

28 November 2019

## D&O Green Technologies

### Inventory Impairment Bummer

3QFY19 core PATAMI came in below expectations at RM9m (-13% YoY; +50% QoQ), bringing 9MFY19 core PATAMI to RM21m (-11% YoY), forming only 55% of our full-year forecast and 61% of consensus'. The variance was due to higher inventory impairment and ESOS expense. As expected, the group declared 0.5 sen dividend per share for the quarter, totalling YTD dividend to 1.0 sen. Trim FY19-20E core PATAMI by 13-7% to RM32.9-42.8m. Maintain MARKET PERFORM with lower TP of RM0.67.

**Below expectations.** 3QFY19 core PATAMI came in below expectation at RM9.0m (-13% YoY; +50% QoQ). This brought 9MFY19 core PATAMI to RM21m (-11% YoY), accounting for only 55% of our full-year forecast and 61% of consensus'. The earnings disappointment mainly stemmed from higher inventory impairment and ESOS expense which resulted in lower EBIT margin (8.6% in 9MFY19 vs. 10.5% in 9MFY18). As expected, the group declared 0.5 sen dividend per share for the quarter, totalling YTD dividend to 1.0 sen.

**YoY**, it is worth noting that 9MFY19 revenue inched up 1% despite falling passenger vehicle sales in key markets like China. This is likely due to better passenger vehicle sales in Europe which recorded 8.7% YoY growth for the month of Oct. In addition, the group mentioned that it has been gaining market share in the automotive LED space. However, the 11% decline in core PATAMI growth is explained by a 36% rise in inventory impairment (for inventories more than 3 years of age) and a 96% jump in ESOS expense. **QoQ**, 3QFY19 revenue gained 9.3%, while core PATAMI leapt 50% thanks to a combination of seasonality factor and higher utilization rate. Core PATAMI grew at a faster pace due to a 22% drop in R&D cost. The decline was attributable to timing difference and should normalise with higher R&D cost in the next quarter.

**Anticipating slight improvement in 4Q.** Moving into the next quarter, we expect to see YoY improvement in terms of revenue growth. Traditionally, 4Q is the strongest quarter as D&O's customers ramp up orders to prepare for stronger festive and year-end promotional period demand. However, earnings may be flat or slightly lower on a YoY basis as inventory impairment and R&D cost could be marginally higher in the subsequent quarter.

**Trim FY19-20E core PATAMI by 13-7% to RM32.9-42.8m** to account for higher R&D cost and further inventory impairment.

**Maintain MARKET PERFORM with lower Target Price of RM0.67** (previously RM0.72) based on an unchanged FY20E PER of 20.9x, in line with the valuation of its German competitor. D&O is a prime proxy for the potential recovery in the automotive market, amplified by rising LED content in passenger vehicles and its augmenting market share.

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

## MARKET PERFORM ↔

**Price:** RM0.690  
**Target Price:** RM0.670 ↓

**Expected Capital Gain:** -RM0.020 -2.9%  
**Expected Divd. Yield:** +RM0.010 +1.4%  
**Expected Total Return:** -RM0.001 -1.5%

**KLCI Index** 1,594.59

### Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,113.7
Market Cap (RM m)	768.4
Par value per share (RM)	0.10
52-week range (H)	0.87
52-week range (L)	0.49
Free Float	62%
Beta	1.0
3-mth avg daily vol	5,627,070

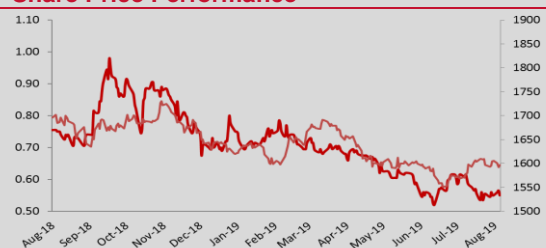
### Major Shareholders

Prt Capital Pte Ltd	14.6%
Keen Capital Investments	13.8%
Omega Riang Sdn Bhd	10.2%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	490.8	509.0	562.6
EBIT	85.1	80.2	96.0
PBT	52.1	45.2	58.8
<b>Net Profit</b>	36.0	32.9	42.8
<b>Core PATAMI</b>	31.1	32.9	42.8
Consensus (NP)	N.A.	34.6	41.0
Earnings Revision	N.A.	-13%	-7%
Core EPS (sen)	2.7	2.6	3.2
Core EPS growth (%)	42.3	-1.3	22.1
NDPS (sen)	0.5	1.0	1.0
NTA per Share (RM)	0.28	0.28	0.28
Price to NTA (x)	2.0	2.5	2.5
PER (x)	20.7	26.4	21.6
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	6	6	7
Return on Equity (%)	10	9	11
Net Div. Yield (%)	0.9	1.4	1.4

