

12 June 2019

D&O Green Technologies

Trade War Clouds 2H19 Outlook

We came away from a management meeting unexcited about D&O's 2019 outlook. While 2Q19 could see profit improvement as D&O reaps higher market share and impact from WLTP regulation subsidies, uncertainty remains in 2H19 amid trade war. Its new plant should be ready by 2Q-3Q19, but machineries/equipment would only be in place next year as existing capacity is sufficient. Trim FY19-20E NP by 8-12% to RM41.5-50.2m. Maintain MP with lower TP of RM0.600.

Possible recovery in 2Q19... We believe the adverse effect of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) regulation on the European passenger vehicle sales has mostly subsided, as evidenced by the slowing pace of decline in April 2019 (-0.4% YoY vs. average of -8.1% YoY in the prior 7 months). In addition, we believe the group has been gaining market share in the automotive LED space lately, thanks in part to new interior applications – backlight unit (BLU) display used for infotainment systems. As such, we are sanguine that the group will post a commendable improvement in 2Q19 earnings YoY and QoQ.

...but 2H19 remains cloudy. We are assuming a more toned-down revenue growth assumption for FY19 from 7% to flattish trend (in the worst-case scenario) as 2H19 outlook remains ambiguous amid intensifying US-China trade war, which could affect consumer sentiment and affordability of passenger vehicles. Nevertheless, we still expect to see an uptick in FY19 profit on a slight improvement in net profit margin, underpinned by better operational efficiency through fully automating the visual inspection process (currently c.25% labour dependent).

New plant almost ready. The group targets to shift its office to its new plant by November 2019 post-completion in 3Q19, and subsequently convert the existing office to a manufacturing facility (likely next year). Coupled with plans to increase manufacturing density (dense placement of machineries/equipment), the facility conversion should free up enough floor space to double production capacity. However, management did not provide any timeline as to when the group would expand production capacity in the existing plant, and any expansion will be on an as-needed basis. Meanwhile, the remaining floor space in the new plant will be reserved for capacity expansion in 1-2 years' time. Fortunately, the incremental depreciation for the new plant is expected to be minimal at <RM0.4m in FY19 and RM1.8-2.4m in FY20, as capital-intensive machineries/equipment will not be in place in the first 1-2 years as mentioned.

Trim FY19-20E NP by 8-12% to RM41.5-50.2m as we tone down our earlier bullish automotive LED growth assumptions from 7-16% to 4-11% to account for cloudier global economic outlook amid heightened trade war tension. Additionally, we have lowered our FY19-20E GPM assumptions from 29.0-30.0% to 28.5-29.5% (still higher than 28.3% in FY18) to reflect heftier manufacturing overheads after a c.30% capacity expansion in late-FY18.

Maintain MARKET PERFORM with a lower Target Price of RM0.600 (from 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, we believe the trade war could affect consumer sentiment and spending on cars, at least in the short-to-medium term. Valuation also appears unattractive 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:	RM0.600	
Target Price:	RM0.600	↓
Expected Capital Gain:	RM0.000	+0.0%
Expected Divd. Yield:	RM0.011	+1.8%
Expected Total Return:	RM0.011	+1.8%

KLCI Index 1,651.20

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)	664.7
Par value per share (RM)	0.10
52-week range (H)	1.00
52-week range (L)	0.59
Free Float	61%
Beta	1.0
3-mth avg daily vol	1,696,348

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	509.0	562.6
EBITDA	85.1	92.1	106.1
PBT	52.1	57.1	68.9
Net Profit (NP)	36.0	41.5	50.2
Core PATAMI	38.2	41.5	50.2
Consensus (NP)	N.A.	43.6	52.5
Earnings Revision	N.A.	-8%	-12%
Core EPS (sen)	3.3	3.3	3.7
Core EPS growth (%)	75.1	1.3	13.2
NDPS (sen)	0.5	1.1	1.3
NTA per Share (RM)	0.28	0.28	0.29
Price to NTA (x)	2.2	2.1	2.1
PER (x)	18.4	18.2	16.0
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	7%	7%	8%
Return on Equity (%)	12%	12%	13%
Net Div. Yield (%)	0.8%	1.8%	2.2%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-9.8%	-14.3%	-16.1%
Relative (%)	-12.3%	-13.5%	-9.1%

