

D&O Green Technologies

Barely Breaking Even in 1QFY23

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D&O's 1QFY23 results disappointed as its top line slumped while overheads rose catering to its capacity expansion, leading to severe margin compression. With no strong order recovery in sight, it will rationalise its operations and headcount in accordance with the weaker order visibility. We cut our FY23-24F earnings forecasts by 25% and 24%, respectively, lower our TP by 24% to RM2.68 (from RM3.51) and maintain our UNDERPERFORM call.

Below expectations. 1QFY23 net profit of RM0.9m (-97.2% YoY) disappointed, slumping to the lowest quarterly earnings ever for the last eight years, accounting for only 1% each of both our full-year forecast and the full-year consensus estimate. The variance against our forecast came largely from poor order replenishments, resulting in under-utilisation of its production floor space while overhead cost increased.

Results' highlights. YoY, 1QFY23 revenue dipped 11% primarily due to its seasonally slower period coupled with a significant decline in automotive LEDs demand amidst the uneventful reopening of China's economy during the reported quarter. Not helping either, the group's fixed cost has increased following its capacity expansion and higher utility cost with new tariffs taking effect earlier this year. As a result, the group only registered a gross profit margin of 15.8% (vs. 27.9% in 1QFY23). Consequently, net profit plunged 97.2%.

Uphill battle. In the absence of a strong China reopening boost, manufacturers generally have received order commitments that are far lower than the initial optimistic forecasts as earlier communicated by customers. That said, the group will continue to take proactive measures to streamline its production processes and optimise its headcount based on a more realistic order visibility.

Forecasts. We cut our FY23-24F net profit forecasts by 25% and 24%, respectively.

Consequently, we cut our TP by 24% to RM2.68 (from RM3.51) based on an unchanged FY24F PER of 25x, in line with peer's forward average. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

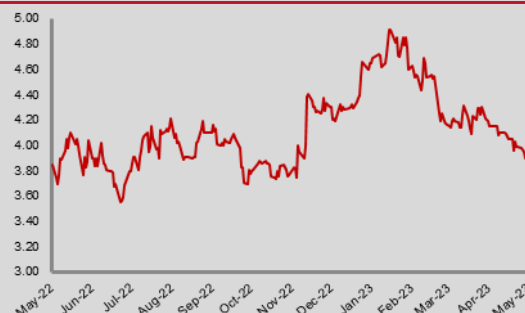
Investment thesis. We are cautious on D&O over the immediate term owing to the on-going inventory adjustments that may be prolonged and result in significant earnings erosion. Having said that, we acknowledge: (i) D&O's presence in the high-growth automotive LED space, (ii) its penetration into the electric vehicle market, and (iii) its ventures into next-generation smart LEDs that fetch high margins. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a strong-than-expected recovery in the global economy, especially in China; (ii) the inventory adjustment cycle ending sooner than expected; and (iii) contributions from its smart LEDs coming in sooner and stronger than expected.

UNDERPERFORM ↔

Price: **RM3.89**
Target Price: **RM2.68** ↓

Share Price Performance



KLCI 1,404.6
YTD KLCI chg -6.1%
YTD stock price chg -9.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DOGT MK Equity
Market Cap (RM m)	4,815.1
Shares Outstanding	1,237.8
52-week range (H)	5.78
52-week range (L)	3.51
3-mth avg daily vol:	1,307,548
Free Float	69.5%
Beta	0.8

Major Shareholders

PRT Capital Pte Ltd	13.1%
Keen Capital Investments	12.4%
Omega Riang Sdn Bhd	9.1%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	983.0	967.7	1,112.8
EBIT	159.5	194.0	242.1
PBT	90.5	116.2	160.3
Net Profit	75.1	96.3	132.8
Core NP (CNP)	97.3	96.3	132.8
Consensus (NP)	-	150.0	190.4
Earnings Revision	-	-25%	-24%
EPS (sen)	7.9	7.8	10.7
EPS growth (%)	-12.0	-1.0	37.9
NDPS (sen)	1.3	1.3	1.8
BVPS (RM)	0.66	0.73	0.82
Price/BV (x)	5.9	5.3	4.7
PER (x)	49.5	50.0	36.3
Net Gearing (x)	0.5	0.4	0.4
ROA (%)	6.1	5.7	7.1
ROE (%)	11.8	10.7	13.1
Dividend Yield (%)	0.3	0.3	0.5

