

04 February 2020

D&O Green Technologies

Brighter Prospects Ahead

We upgrade D&O Green Technologies (D&O) to **OUTPERFORM** from **MARKET PERFORM** while maintaining our earnings forecast with a TP of RM0.91. Our valuation is based on an unchanged FY20E PER of 22.6x, representing +1SD above 2-year peer average. We believe that value has emerged following a knee-jerk sell-off due to the new coronavirus threat.

Strong 4Q. We came away from a management meeting excited about D&O's outlook. Stronger 4Q on a QoQ and YoY basis can be expected owing to more business wins for both interior and exterior automotive lightings. Seasonally, 4Q is also the strongest quarter for the company as customer ramp up orders to prepare for stronger festive and year-end promotional season. In addition, the group has been gaining market share in the automotive LED space, notably for rear combination lamps (RCL).

Confident for FY20. Optimism is anticipated to continue into FY20 as the company has received very encouraging orders for January 2020. So far, the new coronavirus threat in China has not caused any delay or cancellation of orders. Note that circa 45% of D&O's revenue is derived from China.

Macro outlook have also been showing very positive signs as Europe car sales jumped 21% YoY in December 2019 to mark the fourth consecutive month of growth, turning full-year sales growth to a positive 1.2%. Meanwhile, car sales in China are seeing the decline narrowing. More importantly, D&O's growth does not solely depend on the growth of car unit sales, but the LED content per vehicle which will continue to increase as car manufacturers move towards electric vehicles (EV) and autonomous cars.

Smart RGB. Having the first-mover advantage in smart RGB, D&O is well positioned to reap the benefits as car makers are moving towards such technology. Smart RGB yield higher ASP and allows for local dimming which results in better contrast and lower power consumption. With battery as the main power source for EVs, even marginal power saving from LED makes a difference in terms of driving range. Such savings become even more pronounced with the increase in LEDs per vehicle, in tandem with market trend to improve both safety and aesthetics.

Moving to new plant. Starting next month, the company will be moving to its new plant which offers 50% increase in floor space compared to the existing plant of 183K sq ft. Offices and administrative staff will be moved over to the new plant to free up more space for production in the old plant. The conversion will happen gradually and by fully utilising the old plant alone could potentially double its capacity output from its current state.

Maintain FY19-20E core PATAMI at RM32.9-45.1m.

Upgrade to OUTPERFORM from MARKET PERFORM with an unchanged Target Price of RM0.91 based on an unchanged FY20E PER of 22.6x, representing +1SD above 2-year peer average. We believe D&O deserve to trade at a higher PER multiple as it is still able to gain market share even in such challenging environment. Being a renowned brand name for full range automotive LED, 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.

OUTPERFORM ↑

Price: RM0.790
Target Price: RM0.910 ↔

Expected Capital Gain: RM0.120 +15.2%
Expected Divd. Yield: RM0.010 +1.2%
Expected Total Return: RM0.130 +16.4%

KLCI Index 1,521.95

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,121.5
Market Cap (RM m)	886.0
Par value per share (RM)	0.10
52-week range (H)	0.93
52-week range (L)	0.49
Free Float	62%
Beta	1.2
3-mth avg daily vol	3,764,358

Major Shareholders

PRT Capital Pte Ltd	14.4%
Keen Capital Investments	13.7%
Omega Riang Sdn Bhd	10.1%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	490.8	509.0	562.6
EBITDA	85.1	80.2	99.1
PBT	52.1	45.2	61.9
Net Profit (NP)	36.0	32.9	45.1
Core PATAMI	31.1	32.9	45.1
Consensus (NP)	N.A.	33.7	41.9
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	2.7	2.9	4.0
Core EPS growth (%)	42.3	10.8	37.1
NDPS (sen)	0.5	1.0	1.0
NTA per Share (RM)	0.28	0.31	0.34
Price to NTA (x)	2.9	2.6	2.4
PER (x)	30.4	27.4	20.0
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	6.0	6.0	7.0
Return on Equity (%)	10.0	9.0	12.0
Net Div. Yield (%)	0.6	1.2	1.2

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.2%	14.2%	15.8%
Relative (%)	2.5%	18.7%	25.0%

