5%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	9.1%	11.7%		7.4%		9.1%	7.4%	
Adjusted EBIT margin	10.9%	10.8%		10.1%		10.9%	10.1%	
PBT margin	8.7%	11.3%		6.9%		8.7%	6.9%	
NP margin	4.5%	5.2%		4.2%		4.5%	4.2%	
CNP margin	5.7%	4.7%		6.2%		5.7%	6.2%	
Effective tax rate	-22.5%	-22.9%		-14.0%		-22.5%	-14.0%	

Source: Company, Kenanga Research

Segmental Breakdown								
	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
Total Revenue (RM'm)	113.1	132.5	-14.7%	118.4	-4.5%	113.1	118.4	-4.5%
Automotive	106.8	126.9	-15.9%	113.4	-5.8%	106.8	113.4	-5.8%
Non-automotive	6.3	5.7	11.6%	5.0	27.1%	6.3	5.0	27.1%

Source: Company, 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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.



Chan Ken Yew
Head of Research