

06 March 2019

D&O Green Technologies

Short-term Pain

We came away from a management meeting remaining cautious on its near-term outlook as WLTP and trade war alongside seasonality discourage 1Q19 vehicle sales. However, long-term prospects remain bright with smart LED promising substantial ASP growth while a stronger focus on exterior lightings bodes well for GP margins. Trim our earlier bullish FY19-20E NPs by 7-12% to RM48.7-61.3m. Maintain MP with a lower TP of RM0.700 given stretched valuations.

1Q still plagued by weak EU and China car sales. Aside from seasonal weakness, we believe car sales will remain soft in 1Q19 in the EU due to the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) regulation as well as in China owing to the US-China trade war. In light of this, management has insinuated that 1Q19 earnings could be flattish YoY (and also weaker QoQ) despite rising LED content in vehicles and market share gains.

Smart LED to boost ASP substantially but only in 2020. D&O has started developing smart LED (since 2016) that enables dynamic RGB colour alterations based on commands/ambience. This is an exciting development for the group as smart LED contrasts with generic individual LED in that it is a system-in-package (SiP) which integrates multiple individual LEDs with integrated circuits, justifying substantially higher dollar content per unit (as high as 10x). Thus far, the group has already secured several design ins (initial acceptance by customers) and 2-3 design wins (advanced stage with customers) in China. Some of these are likely to be translated into business wins (purchase orders) in 2020. Capitalising on its first-mover advantage, the group is also likely to enjoy favourable GP margins in the initial stage (possibly higher than its FY18's 28%). Note that we have yet to factor in revenue/earnings contributions from smart LED pending more concrete guidance.

Aiming for better product mix. In terms of product mix, the higher-margin exterior lightings only constituted c.30% of total Automotive revenue in FY18. The contribution is expected to progressively increase to 50% in 2-3 years, anchored by new supply wins from Tier 1 Automotive LED customers, especially in the headlamps space, alongside existing orders for Day Running Lights, Side Signals, Position Lamps, and Rear Combination Lamps, which are still seeing rapid deployment into new vehicles.

Trim FY19-20E NPs by 7-12% to RM48.7-61.3m in spite of the positives, as we tone down our earlier bullish automotive LED growth assumption to 16-16% from 28-26%.

Maintain MARKET PERFORM with a lower TP of RM0.700 (from RM0.750) based on an unchanged FY19E PER of 18.0x, in line with the valuation of its German competitor – OSRAM. While D&O offers exciting growth prospects, we believe valuation is stretched at current price levels.

Risks to our call include: (i) disruption of wafer supply, (ii) replacement/obsolescence of LED technology, (iii) sharp currency fluctuations, and (iv) adverse foreign labour policy.

MARKET PERFORM ↔

Price:	RM0.730	
Target Price:	RM0.700	↓
Expected Capital Gain:	-RM0.030	-4.1%
Expected Divd. Yield:	RM0.011	+1.5%
Expected Total Return:	-RM0.019	-2.6%

KLCI Index 1,685.62

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,105.8
Market Cap (RM m)	807.2
Par value per share (RM)	0.10
52-week range (H)	1.00
52-week range (L)	0.55
Free Float	61%
Beta	1.2
3-mth avg daily vol	2,924,524

