

25 November 2021

D&O Green Technologies

Temporary Glitch; Growth Prospects Intact

3QFY21 CNP came in below expectations at RM18.6m (-31% QoQ; +26% YoY), bringing 9MFY21 CNP to RM71.9m (+272% YoY) at 58% each of both our and consensus full-year estimates. Revenue fell 16% QoQ to RM174.6m due to plant closure totalling 24 days. With its entire workforce fully vaccinated, the group is prepared for its seasonally stronger 4Q and has recently expanded its capacity to pick up on backlogs as well as take on new orders. Maintain **OUTPERFORM** with a higher TP of RM6.60.

Below expectations. 3QFY21 CNP came in below expectation at RM18.6m (-31% QoQ; +26% YoY), bringing 9MFY21 CNP to RM71.9m (+272 YoY%). This represents 58% each of both our and consensus full-year estimates.

QoQ, 3QFY21 CNP fell 31% QoQ to RM18.6m mainly due to lower utilisation rate and unabsorbed cost as a result of plant shutdown in July (10 days) and August (14 days). The shutdown was instructed by KKM as a measure to curb the higher number of positive Covid-19 cases in the area. 3QFY21 revenue fell 16% QoQ to RM174.6m as orders could not be delivered to customers. **YoY,** revenue for 3QFY21 climbed 10% while CNP grew 26% as demand for automotive LED remained strong. Cumulatively, 9MFY21 CNP leapt 272% to RM71.9m on a 61% increase in revenue to RM588.9m.

Shifting to high gear. With the plant closure chapter behind, we expect a better quarter sequentially as the group is entering its seasonally stronger quarter with a full workforce. In addition, the group has increased its capacity of Plant 1 since October to pick up on backlogs as well as taking on new orders during the year-end festive period. While the China Association of Automobiles Manufacturers (CAAM) and the European Automobile Manufacturers' Association (ACEA) reported declining YoY car sales in recent months, we understand from our channel checks that this is not due to waning consumer demand but caused by the automotive chip shortage. Given that consumer demand remains strong, automotive makers are booking components in advance for up to two years for supply of automotive wafers. The effect has also trickled down to D&O where their order pipeline remains strong for FY22.

Preparing for long-term growth. The group has also planned to commence operation of its Plant 2 by 2QCY22 to take on more orders. In addition, its recent private placement has raised RM216m for the construction of an 8-storey Plant 3 which will be completed in 2-3 years' time to be utilised for next-gen automotive LED.

We trim our FY21E CNP by 9.9% but raise FY22E CNP by 3.9% to RM110.9m and RM148.5m, respectively, to factor in the plant shutdown as well as backlog spilling over into FY22.

Maintain OUTPERFORM with a higher Target Price of RM6.60 (previously RM6.00) based on higher 53x (previously 48x) FY22E PER at +2SD to its 3-year mean to reflect the promising prospects of the automotive space for the next three years.

Risks to our call include: (i) disruption of components supply, (ii) replacement/obsolescence of LED technology, (iii) adverse currency fluctuations

OUTPERFORM ↔

Price: RM5.87
Target Price: RM6.60 ↑

Expected Capital Gain: RM0.730 +12.4%
Expected Divd. Yield: RM0.015 +0.2%
Expected Total Return: RM0.745 +12.7%

KLCI Index 1,522.27

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,198.6
Market Cap (RM m)	7,036.0
52-week range (H)	1.46
52-week range (L)	6.15
Free Float	67%
Beta	1.1
3-mth avg daily vol	2,805,966

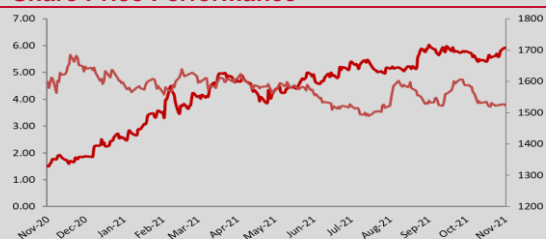
Major Shareholders

PRT Capital Pte Ltd	13.5%
Keen Capital Investments	12.8%
Omega Riang Sdn Bhd	9.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	575.8	857.5	1,083
EBIT	109.0	193.2	244.9
PBT	66.3	147.7	195.2
Net Profit	49.7	110.9	148.5
Core Net Profit	49.7	110.9	148.5
Consensus (NP)	n.a	123.3	152.8
Earnings Revision	n.a	-9.9%	3.9%
Core EPS (sen)	4.3	9.2	12.4
Core EPS growth (%)	37.0	123.3	34.0
NDPS (sen)	0.7	1.5	1.9
NTA per Share (RM)	0.36	0.42	0.53
Price to NTA (x)	16.4	13.9	11.1
PER (x)	136.3	63.5	47.4
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	6.4	11.7	12.9
Return on Equity (%)	12.0	21.9	23.5
Net Div. Yield (%)	0.1	0.2	0.3

