

23 August 2018

D&O Green Technologies

Within Expectations

1H18 CNP is in line, so was the absence of DPS. FY18/FY19 prospects are bright, underpinned by: (i) better products portfolio, (ii) production capacity expansion, and (iii) higher stake in Dominant. Post results, slight earnings tweaks (+2% for FY18E/FY19E CNP) were made to account for stronger USD/MYR assumption. Maintain OP with a higher TP of RM0.830 (24.0x FY18E PER).

Within expectations. A strong 2Q18 CNP of RM7.8m (+21% QoQ; +69% YoY) was reported, bringing 1H CNP to RM14.5m (+24%) which made up 37%/36% of our/consensus full-year estimates. The core NP has been adjusted mainly for inventories and PPE write-down (RM4.47m), net gain on litigation settlement (RM3.15m), and other immaterial items, after deducting the portion of minority interest. We deemed the results to be within as financial 2H will see much better earnings on higher seasonal ramp-up alongside contributions of new products starting from 3Q18. Note that 1HFY CNP over the past two years made up 32-53% of the full-year numbers. Meanwhile, absence of dividend was as expected.

YoY, 1H18 revenue increased by 3% on adverse forex translations; as USD and CNY weakened by 10% and 3%, respectively, against MYR. **Ex-currency effects, revenue would have increased by 10% 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 (general lighting and LED TV) to focus on higher-margin Automotive segment. **While better GP margin was observed (+2.8ppt to 27.4%) which boosted GP by 14% YoY** on better product mix from new sales of higher margin Automotive products, **core NP indeed jumped by 24%** on higher PATAMI contribution from the consolidation of Dominant. A fairer comparison at the core PBT level suggested an improvement of 13%, which is in-line with the GP level. **QoQ**, revenue was flat at RM113.3m on softer seasonality after the festival seasons in 1Q18. While this trickled down to flat GP (+1% on an unchanged GP margin of 27.5%), core NP, in fact, jumped by 21% on higher consolidation from Dominant (full effect from 61.84% to 89.8% stake).

Boiling point of expansion. D&O's 5-year expansion plan with its new 2.41 hectare land-cum-factory building (additional 2x land area, which could house 3x additional capacity), is intact. Construction will be completed in 1H19. We only conservatively expect an additional 25-30% capacity from existing capacity until FY19, with sales assumption underpinned by Automotive products. In terms of product mix, high-margin (by certain ppt) exterior lightings contributed only 30% of total Automotive revenue in FY17. We expect a jump to c.45% share in FY19 to be anchored by new supply wins from Tier 1 Automotive LED customers stemming from new headlamps, alongside existing orders of Day Running Lights, Side signals, Position Lamps, Rear Combination Lamps, which are still seeing wide adoption in new vehicles. Meanwhile on its 70% sales denominated 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. All in, we expect GP margin to hover at 26-27% (vs. 23-25% over the past two years) which anchor our 2-year CNP CAGR of 62%.

Maintain OP with a higher TP of RM0.830 (from RM0.810). While we made no changes to our earnings drivers, we tweaked our USD/MYR assumption from RM3.90/USD to RM4.05/USD. All in, our FY18E/FY19E earnings were increased by 2% each, which led to a higher TP of RM0.830 (still based on 24.0x FY19E PER, being its 3-year mean forward PER, which is also in line with the valuation of its closest global peer-OSRAM (Germany)).

OUTPERFORM ↔

Price: RM0.750
Target Price: RM0.830 ↑

Expected Capital Gain: +RM0.080 +10.7%
Expected Divd. Yield: +RM0.007 +1.0%
Expected Total Return: +RM0.087 +11.7%

KLCI Index 1,798.11

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,040.1
Market Cap (RM m)	780.1
Par value per share (RM)	0.10
52-week range (H)	0.80
52-week range (L)	0.53
Free Float	59%
Beta	1.4
3-mth avg daily vol	1,229,413