Lavis Chong

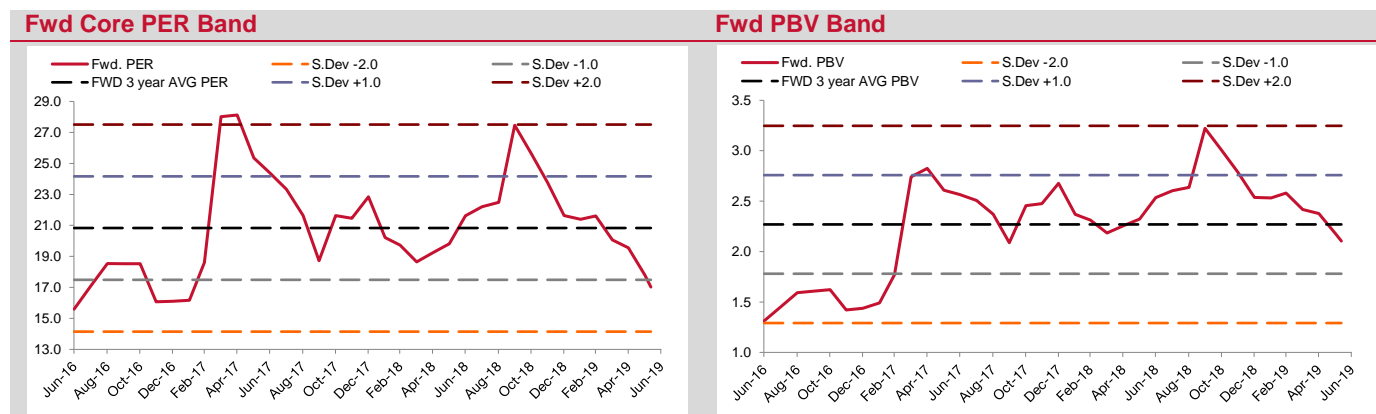
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12 June 2019

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	509.0	562.6	Growth (%)					
Gross Profit	98.9	117.6	139.0	144.9	165.7	Turnover	-1%	8%	6%	4%	11%
EBITDA	59.1	75.7	85.1	92.1	106.1	EBITDA	27%	28%	12%	8%	15%
D&A	-27.2	-27.9	-30.6	-32.7	-34.8	Operating Profit	36%	50%	14%	9%	20%
Operating Profit	32.0	47.8	54.4	59.4	71.2	PBT	56%	55%	14%	9%	21%
Other Income	6.0	0.0	0.0	0.0	0.0	Adj. Net Profit	51%	25%	96%	9%	21%
Interest Exp.	-2.4	-2.1	-2.3	-2.3	-2.3	Adj. FD EPS	49%	21%	75%	1%	13%
Associate	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	29.6	45.7	52.1	57.1	68.9	GP Margin	23%	25%	28%	28%	29%
Taxation	-8.5	-9.5	-9.9	-10.9	-13.1	EBITDA Margin	14%	16%	17%	18%	19%
Minority Interest	9.8	13.9	6.2	4.7	5.6	Operating Margin	7%	10%	11%	12%	13%
Net Profit	11.3	22.4	36.0	41.5	50.2	PBT Margin	7%	10%	11%	11%	12%
Core NP	15.5	19.5	38.2	41.5	50.2	Core Net Margin	4%	4%	8%	8%	9%
						Effect. Tax Rate	29%	21%	19%	19%	19%
						ROA	3%	4%	7%	7%	8%
						ROE	8%	9%	12%	12%	13%
						DuPont Analysis					
						Net Margin (%)	4%	4%	8%	8%	9%
						Assets Turnover (x)	0.9	1.0	0.9	0.9	0.9
						Leverage Factor (x)	1.6	1.5	1.6	1.6	1.6
						ROE (%)	8%	9%	12%	12%	13%
						Leverage					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1
						Net Cash/(Debt)	5.6	-4.9	-2.6	-13.8	-28.2
						Net Debt/Equity (x)	0.0	0.0	0.0	0.0	-0.1
						Valuations					
						EPS (sen)	1.5	1.9	3.3	3.3	3.7
						NDPS (sen)	-	0.5	0.5	1.1	1.3
						BVPS (RM)	0.19	0.21	0.28	0.28	0.29
						PER (x)	39.1	32.2	18.4	18.2	16.0
						Net Div. Yield (%)	-	0.8	0.8	1.8	2.2
						PBV (x)	3.1	2.9	2.2	2.1	2.1
						EV/EBITDA (x)	10.1	7.8	7.3	6.6	5.6

Source: Kenanga Research



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12 June 2019

Malaysian Technology Peers Comparison

Name	Last Price (12-Jun-19) (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	0.600	664.7	Y	12/2019	3.7%	10.5%	8.6%	20.8%	18.4	18.2	16.0	2.2	2.1	11.6%	1.8%	0.600	MP
KESM INDUSTRIES BERHAD	6.90	296.8	N	07/2019	-9.8%	15.1%	-70.7%	74.3%	7.5	25.8	14.8	0.8	0.8	3.2%	2.7%	7.00	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	8.90	1,770.2	N	06/2019	8.1%	5.3%	16.0%	5.8%	10.4	8.9	8.5	1.6	1.5	13.6%	3.5%	12.10	OP
P.I.E. INDUSTRIAL BERHAD	1.32	506.9	Y	12/2019	10.4%	6.2%	1.4%	13.0%	12.0	11.8	10.4	1.2	1.1	9.9%	3.8%	1.55	OP
SKP RESOURCES BHD	1.33	1,662.8	Y	03/2020	28.5%	15.2%	30.4%	13.3%	17.1	13.1	11.6	2.8	2.5	20.3%	3.9%	1.40	OP
UNISEM (M) BERHAD	2.51	1,825.0	Y	12/2019	1.7%	8.0%	3.6%	29.5%	19.1	18.6	14.3	1.3	1.3	6.8%	3.6%	2.15	UP

Source: Bloomberg, Kenanga Research

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12 June 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%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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