30 May 2023

Results Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	214.7	247.2	-13.1%	241.6	-11.1%	214.7	241.6	-11.1%
GP	33.9	56.8	-40.3%	67.4	-49.8%	33.9	67.4	-49.8%
EBIT	3.1	15.7	-80.1%	39.9	-92.2%	3.1	39.9	-92.2%
PBT	-1.2	12.5	-109.6%	39.2	-103.1%	-1.2	39.2	-103.1%
Taxation	1.8	2.5	-25.5%	-5.2	135.2%	1.8	-5.2	135.2%
Net Profit (NP)	0.9	13.6	-93.6%	30.5	-97.2%	0.9	30.5	-97.2%
Core NP	0.9	14.8	-94.2%	30.5	-97.2%	0.9	30.5	-97.2%
EPS (sen)	0.1	1.2	-94.2%	2.5	-97.2%	0.1	2.5	-97.2%
DPS (sen)	0.0	0.0		0.8		0.0	0.8	
GP margin	15.8%	23.0%		27.9%		15.8%	27.9%	
EBIT margin	1.5%	6.3%		16.5%		1.5%	16.5%	
Pretax margin	-0.6%	5.0%		16.2%		-0.6%	16.2%	
CNP margin	0.4%	6.0%		12.6%		0.4%	12.6%	
Effective tax rate	-152.0%	19.7%		-13.3%		-152.0%	-13.3%	

Source: Kenanga Research

30 May 2023

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	UP	3.89	2.68	-31.11%	4,815.1	Y	12/2023	7.8	10.7	-1.0%	37.9%	50.0	36.3	5.2	10.7%	1.3	0.3%
GHL SYSTEMS BHD	OP	0.800	1.05	31.25%	907.5	Y	12/2023	3.0	3.4	21.3%	12.9%	26.7	23.7	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.47	2.46	-0.40%	9,220.3	Y	06/2023	9.0	10.2	-14.1%	13.1%	27.5	24.3	3.7	13.3%	8.6	3.5%
JHM CONSOLIDATION BHD	MP	0.740	0.800	8.11%	445.4	Y	12/2023	5.3	5.9	40.0%	10.6%	13.9	12.6	1.3	9.8%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.40	1.92	37.14%	900.2	Y	12/2023	8.7	9.0	1.1%	3.2%	16.1	15.6	3.2	21.3%	2.4	1.7%
KESM INDUSTRIES BHD	MP	7.00	6.91	-1.29%	301.1	Y	07/2023	(15.8)	1.2	-3500.0%	-92.6%	N.A.	565.0	0.9	-1.9%	7.5	1.1%
LGMS BHD	OP	1.10	1.32	20.00%	501.6	Y	12/2023	3.1	5.3	12.7%	70.4%	35.4	20.8	5.1	15.7%	0.0	0.0%
M'SIAN PACIFIC INDUSTRIES BHD	UP	27.12	15.26	-43.73%	5,394.1	Y	06/2023	41.8	105.8	-74.7%	153.3%	64.6	25.6	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.23	1.40	13.82%	2,550.9	Y	12/2023	5.0	6.1	20.4%	22.8%	24.7	20.1	7.8	37.1%	0.3	0.2%
OPPSTAR BHD	MP	2.00	1.82	-9.00%	1,272.4	N	03/2024	4.5	6.1	34.0%	36.3%	44.8	32.9	8.1	19.3%	1.1	0.6%
P.I.E. INDUSTRIAL BHD	OP	3.29	4.05	23.10%	1,263.5	Y	12/2023	22.5	25.3	22.0%	12.5%	14.6	13.0	2.0	14.6%	7.0	2.1%
SKP RESOURCES BHD	UP	1.02	1.20	17.65%	1,593.6	Y	03/2023	9.7	7.9	-11.1%	-17.9%	10.5	12.9	1.8	17.8%	4.8	4.7%
UNISEM (M) BHD	MP	2.99	2.75	-8.03%	4,823.1	Y	12/2023	8.9	13.8	-41.2%	55.7%	19.4	17.4	2.0	5.9%	6.0	2.0%
Simple Average										-24.2%	28.7%	29.4	22.8	3.5	13.4%		1.4%

Source: Kenanga Research

30 May 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	☆	
	Waste Management	★	★	★		
	Energy Efficiency	★	★	★	☆	
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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