

27 February 2020

D&O Green Technologies

Record High Earnings

4QFY19 core PATAMI came in above expectations at RM13.9m (+21% YoY; +54% QoQ), bringing FY19 core PATAMI to RM34.9m (+14% YoY) which exceeded both our forecast and consensus by 6% and 3%, respectively. Better earnings were contributed by the rebound in Europe automotive sale which led to higher demand for rear combination lights (RCL). The group did not declare any dividend for the quarter, leaving the YTD dividend at 1.0 sen which is within our expectation. We keep FY20E core PATAMI at RM45.1m while introducing FY21E PATAMI of RM52.6m, representing a 2-year CAGR of 23%. Maintain **OUTPERFORM** with an unchanged TP of RM0.91.

Above expectations. 4QFY19 core PATAMI came in above expectations at RM13.9m (+21% YoY; +54% QoQ), bringing FY19 core PATAMI to RM34.9m (+14% YoY) which exceeded both our full-year forecast and consensus by 6% and 3%, respectively. The group managed to surpass expectations by recording its highest quarterly earnings thanks to the rebound in Europe automotive sale which led to higher demand for rear combination lights (RCL). EBIT margin also expanded by 3.3ppt QoQ to 13.3% thanks to demand for higher margin products. The group did not declare any dividend for the quarter, leaving the YTD dividend at 1.0 sen which is within our expectation.

YoY, revenue for FY19 inched up 2.8% YoY to RM504.3m. More importantly, automotive revenue (which constitutes 97% of group revenue) rose 5% YoY, which is an impressive feat considering the turbulent year for the automotive sector where global car sales volume declined 4.4%. We believe the rebound in Europe car sales towards the end of 2019 (December itself recorded 21% YoY growth) helped cushioned the slowdown in China car sales. While car sales in China are still in the red, the decline has been seen to be narrowing. Note that D&O's prospect is not solely dependent on the growth of car unit sales, but the LED content per vehicle which will continue to increase as car manufacturer move towards electric vehicles (EV) and autonomous cars.

Confident for FY20. Optimism is anticipated to spill into FY20 as the company has received very encouraging orders. So far, the new coronavirus threat in China has not caused any delay or cancellation of orders. As one of the pioneers of 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.

Maintain FY20E core PATAMI at RM45.1m while introducing FY21E PATAMI of RM52.6m, representing a 2-year CAGR of 23%.

Maintain OUTPERFORM with an unchanged Target Price of RM0.91 based on an unchanged FY20E PER of 22.6x, representing +1SD above 2-year peers' average. Being a renowned brand name for full range automotive LED, we believe D&O is a prime proxy for the potential recovery in the automotive market.

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: RM0.800
Target Price: RM0.910 ↔

Expected Capital Gain: +RM0.110 +13.8%
Expected Divd. Yield: +RM0.010 +1.2%
Expected Total Return: +RM0.120 +15.0%

KLCI Index 1,495.19

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,125.4
Market Cap (RM m)	900.3
Par value per share (RM)	0.10
52-week range (H)	0.93
52-week range (L)	0.49
Free Float	63%
Beta	1.2
3-mth avg daily vol	3,557,941

Major Shareholders

Prt Capital Pte Ltd	14.6%
Keen Capital Investments	13.8%
Omega Riang Sdn Bhd	10.0%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	504.3	562.6	599.5
EBIT	87.1	103.9	114.9
PBT	47.1	60.4	70.5
Net Profit	34.9	45.1	52.6
Core PATAMI	34.9	45.1	52.6
Consensus (NP)	N.A.	44.0	50.4
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	3.1	4.0	4.7
Core EPS growth (%)	19.5	29.2	16.8
NDPS (sen)	1.0	1.0	2.0
NTA per Share (RM)	0.32	0.35	0.38
Price to NTA (x)	2.5	2.3	2.1
PER (x)	25.8	20.0	17.1
Debt-to-Equity ratio (x)	0.3	0.3	0.2
Return on Asset (%)	5	7	7
Return on Equity (%)	10	12	13
Net Div. Yield (%)	1.3	1.3	2.5

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-9.9%	10.1%	5.8%
Relative (%)	-6.3%	14.1%	16.4%

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Results Highlights

	4Q		QoQ	YoY		12M		YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	150.5	125.7	19.7%	140.6	7.0%	504.3	490.8	2.8%
GP	44.7	34.4	29.8%	41.8	7.0%	142.0	139.0	2.2%
EBIT	20.0	12.5	59.7%	17.6	13.8%	50.5	54.4	-7.3%
Adjusted EBIT	20.0	12.5	59.7%	16.6	20.5%	50.6	48.7	3.9%
PBT/(LBT)	19.0	11.7	61.9%	17.0	11.3%	47.1	52.1	-9.7%
Taxation	-3.4	-1.7	-106.4%	-3.2	-8.0%	-8.0	-9.9	19.2%
PAT	15.5	10.0	54.6%	13.9	12.0%	39.1	42.2	-7.5%
Core PAT	15.5	10.0	54.6%	12.9	20.7%	39.1	35.9	8.9%
Net Profit / (Loss)	13.9	9.0	53.7%	12.3	12.4%	34.9	36.0	-3.0%
Core NP	13.9	9.0	53.7%	11.4	21.0%	34.9	30.6	14.1%
FD EPS (sen)	0.9	0.6	53.7%	0.8	12.0%	2.3	2.4	-3.6%
DPS (sen)	0.0	0.5		0.0		1.0	0.5	
GP margin	29.7%	27.4%		29.7%		28.2%	28.3%	
EBIT margin	13.3%	10.0%		12.5%		10.0%	11.1%	
Adjusted EBIT margin	13.3%	10.0%		11.8%		10.0%	9.9%	
Pretax margin	12.6%	9.3%		12.1%		9.3%	10.6%	
NP margin	9.2%	7.2%		8.8%		6.9%	7.3%	
CNP margin	9.2%	7.2%		8.1%		6.9%	6.2%	
Effective tax rate	-18.1%	-14.2%		-18.7%		-17.0%	-19.0%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q		QoQ	YoY		12M		YoY
Total Revenue (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Total Revenue (RM m)	150.5	125.8	19.7%	140.6	7.0%	504.3	490.8	2.8%
Automotive	146.5	121.0	21.0%	135.9	7.8%	490.3	467.0	5.0%
Non-automotive	4.0	4.7	-14.9%	4.7	-13.9%	14.1	23.7	-40.8%

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	0.800	900.3	Y	12/2020	11.6%	6.6%	29.2%	16.8%	25.7	19.9	17.0	2.5	2.3	11.5%	1.3%	0.910	OP
KESM INDUSTRIES BERHAD	9.60	412.9	Y	07/2020	13.8%	5.4%	237.6%	17.1%	65.8	20.0	16.7	1.1	1.1	5.8%	1.0%	10.80	OP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	11.20	2,227.6	Y	06/2020	2.2%	5.2%	25.5%	6.7%	15.7	13.2	12.4	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	1.41	1,762.8	Y	03/2020	18.9%	14.1%	2.3%	31.1%	18.2	17.8	13.6	3.0	2.8	16.1%	2.8%	1.46	OP
UNISEM (M) BERHAD	2.21	1,606.9	Y	12/2019	2.7%	15.9%	56.0%	22.5%	N.A.	16.0	13.1	1.2	1.1	7.3%	2.7%	2.00	UP

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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