

24 May 2019

## D&O Green Technologies

### Visibility Clouded by Trade War

1Q19 core PATAMI came in below expectations at RM6.1m (-5% YoY; -57% QoQ), accounting for only 15% of consensus full-year estimate and 13% of ours. The earnings disappointment likely stemmed from the Chinese imposition of tariffs on US vehicles and the introduction of WLTP. An interim dividend of 0.5 sen was proposed, as expected. Trim FY19-20E core PATAMIs to RM45.2-56.9m. Maintain MP with lower TP of RM0.650.

**Below expectations.** 1Q19 core PATAMI came in below expectations at RM6.1m (-5% YoY; -57% QoQ), accounting for only 15% of consensus full-year estimate and 13% of ours. The earnings disappointment likely stemmed from the Chinese imposition of tariffs on US vehicles and the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) emission regulation, both of which have impacted car sales in the group's major markets. An interim dividend of 0.5 sen was proposed, as expected.

**YoY**, despite a 2% appreciation in the USD/MYR, 1Q19 revenue was flat, mainly due to sustained weakness in vehicle sales in the group's major markets. Notably, light and passenger car sales fell 13% in China, 3% in the EU and 2% in the US, resulting in uninspiring automotive LED sales. Meanwhile, core PATAMI dropped 5% due to higher R&D and other administrative expenses, though partially offset by a lower effective tax rate of 18% (vs. 22% in 1Q18).

**QoQ**, 1Q19 revenue declined 20% mainly on seasonality – lower car sales at the beginning of the year. Traditionally, 4Q is the strongest quarter as D&O's customers ramp up orders to prepare for stronger festive and year-end promotional period demands. Meanwhile, core PATAMI plunged by a larger quantum (-57%) primarily due to a 3-ppt contraction in GP margin on lower capacity utilisation.

**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 still ongoing. Currently, we are conservatively assuming an additional 25-30% capacity through FY20, which supports our 26-27% earnings growth forecasts for the Automotive segment in FY19-20. In addition, the group is striving to progressively increase contribution from the higher-margin exterior lightings to 50% over 2-3 years (vs. 35% of total Automotive revenue in FY18). This is anchored by new supply wins from Tier 1 Automotive LED customers, especially in the headlamps space, alongside existing orders of Day Running Lights, Side signals, Position Lamps, and Rear Combination Lamps, which are still seeing rapid deployment in new vehicles. Meanwhile, on interior lightings, the group is currently working on its smart RGB products and targets commercialisation by 2020. We note that the smart RGB products could see an ASP that is at least 3-4x higher than existing interior LED lightings.

**Trim FY19-20E core PATAMIs by 7% to RM45.2-56.9m** as we tone down our revenue forecasts by 7% to account for cloudy global economic outlook amid heightened tension from the current trade war. We believe the trade war could affect consumer sentiment and spending on cars, at least in the short-to-medium term.

**Maintain MARKET PERFORM with lower Target Price of RM0.650** based on FY19E PER of 18.0x, in line with the valuation of its German competitor – OSRAM. While D&O offers exciting long-term growth prospects, its near-term earnings visibility is clouded by the uncertain environment created by the trade war. Additionally, we believe valuation is stretched at current price levels.

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

## MARKET PERFORM ↔

**Price:** RM0.610  
**Target Price:** RM0.650 ↓

**Expected Capital Gain:** RM0.04 +6.6%  
**Expected Divd. Yield:** RM0.011 +1.8%  
**Expected Total Return:** RM0.051 +8.4%

**KLCI Index** 1,601.87

### Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,107.9
Market Cap (RM m)	675.8
Par value per share (RM)	0.10
52-week range (H)	1.00
52-week range (L)	0.59
Free Float	61%
Beta	1.1
3-mth avg daily vol	2,356,938

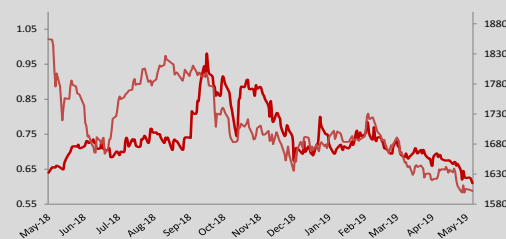
### Major Shareholders

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	527.3	609.4
EBIT	85.1	98.0	115.9
PBT	52.1	62.0	78.1
<b>Net Profit</b>	36.0	45.2	56.9
<b>Core PATAMI</b>	38.2	45.2	56.9
Consensus (NP)	N.A.	39.7	47.7
Earnings Revision	N.A.	-7%	-7%
Core EPS (sen)	3.3	3.6	4.2
Core EPS growth (%)	75.1	10.2	18.0
NDPS (sen)	0.5	1.1	1.3
NTA per Share (RM)	0.28	0.28	0.30
Price to NTA (x)	2.2	2.1	2.1
PER (x)	18.7	17.0	14.4
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	7%	8%	9%
Return on Equity (%)	12%	13%	14%
Net Div. Yield (%)	0.8%	1.8%	2.1%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-10.9%	-17.0%	-6.9%
Relative (%)	-9.4%	-9.9%	4.3%