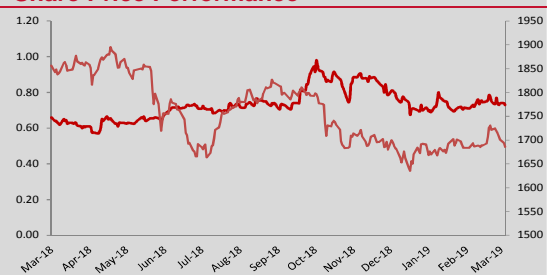
Major Shareholders

PRT Capital Pte Ltd	14.6%
Keen Capital Investments	13.9%
Omega Riang Sdn Bhd	10.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	490.8	567.5	655.8
EBITDA	85.1	102.9	122.1
PBT	52.1	66.9	84.3
Net Profit	36.0	48.7	61.3
Core PATAMI	38.2	48.7	61.3
Consensus (NP)	N.A.	49.5	59.8
Earnings Revision	N.A.	-7%	-12%
Core EPS (sen)	3.3	3.9	4.6
Core EPS growth (%)	75.1	18.9	18.0
NDPS (sen)	1.0	1.1	1.3
NTA per Share (RM)	0.28	0.29	0.30
Price to NTA (x)	2.6	2.5	2.4
PER (x)	22.4	18.8	16.0
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	7%	8%	9%
Return on Equity (%)	12%	13%	15%
Net Div. Yield (%)	1.3%	1.5%	1.8%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	2.8%	-9.9%	10.6%
Relative (%)	2.7%	-9.3%	19.8%

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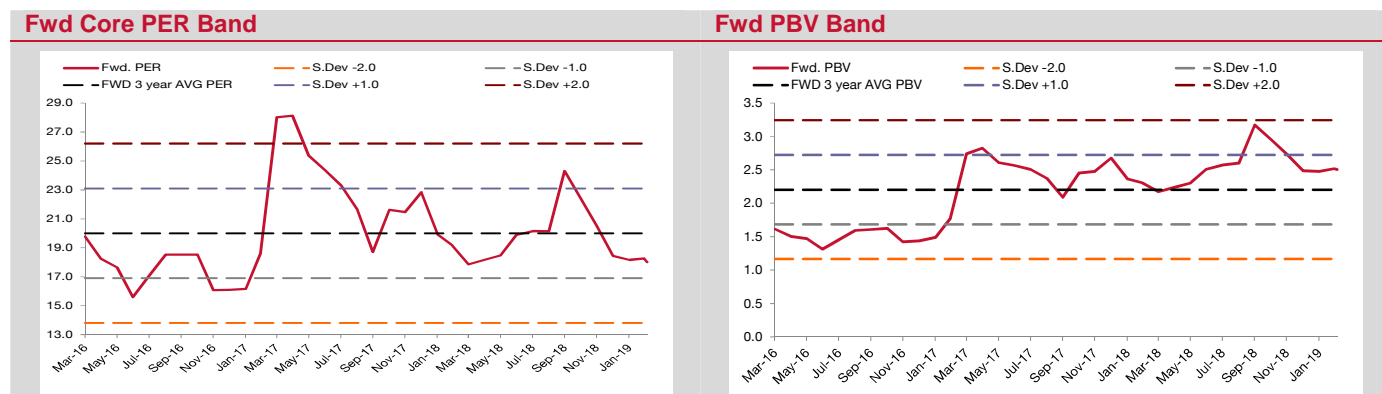
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06 March 2019

