

19 September 2018

## D&O Green Technologies

### On Track to Deliver Record Earnings

Our **POSITIVE** conviction is reaffirmed post a meeting with management; premised on (i) continuous design-win from Tier-1 customers, (ii) strong order visibility on products stickiness, as well as (iii) margin uplift from new products commercialisation. Alongside higher stake in Dominant, the group is on track to achieve a 2-year CNP CAGR of 64%. **Maintain OP with a higher TP of RM0.850 (from RM0.830) post marginal tweaks in FY18-19E CNP.**

**Margin uptrend continues.** D&O's profitability is still on the uptrend even after a portfolio transformation which saw Automotive contributing >95% of the total sales. This is backed by the group's better operational efficiency premised on higher vertical integration alongside better product mix. In the latest 2Q18 results, GP margin continued to scale new high, at 27.5% on better product mix, all against the backdrop of industry-wide adverse currency translations. As of 2Q18, sales contribution from Automotive LED remained high at c.94% (vis-a-vis 50% three years ago), with utilisation rate running at an optimal rate of 75% (near to full capacity).

**Stronger 2H18 and FY19; anchored by new business-win.** The group continues to see high strike rate from its design-in with Tier-1 Automotive customers in both interior and exterior lightings. Note that typically when Automotive design-wins were obtained from its Tier-1 customers, the products could last for a good three to five years before it becomes obsolete. Though commanding high-margin (by certain percentage points) **exterior lightings** contributed only 30% of total Automotive YTD revenue, new headlamps, which are coming on stream alongside existing orders of Day Running Lights, Side signals, Position Lamps, new Rear Combination Lamps, which are still seeing wider adoption in new vehicles should help the group to achieve its 50:50 mix in two-three years time. We expect c.45% share in FY19 to be anchored by new contract wins from Tier 1 Automotive LED customers. For the **interior lightings** which dominate 70% of sales, the group is already working on its smart RGB LEDs (on SiP technology) which would see commercialisation by 2H19. 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 27-28% even after the assumption of softer USD/MYR of RM4.05/USD compared to the previous year, which anchor our 2-year CNP CAGR of 64%.

**Expansionary plan on track.** Its 5-year expansion plan- helmed by a new 2.41 hectare land-cum-factory building (additional 2x of land area, which could house 3x additional capacity), is still intact. Construction will be completed in 1Q19, with head office the first to move in. As of now, we only conservatively expect an additional 25-30% capacity from existing capacity till FY20. **Meanwhile touching base on the US-China tariff war,** though it appears to be a wide dampener to the whole semiconductor supply chain, management noted the outcome is indeed a blessing in disguise as it sees more orders flowing through from China side.

**Maintain OP with a higher TP of RM0.850 (from RM0.830).** Post meeting, we tweaked our FY18E/FY19E CNP by +2%/+3% to account for better product mixes. With an unchanged 24.0x FY19E PER (at its 3-year forward average PER, which is also in line with the valuation of its closest global peer- OSRAM (Germany), our TP is now at RM0.850.

**Risks to our call include:** (i) slower-than-expected sales, (ii) disruption of dies supply, (iii) replacement or obsolescence of LED technology, (iv) adverse currency fluctuations, and (v) adverse foreign labour policy.

## OUTPERFORM ↔

**Price:** RM0.740  
**Target Price:** RM0.850 ↑  
**Expected Capital Gain:** RM0.110 +14.9%  
**Expected Divd. Yield:** RM0.007 +1.0%  
**Expected Total Return:** RM0.117 +15.9%

**KLCI Index** 1,792.94

### Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,040.8
Market Cap (RM m)	770.2
Par value per share (RM)	0.10
52-week range (H)	0.80
52-week range (L)	0.53
Free Float	59%
Beta	1.3
3-mth avg daily vol	1,116,655

### 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	536.6	626.0
EBITDA	117.6	142.1	173.6
PBT	78.4	88.8	106.0
<b>Net Profit</b>	45.7	53.8	68.9
<b>Core PATAMI</b>	22.4	41.1	52.6
Consensus (NP)	-	41.2	51.9
Earnings Revision	-	+2%	+3%
Core EPS (sen)	1.9	2.8	3.5
Core EPS growth (%)	21.3	48.5	28.1
NDPS (sen)	0.5	0.7	1.0
NTA per Share (RM)	0.21	0.21	0.23
Price to NTA (x)	3.5	3.5	3.2
PER (x)	39.7	26.7	20.9
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	4%	8%	9%
Return on Equity (%)	9%	13%	15%
Net Div. Yield (%)	0.7%	1.0%	1.3%