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-9.8%	38.0%	-18.3%
Relative (%)	-10.4%	38.2%	-12.5%

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### Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Turnover</b>	<b>125.7</b>	<b>115.0</b>	<b>9.3%</b>	<b>123.8</b>	<b>1.5%</b>	<b>353.8</b>	<b>350.2</b>	<b>1.0%</b>
GP	34.4	31.3	10.2%	35.2	-2.1%	96.2	97.2	-1.0%
EBIT	12.5	8.9	40.6%	14.3	-12.0%	30.4	36.8	-17.4%
Adjusted EBIT	12.5	9.0	39.9%	14.3	-12.0%	30.6	32.1	-4.7%
PBT/(LBT)	11.7	8.2	43.6%	13.4	-12.7%	28.1	35.1	-19.9%
Taxation	-1.7	-1.4	-15.9%	-1.8	9.8%	-4.6	-6.7	32.1%
PAT	10.0	6.7	49.6%	11.6	-13.2%	23.5	28.3	-17.0%
Core PAT	10.0	6.8	48.5%	<b>11.6</b>	-13.2%	<b>23.7</b>	<b>25.0</b>	-5.2%
Net Profit / (Loss)	9.0	6.0	51.1%	10.4	-13.1%	21.0	23.6	-11.1%
<b>Core NP</b>	<b>9.0</b>	<b>6.0</b>	<b>50.0%</b>	<b>10.4</b>	<b>-13.1%</b>	<b>21.0</b>	<b>23.6</b>	<b>-11.1%</b>
FD EPS (sen)	0.6	0.4	51.1%	0.7	-13.6%	1.4	1.6	-11.7%
DPS (sen)	0.5	0.0		0.5		1.0	0.5	
GP margin	27.4%	27.2%		28.4%		27.2%	27.8%	
EBIT margin	10.0%	7.8%		11.5%		8.6%	10.5%	
Adjusted EBIT margin	10.0%	7.8%		11.5%		8.6%	9.2%	
Pretax margin	9.3%	7.1%		10.8%		7.9%	10.0%	
NP margin	7.2%	5.2%		8.4%		5.9%	6.7%	
CNP margin	7.2%	5.2%		8.4%		5.9%	6.7%	
Effective tax rate	-14.2%	-17.6%		-13.8%		-16.3%	-19.2%	

Source: Company, Kenanga Research

### Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Total Revenue (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
<b>Total Revenue (RM'm)</b>	<b>125.8</b>	<b>115.0</b>	<b>9.3%</b>	<b>123.9</b>	<b>1.5%</b>	<b>353.9</b>	<b>350.2</b>	<b>1.0%</b>
Automotive	121.0	113.1	7.0%	117.5	3.0%	343.8	331.1	3.8%
Non-automotive	4.7	1.9	144.0%	6.4	-26.1%	10.0	19.1	-47.4%

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 BERHAD	0.690	768.4	Y	12/2019	3.7%	10.5%	5.8%	30.3%	26.0	26.4	21.6	2.5	2.5	9.3%	1.4%	0.670	MP
KESM INDUSTRIES BERHAD	8.74	375.9	N	07/2020	13.8%	5.4%	237.6%	17.1%	59.9	18.2	15.2	1.0	1.0	5.8%	1.1%	9.30	OP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	11.12	2,211.7	N	06/2020	2.2%	5.2%	25.5%	6.7%	15.6	13.1	12.3	1.9	1.9	12.2%	2.4%	14.00	OP
P.I.E. INDUSTRIAL BERHAD	1.44	553.0	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	13.1	14.1	12.1	1.3	1.3	9.1%	3.5%	1.40	MP
SKP RESOURCES BHD	1.20	1,500.2	Y	03/2020	18.9%	14.1%	16.0%	17.1%	15.5	13.3	11.4	2.5	2.3	18.2%	3.7%	1.35	OP
UNISEM (M) BERHAD	2.17	1,577.8	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	16.5	22.3	17.0	1.1	1.1	4.9%	2.8%	2.40	MP

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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Published and printed by:

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