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	430.1	463.3	490.8	567.5	655.8	Growth (%)					
Gross Profit	98.9	117.6	139.0	164.6	196.7	Turnover	-1%	8%	6%	16%	16%
EBITDA	59.1	78.4	85.1	102.9	122.1	EBITDA	27%	33%	8%	21%	19%
D&A	-27.2	-30.6	-30.6	-33.7	-35.5	Operating Profit	36%	50%	14%	27%	25%
Operating Profit	32.0	47.8	54.4	69.3	86.6	PBT	56%	55%	14%	28%	26%
Other Income	6.0	0.0	0.0	0.0	0.0	Adj. Net Profit	51%	25%	96%	27%	26%
Interest Exp.	-2.4	-2.1	-2.3	-2.3	-2.3	Adj. FD EPS	49%	21%	75%	19%	18%
Associate	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	29.6	45.7	52.1	66.9	84.3	GP Margin	23%	25%	28%	29%	30%
Taxation	-8.5	-9.5	-9.9	-12.7	-16.0	EBITDA Margin	14%	17%	17%	18%	19%
Minority Interest	9.8	13.9	6.2	5.5	6.9	Operating Margin	7%	10%	11%	12%	13%
Net Profit	11.3	22.4	36.0	48.7	61.3	PBT Margin	7%	10%	11%	12%	13%
Core NP	15.5	19.5	38.2	48.7	61.3	Core Net Margin	4%	4%	8%	9%	9%
Balance Sheet						Effect. Tax Rate	29%	21%	19%	19%	19%
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	ROA	3%	4%	7%	8%	9%
Fixed Assets	153.7	166.1	190.5	201.8	211.3	ROE	8%	9%	12%	13%	15%
Intangible Assets	24.2	24.2	24.2	24.2	24.2	DuPont Analysis					
Other FA	29.0	26.8	37.5	37.5	37.5	Net Margin (%)	4%	4%	8%	9%	9%
Inventories	116.6	113.3	150.1	136.8	157.1	Assets Turnover (x)	0.9	1.0	0.9	1.0	1.0
Receivables	93.4	101.2	102.4	123.9	143.2	Leverage Factor (x)	1.6	1.5	1.6	1.6	1.6
Other CA	7.1	8.4	8.2	8.2	8.2	ROE (%)	8%	9%	12%	13%	15%
Cash	43.3	43.2	50.2	55.0	73.4	Leverage					
Total Assets	467.3	483.3	563.1	587.4	654.9	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Payables	121.5	115.7	146.4	139.7	160.5	Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1
ST Borrowings	43.0	27.3	35.8	35.8	35.8	Net Cash/(Debt)	5.6	-4.9	-2.6	-7.4	-25.8
Other ST Liability	1.3	1.9	1.2	17.9	21.2	Net Debt/Equity (x)	0.0	0.0	0.0	0.0	-0.1
LT Borrowings	5.9	11.0	11.8	11.8	11.8	Valuations					
Other LT Liability	7.1	10.2	12.4	12.4	12.4	EPS (sen)	1.5	1.9	3.3	3.9	4.6
Net Assets	288.4	317.2	355.5	369.8	413.3	NDPS (sen)	-	0.5	1.0	1.1	1.3
Shareholders' Equity	197.3	218.5	326.3	361.4	405.5	BVPS (RM)	0.19	0.21	0.28	0.29	0.30
Minority Interest	91.1	98.8	29.2	8.4	7.8	PER (x)	47.5	39.2	22.4	18.8	16.0
Total Equity	288.4	317.2	355.5	369.8	413.3	Net Div. Yield (%)	-	0.7	1.3	1.5	1.8
Cashflow Statement						PBV (x)	3.7	3.5	2.6	2.5	2.4
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	EV/EBITDA (x)	12.3	9.2	8.9	7.3	6.0
Operating CF	45.5	63.5	67.3	65.6	80.6						
Investing CF	-45.5	-42.6	-62.7	-45.0	-45.0						
Financing CF	-13.4	-9.0	-0.8	-13.6	-17.2						
Change In Cash	-13.5	11.9	3.8	6.9	18.4						
Free CF	-9.2	15.4	11.9	20.6	35.6						

Source: Kenanga Research



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06 March 2019

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 BERHAD	0.730	807.2	Y	12/2019	15.6%	15.6%	27.5%	25.9%	22.4	18.8	16.0	2.6	2.5	13.4%	1.5%	0.700	MP
KESM INDUSTRIES BERHAD	9.48	407.8	Y	07/2019	-9.8%	15.1%	-41.8%	48.8%	10.4	17.8	12.0	1.2	1.1	6.3%	1.1%	8.00	MP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	9.90	1,969.1	N	06/2019	8.1%	5.3%	16.0%	5.8%	11.5	9.9	9.4	1.7	1.6	13.6%	3.1%	13.00	OP
P.I.E. INDUSTRIAL BERHAD	1.64	629.8	Y	12/2019	15.9%	6.3%	22.1%	9.3%	14.9	12.2	11.1	1.5	1.4	11.9%	4.1%	1.90	OP
SKP RESOURCES BHD	1.31	1,637.7	Y	03/2019	-9.2%	16.5%	-13.3%	19.0%	12.7	14.9	12.5	2.9	2.7	18.8%	3.4%	1.25	MP
UNISEM (M) BERHAD	2.82	2,050.4	Y	12/2019	2.8%	8.9%	20.9%	27.3%	21.5	17.9	14.0	1.4	1.4	7.9%	3.2%	2.50	UP

Source: 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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