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.0%	12.0%	260.0%
Relative (%)	5.0%	11.5%	264.5%

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	174.6	208.6	-16.3%	158.9	9.9%	588.9	366.2	60.8%
GP	50.6	63.8	-20.7%	44.3	14.1%	175.8	95.8	83.5%
EBIT	22.0	37.5	-41.4%	20.7	6.2%	95.6	28.8	231.8%
PBT/(LBT)	21.4	37.0	-42.1%	20.0	7.0%	94.1	26.5	255.0%
Taxation	-0.6	-6.9	91.9%	-3.6	84.5%	-13.4	-4.9	-172.7%
Core PAT	20.9	30.1	-30.6%	16.4	27.0%	80.7	25.2	220.5%
Net Profit / (Loss)	18.6	26.8	-30.6%	14.7	26.3%	71.9	19.3	271.9%
Core NP	18.6	26.8	-30.6%	14.7	26.3%	71.9	19.3	271.9%
FD EPS (sen)	1.6	2.3	-30.6%	1.3	23.3%	6.4	1.7	270.0%
DPS (sen)	0.8	0.0		0.7		0.8	0.7	
GP margin	29.0%	30.6%		27.9%		29.8%	26.1%	
EBIT margin	12.6%	18.0%		13.0%		16.2%	7.9%	
Pretax margin	12.3%	17.7%		12.6%		16.0%	7.2%	
CNP margin	10.7%	12.8%		9.3%		12.2%	5.3%	
Effective tax rate	-2.6%	-18.6%		-18.0%		-14.2%	-18.5%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Total Revenue (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Total Revenue (RM m)	174.6	208.6	-16.3%	158.9	9.9%	588.9	366.2	60.8%
Automotive	170.7	203.9	-16.3%	154.9	10.2%	577.0	356.3	62.0%
Non-automotive	3.8	4.8	-19.8%	3.9	-2.0%	11.8	10.0	18.6%

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 BHD	5.87	7,036.0	Y	12/2021	48.9%	26.4%	123%	34.0%	141.7	63.5	47.4	17.0	13.9	21.9%	0.2%	6.60	OP
GHL SYSTEMS BHD	1.89	2,157.4	Y	12/2021	4.3%	36.3%	8.4%	41.8%	73.5	67.8	47.8	4.4	4.0	6.5%	0.0%	2.30	OP
INARI AMERTRON BHD	4.18	15,429.4	Y	06/2022	22.5%	14.6%	11.3%	14.7%	43.4	35.9	1.3	10.4	10.2	26.4%	2.5%	4.80	OP
JHM CONSOLIDATION BHD	1.72	959.1	Y	12/2021	10.4%	15.8%	0.5%	65.2%	46.0	45.8	27.7	5.2	4.5	9.9%	0.7%	1.90	MP
KELINGTON GROUP BHD	1.75	1,125.3	Y	12/2021	25.5%	40.1%	84.7%	45.7%	61.9	33.5	23.0	6.4	5.6	16.7%	0.7%	2.50	OP
KESM INDUSTRIES BHD	13.30	572.1	Y	07/2022	4.9%	6.4%	4072%	250%	131.0	37.4	25.0	1.5	1.4	3.8%	0.7%	11.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	48.14	9,574.9	Y	06/2022	10.0%	10.0%	11.3%	10.0%	32.2	28.8	26.2	7.1	8.0	15.6%	0.6%	56.20	OP
P.I.E. INDUSTRIAL BHD	3.95	1,517.0	Y	12/2021	59.9%	10.6%	31.0%	29.9%	32.3	24.7	19.0	1.3	1.5	11.5%	1.8%	4.30	OP
SKP RESOURCES BHD	1.80	2,812.2	Y	03/2022	12.3%	12.4%	21.7%	12.4%	21.6	17.7	15.8	4.1	3.7	21.0%	2.8%	2.60	OP
UNISEM (M) BHD	4.33	6,984.6	Y	12/2021	20.0%	15.0%	47.5%	21.0%	46.8	31.7	26.2	3.8	3.5	11.2%	1.4%	4.90	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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