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24 May 2019

## Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
<b>Turnover</b>	<b>113.1</b>	<b>140.6</b>	<b>-19.6%</b>	<b>113.1</b>	<b>0.0%</b>	<b>113.1</b>	<b>113.1</b>	<b>0.0%</b>
GP	30.5	41.8	-26.9%	30.8	-0.9%	30.5	30.8	-0.9%
EBIT	9.0	17.6	-49.0%	10.3	-13.1%	9.0	10.3	-13.1%
Adjusted EBIT	9.1	19.7	-54.0%	11.0	-17.4%	9.1	11.0	-17.4%
PBT/(LBT)	8.3	17.0	-51.6%	9.9	-16.4%	8.3	9.9	-16.4%
Taxation	-1.5	-3.2	53.9%	-2.2	33.8%	-1.5	-2.2	33.8%
PAT	6.8	13.9	-51.0%	7.6	-11.3%	6.8	7.6	-11.3%
Core PAT	6.9	15.9	-56.9%	<b>9.6</b>	<b>-28.7%</b>	<b>6.9</b>	<b>9.6</b>	<b>-28.7%</b>
Net Profit / (Loss)	6.0	12.3	-51.0%	5.1	17.7%	6.0	5.1	17.7%
<b>Core NP</b>	<b>6.1</b>	<b>14.2</b>	<b>-56.9%</b>	<b>6.5</b>	<b>-5.4%</b>	<b>6.1</b>	<b>6.5</b>	<b>-5.4%</b>
FD EPS (sen)	0.4	0.8	-51.2%	0.3	16.7%	0.4	0.3	16.7%
DPS (sen)	0.5	0.0		0.0		0.5	0.0	
GP margin	27.0%	29.7%		27.3%		27.0%	27.3%	
EBIT margin	7.9%	12.5%		9.1%		7.9%	9.1%	
Adjusted EBIT margin	8.0%	14.0%		9.7%		8.0%	9.7%	
Pretax margin	7.3%	12.1%		8.7%		7.3%	8.7%	
NP margin	5.3%	8.8%		4.5%		5.3%	4.5%	
CNP margin	5.4%	10.1%		5.7%		5.4%	5.7%	
Effective tax rate	-17.8%	-18.7%		-22.5%		-17.8%	-22.5%	

Source: Company, Kenanga Research

## Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
Total Revenue (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
<b>Total Revenue (RM'm)</b>	<b>113.1</b>	<b>140.6</b>	<b>-19.6%</b>	<b>113.1</b>	<b>0.0%</b>	<b>113.1</b>	<b>113.1</b>	<b>0.0%</b>
Automotive	109.7	135.9	-19.3%	106.8	2.7%	109.7	106.8	2.7%
Non-automotive	3.4	4.7	-27.0%	6.3	-46.3%	3.4	6.3	-46.3%

Source: Company, Kenanga Research

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24 May 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	0.610	675.8	Y	12/2019	7.5%	15.6%	18.1%	26.0%	18.7	17.0	14.4	2.2	2.1	12.5%	1.8%	0.650	MP
KESM INDUSTRIES BERHAD	7.39	317.9	Y	07/2019	-9.8%	15.1%	-67.1%	59.0%	8.1	24.6	15.4	0.9	0.9	3.6%	2.5%	7.20	UP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	8.73	1,736.4	N	06/2019	8.1%	5.3%	16.0%	5.8%	10.2	8.8	8.3	1.5	1.4	13.6%	3.6%	13.00	OP
P.I.E. INDUSTRIAL BERHAD	1.40	537.7	Y	12/2019	15.9%	6.3%	22.1%	9.3%	12.7	10.4	9.5	1.3	1.2	11.9%	4.8%	1.90	OP
SKP RESOURCES BHD	1.22	1,525.2	Y	03/2019	-16.4%	27.3%	-20.3%	30.3%	11.8	15.1	11.6	2.7	2.5	17.4%	3.4%	1.45	OP
UNISEM (M) BERHAD	2.54	1,846.8	Y	12/2019	1.7%	8.0%	3.6%	29.5%	19.3	18.8	14.5	1.3	1.3	6.8%	3.5%	2.15	UP

Source: Bloomberg, Kenanga Research

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24 May 2019

**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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