### Share Price Performance



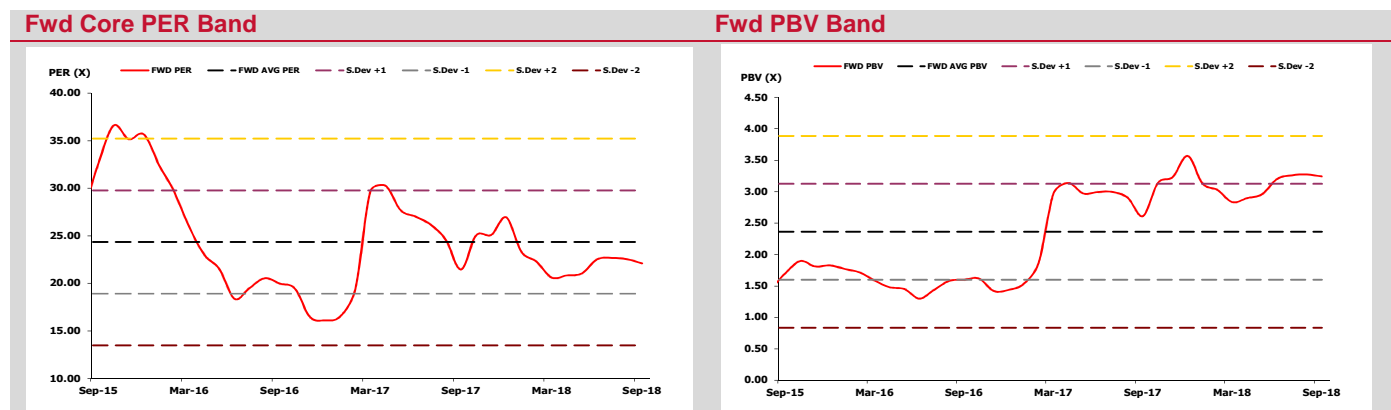
	1 mth	3 mths	12 mths
Absolute (%)	-2.0%	3.5%	34.5%
Relative (%)	-2.5%	0.7%	34.0%