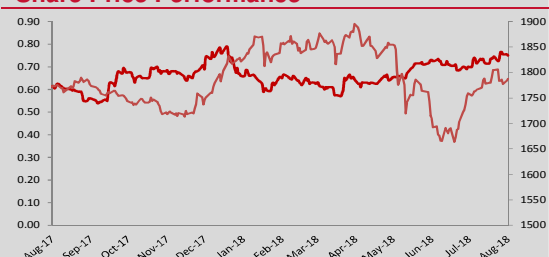
Major Shareholders

Prt Capital Pte Ltd	15.5%
Keen Capital Investments	14.8%
Omega Riang Sdn Bhd	10.8%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	463.3	581.3	715.5
EBITDA	117.6	152.2	192.5
PBT	78.4	91.7	109.1
Net Profit	45.7	56.7	72.0
Core PATAMI	22.4	40.4	51.3
Consensus (NP)	-	40.8	51.3
Earnings Revision	-	+2%	+2%
Core EPS (sen)	1.9	2.7	3.5
Core EPS growth (%)	21.3	46.0	26.9
NDPS (sen)	0.5	0.7	0.9
NTA per Share (RM)	0.21	0.21	0.23
Price to NTA (x)	3.6	3.6	3.2
PER (x)	40.3	27.6	21.7
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	4%	7%	8%
Return on Equity (%)	9%	13%	15%
Net Div. Yield (%)	0.7%	1.0%	1.2%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	7.1%	14.5%	22.0%
Relative (%)	4.9%	17.5%	20.5%

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

23 August 2018

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

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	113.3	113.1	0.2%	101.8	11.3%	226.3	220.1	2.8%
GP	31.2	30.8	1.1%	24.6	26.9%	62.0	54.2	14.4%
EBIT	12.3	10.3	18.6%	8.2	49.1%	22.6	17.0	33.2%
Adjusted EBIT	11.9	12.3	-3.5%	9.8	21.8%	24.2	21.7	11.3%
PBT/(LBT)	11.8	9.9	19.6%	7.7	54.1%	21.7	15.8	36.9%
Taxation	-2.7	-2.2	-20.2%	-1.0	-154.4%	-4.9	-2.2	-123.0%
PAT	9.1	7.6	19.4%	6.6	38.2%	16.8	13.6	23.0%
Core PAT	8.8	9.6	-9.0%	8.2	6.9%	18.4	18.4	-0.1%
Net Profit / (Loss)	8.1	5.1	58.4%	3.7	119.0%	13.3	8.7	52.5%
Core NP	7.8	6.5	20.8%	4.6	69.4%	14.5	11.8	23.7%
FD EPS (sen)	0.5	0.3	58.4%	0.4	50.1%	1.0	0.8	15.8%
DPS (sen)	0.0	0.0		0.0		0.0	0.5	
GP margin	27.5%	27.3%		24.1%		27.4%	24.6%	
EBIT margin	10.8%	9.1%		8.1%		10.0%	7.7%	
Adjusted EBIT margin	10.5%	10.9%		9.6%		10.7%	9.9%	
Pretax margin	10.4%	8.7%		7.5%		9.6%	7.2%	
NP margin	7.2%	4.5%		3.6%		5.9%	4.0%	
CNP margin	6.9%	5.7%		4.5%		6.4%	5.3%	
Effective tax rate	-22.6%	-22.5%		-13.7%		-22.6%	-13.8%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Total Revenue (RM'm)	113.3	113.1	0.2%	101.8	11.3%	226.4	220.1	2.8%
Automotive	106.9	106.8	0.1%	96.7	10.6%	213.6	210.1	1.7%
Non-automotive	6.4	6.3	0.6%	5.1	25.1%	12.7	10.1	26.2%

Source: Company, Kenanga Research

Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BHD	0.750	778.3	Y	12/2018	25.5%	23.1%	107%	27%	40.3	27.6	21.7	3.6	3.6	12.8%	1.1%	0.830	OP
KESM INDUSTRIES BHD	17.30	744.1	Y	07/2018	7.9%	12.7%	21%	9%	16.9	18.0	14.0	2.3	2.1	12.1%	1.0%	18.30	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	12.00	2386.8	Y	06/2018	-1.0%	1.6%	-27%	15%	12.4	17.0	14.7	2.5	2.4	11.2%	2.4%	10.60	MP
NOTION VTEC BERHAD	0.740	244.3	Y	09/2018	-12.4%	29.8%	-461%	-132%	0.2	-0.1	0.2	0.7	0.8	-13.6%	0.0%	0.44	UP
P.I.E. INDUSTRIAL BERHAD	1.50	576.1	Y	12/2018	3.6%	19.3%	5%	23%	13.7	13.0	10.5	1.4	1.4	10.5%	4.7%	2.00	OP
SKP RESOURCES BHD	1.33	1662.8	Y	03/2019	13.8%	6.4%	18%	9%	12.9	10.9	10.0	2.9	2.6	23.8%	5.1%	1.70	OP
UNISEM (M) BERHAD	2.88	2107.6	Y	12/2018	-2.2%	9.1%	-28%	31%	13.3	18.5	14.1	1.5	1.4	7.7%	3.8%	2.65	MP

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

23 August 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.**

This report has been prepared by Kenanga Investment Bank Berhad pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

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