

29 November 2018

## D&O Green Technologies

### Within Expectations

9M18 CNP is in line, as well as the interim net DPS of 0.5 sen. FY18 and FY19 prospects are bright, 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. With a higher stake in Dominant, the group is on track to achieve a 2-year CNP CAGR of 64%. Maintain OP with an unchanged TP of RM1.00.

**Within expectations.** A decent 3Q18 CNP of RM10.1m (+30% QoQ; +217% YoY) was reported, bringing 9M18 CNP to RM22.9m (+49%) which made up 57%/56% of our/consensus full-year estimates. We deemed the results to be largely in line as 4Q18 will see much better earnings on higher seasonal ramp-up alongside contributions of new products starting from 3Q18. Note that 9MFY CNP over the past two years made up 59-69% of the full-year CNP. Meanwhile, an interim single-tier dividend of 0.5 sen was announced as expected.

**YoY, 9M18 revenue increased by 6%** despite adverse forex translations; with USD and CNY weakened by 8% and 4%, respectively, against MYR. **Ex-currency effects, revenue would have increased by 13% YoY**, underpinned by resilient automotive sales. Segmental-wise, automotive contributed 95% 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 the higher-margin Automotive segment. **While better GP margin was observed** (+2.7ppt to 27.8%) **which boosted GP by 17% YoY** on better product mix from new sales of higher margin Automotive products, **core NP jumped by 49%** on higher PATAMI contribution from the consolidation of Dominant. A fairer comparison at the core PBT level suggests an improvement of 12%.

**QoQ**, revenue increased by 9% to RM123.8m on a combination of stronger seasonality as well as increased customer penetration. While GP improved by a wider 13% on better cost management, core NP jumped by 30% on a lower effective tax rate of 13.8% (vs. 22.6%) on the utilization of reinvestment allowances.

**Expansionary plan is intact.** 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. Phase-1 of the renovation plan will be completed in 1H19. We only conservatively expect an additional 25-30% capacity from existing capacity until FY20, 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 a ASP that is at least 3-4x higher than existing interior LED lightings. All in, we expect GP margin to hover at 27-28% (vs. 23-25% over the past two years) which anchor our 2-year CNP CAGR of 64%.

**Maintain OP with an unchanged TP of RM1.00.** No changes made to our earnings estimates as our assumptions are still intact. Maintain OP with an unchanged TP of RM1.00. This is 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: RM0.845**  
**Target Price: RM1.000 ↔**

**Expected Capital Gain: +RM0.155 +18.3%**  
**Expected Divd. Yield: +RM0.009 +1.1%**  
**Expected Total Return: +RM0.164 +19.4%**

**KLCI Index 1,686.55**

### Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,098.2
Market Cap (RM m)	928.0
Par value per share (RM)	0.10
52-week range (H)	1.00
52-week range (L)	0.55
Free Float	61%
Beta	1.4
3-mth avg daily vol	5,448,945

### Major Shareholders

Prt Capital Pte Ltd	14.7%
Keen Capital Investments	14.0%
Omega Riang Sdn Bhd	10.3%

### Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	463.3	536.6	626.0
EBITDA	78.4	88.8	106.0
PBT	45.7	53.8	68.9
<b>Net Profit</b>	22.4	41.1	52.6
<b>Core PATAMI</b>	19.5	41.1	52.6
Consensus (NP)	-	40.9	52.3
Earnings Revision	-	-	-
Core EPS (sen)	1.9	3.5	4.2
Core EPS growth (%)	21.3	88.2	19.5
NDPS (sen)	0.5	0.9	1.1
NTA per Share (RM)	0.21	0.26	0.28
Price to NTA (x)	4.0	3.2	3.0
PER (x)	45.4	24.1	20.2
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 (%)	0.6%	1.1%	1.3%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	13.4%	14.2%	24.3%
Relative (%)	13.3%	21.9%	25.9%