Samuel Tan

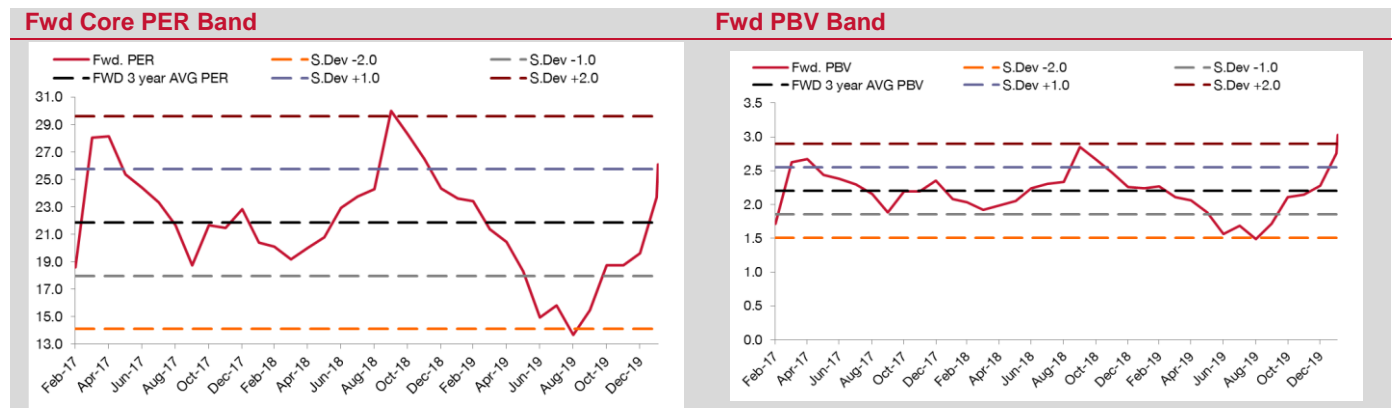
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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	430.1	463.3	490.8	509.0	562.6	Growth (%)					
Gross Profit	98.9	117.6	139.0	140.0	160.3	Turnover	-1%	8%	6%	4%	11%
EBITDA	59.1	75.7	85.1	80.2	99.1	EBITDA	27%	28%	12%	-6%	24%
D&A	-27.2	-27.9	-30.6	-32.7	-34.8	Operating Profit	36%	50%	14%	-13%	35%
Operating Profit	32.0	47.8	54.4	47.5	64.2	PBT	56%	55%	14%	-13%	37%
Other Income	6.0	0.0	0.0	0.0	0.0	Adj. Net Profit	51%	25%	59%	6%	37%
Interest Exp.	-2.4	-2.1	-2.3	-2.3	-2.3	Adj. FD EPS	49%	21%	42%	11%	37%
Associate	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	29.6	45.7	52.1	45.2	61.9	GP Margin	23%	25%	28%	28%	29%
Taxation	-8.5	-9.5	-9.9	-8.6	-11.8	EBITDA Margin	14%	16%	17%	16%	18%
Minority Interest	9.8	13.9	6.2	3.7	5.1	Operating Margin	7%	10%	11%	9%	11%
Net Profit	11.3	22.4	36.0	32.9	45.1	PBT Margin	7%	10%	11%	9%	11%
Core NP	15.5	19.5	31.1	32.9	45.1	Core Net Margin	4%	4%	6%	6%	8%
						Effect. Tax Rate	29%	21%	19%	19%	19%
						ROA	3%	4%	6%	6%	7%
						ROE	8%	9%	10%	9%	12%
						DuPont Analysis					
						Net Margin (%)	4%	4%	6%	6%	8%
						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%	10%	9%	12%
						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	-6.2	-21.3
						Net Debt/Equity (x)	0.0	0.0	0.0	0.0	-0.1
						Valuations					
						EPS (sen)	1.5	1.9	2.7	2.9	4.0
						NDPS (sen)	-	0.5	0.5	1.0	1.0
						BVPS (RM)	0.19	0.21	0.28	0.31	0.34
						PER (x)	52.4	43.2	30.4	27.4	20.0
						Net Div. Yield (%)	-	0.6	0.6	1.2	1.2
						PBV (x)	4.1	3.9	2.9	2.6	2.4
						EV/EBITDA (x)	13.5	10.5	9.8	11.2	8.9

Source: 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	0.790	886.0	Y	12/2019	3.7%	10.5%	5.8%	37.1%	30.4	27.4	20.0	2.8	2.5	9.3%	1.2%	0.910	OP
KESM INDUSTRIES BERHAD	9.25	397.9	Y	07/2020	13.8%	5.4%	237.6%	17.1%	63.4	19.3	16.1	1.1	1.1	5.8%	1.0%	10.80	OP
MALAYSIAN PACIFIC INDUSTRIES BHD	11.60	2,307.2	Y	06/2020	2.2%	5.2%	25.5%	6.7%	16.3	13.7	12.8	2.0	2.0	12.2%	2.3%	14.00	OP
NOTION VTEC BERHAD	1.24	476.2	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	11.2	12.2	10.5	1.1	1.1	9.1%	4.0%	1.40	MP
P.I.E. INDUSTRIAL BERHAD	1.52	1,900.3	Y	03/2020	18.9%	14.1%	2.3%	31.1%	19.6	19.2	14.6	3.2	3.0	16.1%	2.6%	1.46	OP
SKP RESOURCES BHD	2.22	1,614.1	Y	12/2019	-8.3%	2.7%	-38.4%	42.7%	16.9	22.8	17.4	1.1	1.1	4.1%	2.7%	2.15	UP
UNISEM (M) BERHAD	0.790	886.0	Y	12/2019	3.7%	10.5%	5.8%	37.1%	29.8	26.9	19.6	2.8	2.5	9.3%	1.3%	0.910	OP

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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