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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	536.6	626.0	<b>Growth (%)</b>					
Gross Profit	82.9	98.9	117.6	142.1	173.6	Turnover	28%	3%	-1%	8%	16%
EBITDA	46.7	59.1	78.4	88.8	106.0	EBITDA	16%	48%	27%	33%	13%
D&A	-23.2	-27.2	-30.6	-32.9	-35.0	Operating Profit	27%	148%	36%	50%	17%
Operating Profit	23.5	32.0	47.8	55.9	71.0	PBT	20%	256%	56%	55%	18%
Other Income	18.4	6.0	0.0	0.0	0.0	Adj. Net Profit	66%	727%	51%	25%	111%
Interest Exp.	-3.1	-2.4	-2.1	-2.1	-2.1	Adj. FD EPS	64%	729%	49%	21%	48%
Associate	-1.4	0.0	0.0	0.0	0.0	<b>Profitability (%)</b>					
PBT	19.0	29.6	45.7	53.8	68.9	GP Margin	19%	23%	25%	26%	28%
Taxation	-1.4	-8.5	-9.5	-8.1	-10.3	EBITDA Margin	11%	14%	17%	17%	17%
Minority Interest	7.3	9.8	13.9	4.6	5.9	Operating Margin	5%	7%	10%	10%	11%
Net Profit	10.2	11.3	22.4	41.1	52.6	PBT Margin	4%	7%	10%	10%	11%
Core NP	10.3	15.5	19.5	41.1	52.6	Core Net Margin	2%	4%	4%	8%	8%
<b>Balance Sheet</b>						Effect. Tax Rate	7%	29%	21%	15%	15%
<b>FY Dec (RM m)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	ROA	2%	3%	4%	8%	9%
Fixed Assets	130.4	153.7	166.1	178.2	188.2	ROE	6%	8%	9%	13%	15%
Intangible Assets	24.2	24.2	24.2	24.2	24.2	<b>DuPont Analysis</b>					
Other FA	31.5	29.0	26.8	26.8	26.8	Net Margin (%)	2%	4%	4%	8%	8%
Inventories	106.9	116.6	113.3	131.8	153.1	Assets Turnover (x)	1.0	0.9	1.0	1.0	1.1
Receivables	60.6	93.4	101.2	117.2	136.7	Leverage Factor (x)	1.7	1.6	1.5	1.6	1.7
Other CA	32.1	7.1	7.7	7.7	7.7	ROE (%)	6%	8%	9%	13%	15%
Cash	60.4	43.3	43.2	44.6	55.6	<b>Leverage</b>					
<b>Total Assets</b>	<b>446.2</b>	<b>467.3</b>	<b>482.5</b>	<b>530.5</b>	<b>592.2</b>	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Payables	114.9	121.5	115.7	134.6	156.3	Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
ST Borrowings	61.7	43.0	27.3	27.3	27.3	Net Cash/(Debt)	1.5	5.6	-4.9	-6.3	-17.3
Other ST Liability	0.9	1.3	1.2	22.5	31.2	Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
LT Borrowings	0.2	5.9	11.0	11.0	11.0	<b>Valuations</b>					
Other LT Liability	0.6	7.1	10.1	10.1	10.1	EPS (sen)	1.0	1.5	1.9	2.8	3.5
<b>Net Assets</b>	<b>267.8</b>	<b>288.4</b>	<b>317.2</b>	<b>325.0</b>	<b>356.3</b>	NDPS (sen)	-	-	0.5	0.7	1.0
Shareholders' Equity	185.2	197.3	218.5	310.4	348.9	BVPS (RM)	0.19	0.19	0.21	0.21	0.23
Minority Interest	82.6	91.1	98.8	14.6	7.4	PER (x)	71.8	48.2	39.7	26.7	20.9
<b>Total Equity</b>	<b>267.8</b>	<b>288.4</b>	<b>317.2</b>	<b>325.0</b>	<b>356.3</b>	Net Div. Yield (%)	-	-	0.7	1.0	1.3
<b>Cashflow Statement</b>						PBV (x)	4.0	3.8	3.5	3.5	3.2
<b>FY Dec (RM m)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	EV/EBITDA (x)	15.6	12.5	9.3	8.2	6.8
Operating CF	-8.9	45.5	63.5	59.2	70.1						
Investing CF	-32.5	-45.5	-42.6	-45.0	-45.0						
Financing CF	69.4	-13.4	-9.0	-11.0	-14.1						
Change In Cash	28.0	-13.5	11.9	3.1	10.9						
Free CF	-42.2	-9.2	15.4	14.2	25.1						

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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## 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 BERHAD	0.740	767.9	Y	12/2018	15.8%	16.7%	111%	28%	39.7	26.7	20.9	3.5	3.5	13.2%	1.3%	0.850	OP
KESM INDUSTRIES BERHAD	17.10	735.5	Y	07/2018	7.9%	12.7%	21%	9%	16.7	17.8	13.8	2.2	2.0	12.1%	1.0%	18.30	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	12.88	2561.8	Y	06/2018	5.3%	7.1%	9%	8%	15.0	13.8	12.8	2.3	2.1	12.3%	2.4%	12.20	MP
NOTION VTEC BERHAD	0.615	203.1	Y	09/2018	-12.4%	29.8%	-379%	-142%	17.3	-6.2	14.7	0.6	0.5	-13.6%	0.0%	0.600	UP
P.I.E. INDUSTRIAL BERHAD	1.45	556.9	Y	12/2018	3.6%	19.3%	5%	23%	13.3	12.6	10.2	1.4	1.3	10.5%	4.9%	2.00	OP
SKP RESOURCES BHD	1.24	1550.2	Y	03/2019	5.5%	4.5%	2%	9%	12.0	11.9	10.9	2.7	2.5	20.9%	4.7%	1.45	OP
UNISEM (M) BERHAD	3.13	2290.5	Y	12/2018	-2.2%	9.1%	-28%	31%	14.4	20.1	15.3	1.6	1.5	7.7%	3.5%	2.65	AO

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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