**Desmond Chong**  
[cwchong@kenanga.com.my](mailto: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								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
<b>Turnover</b>	<b>123.8</b>	<b>113.3</b>	<b>9.3%</b>	<b>110.7</b>	<b>11.9%</b>	<b>350.2</b>	<b>330.8</b>	<b>5.9%</b>
GP	35.2	31.2	12.9%	28.8	22.3%	97.2	83.0	17.1%
EBIT	14.3	12.3	16.3%	15.4	-7.4%	36.8	32.3	13.9%
Adjusted EBIT	14.0	11.9	17.6%	9.6	45.6%	36.0	32.2	11.7%
PBT/(LBT)	13.4	11.8	13.7%	14.9	-9.8%	35.1	30.7	14.3%
Taxation	-1.8	-2.7	30.8%	-3.8	51.9%	-6.7	-6.0	-11.7%
PAT	11.6	9.1	26.7%	11.0	4.8%	28.3	24.7	14.9%
Core PAT	11.3	8.8	29.0%	5.3	115.2%	27.5	24.5	12.0%
Net Profit / (Loss)	10.4	8.1	27.6%	6.7	54.1%	23.6	15.4	53.2%
<b>Core NP</b>	<b>10.1</b>	<b>7.8</b>	<b>29.8%</b>	<b>3.2</b>	<b>216.5%</b>	<b>22.9</b>	<b>15.3</b>	<b>49.4%</b>
FD EPS (sen)	0.7	0.5	27.4%	0.6	6.3%	1.7	1.5	12.9%
DPS (sen)	0.5	0.0		0.0		0.5	0.0	
GP margin	28.4%	27.5%		26.0%		27.8%	25.1%	
EBIT margin	11.5%	10.8%		13.9%		10.5%	9.8%	
Adjusted EBIT margin	11.3%	10.5%		8.7%		10.3%	9.7%	
Pretax margin	10.8%	10.4%		13.4%		10.0%	9.3%	
NP margin	8.4%	7.2%		6.1%		6.7%	4.7%	
CNP margin	8.2%	6.9%		2.9%		6.5%	4.6%	
Effective tax rate	-13.8%	-22.6%		-25.8%		-19.2%	-19.6%	

Source: Company, Kenanga Research

Segmental Breakdown								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Total Revenue (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
<b>Total Revenue (RM'm)</b>	<b>123.9</b>	<b>113.3</b>	<b>9.4%</b>	<b>110.7</b>	<b>11.9%</b>	<b>350.2</b>	<b>330.8</b>	<b>5.9%</b>
Automotive	117.5	106.9	9.9%	105.0	11.9%	331.1	315.1	5.1%
Non-automotive	6.4	6.4	0.0%	5.7	12.1%	19.1	15.8	21.1%

Source: Company, 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.			
D&O GREEN TECHNOLOGIES BHD	0.845	876.9	Y	12/2018	15.8%	16.7%	111%	28%	45.4	30.5	23.8	4.0	4.0	13.2%	0.9%	1.00	OP
KESM INDUSTRIES BHD	8.22	353.6	Y	07/2018	-9.8%	15.1%	-26%	51%	9.0	12.1	8.0	1.0	0.9	7.9%	1.7%	10.20	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	11.34	2255.5	Y	06/2018	8.1%	5.3%	16%	6%	13.2	11.4	10.8	2.0	1.9	13.0%	2.7%	13.00	OP
P.I.E. INDUSTRIAL BERHAD	1.62	622.1	Y	12/2018	3.6%	19.3%	5%	23%	14.8	14.1	11.4	1.5	1.5	10.5%	3.9%	2.00	OP
SKP RESOURCES BHD	1.07	1337.7	Y	03/2019	5.5%	4.5%	2%	9%	10.4	10.3	9.4	2.4	2.2	20.9%	5.0%	1.45	OP
UNISEM (M) BERHAD	3.23	2363.7	Y	12/2018	-6.3%	9.3%	-35%	34%	14.9	22.9	17.1	1.6	1.6	7.0%	2.8%	3.30	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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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

This report is accessible at [www.bursamids.com](http://www.bursamids.com) too.



Chan Ken Yew  
Head of Research