

28 May 2024

D&O Green Technologies

Buoyed by Rising Car Sales Globally

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D&O's 1QFY24 results met expectations. It reported a decent 1QFY24 net profit of RM11.3m (vs. merely breaking-even a year ago) driven by improved orders for its bread-and-butter automotive LEDs. Rising 1Q2024 car sales in China (+10.7% YoY) and Europe (+4.4% YoY) augurs well for D&O. We keep our forecasts, TP of RM3.60 and MARKET PERFORM call.

D&O's 1QFY24 net profit of RM11.3m (vs RM0.9m in 1QFY23) accounted for 11% and 10% of our and consensus full-year estimate, respectively. However, we deem the results within expectations as 1Q is D&O's seasonally weakest quarter.

YoY, D&O's 1QFY24 revenue rose 27.5% on higher orders for its automotive LEDs. This was on the back of a 10.7% YoY increase in China's car sales during 1QCY24 according to reports from China Association of Automobile Manufacturers while the European Automobile Manufacturers' Association recorded a 4.4% increase in car sales during the same period. It reported a decent 1QFY24 net profit of RM11.3m (vs. merely breaking-even a year ago) on gain of operating scale on higher utilisation and streamlining of cost.

QoQ, its 1QFY24 revenue dipped 11.7% while net profit fell 53.6% as 1Q is the group's weakest quarter. This is mainly due to a shorter operating period resulting from the Chinese New Year holidays and a low season for car purchases.

Outlook. The group believes inventory correction is nearing its end, paving the way for restocking by car producers. The monumental adoption of EVs in China augurs well for the demand for LEDs.

Forecasts. Maintained

Valuations. We also keep our TP of **RM3.60** based on an unchanged FY25F PER of 30x, in line with peers' forward average. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

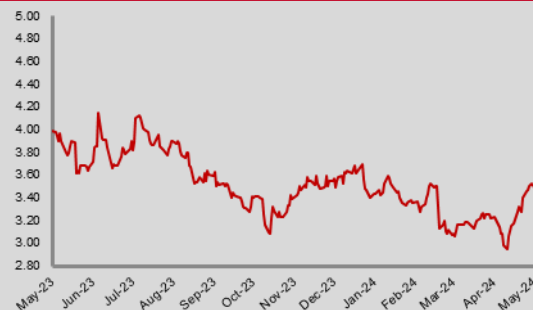
Investment case. We like D&O's for: (i) its presence in the high-growth automotive LED space, (ii) its penetration into the electric vehicle market, and (iii) its ventures into next-generation smart LEDs that fetch high margins. While its earnings have bottomed out, driven by a gradual return of orders from China, we believe that its share price has fairly reflected its fundamentals. Maintain **MARKET PERFORM**.

Risks to our call include: (i) a weaker-than-expected recovery in the global economy, especially in China, (ii) the inventory adjustment cycle prolonged longer than expected, and (iii) contributions from its smart LEDs being delayed due to slow adoption.

MARKET PERFORM ↔

Price: RM3.71
Target Price: RM3.60 ↔

Share Price Performance



KLCI 1,618.3
YTD KLCI chg 11.2%
YTD stock price chg 2.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker DOGT MK Equity
Market Cap (RM m) 4,594.1
Shares Outstanding 1,237.8
52-week range (H) 4.17
52-week range (L) 2.92
3-mth avg. daily vol. 1,315,485
Free Float 65.0%
Beta 1.1

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)	2023A	2024F	2025F
Turnover	1,016.6	1,169.0	1,402.8
EBIT	147.3	218.4	271.7
PBT	49.5	119.4	169.0
Net Profit	44.8	104.7	148.3
Core NP (CNP)	44.8	104.7	148.3
Consensus (NP)	-	114.8	142.9
Earnings Revision	-	-	-
EPS (sen)	3.6	8.5	12.0
EPS Growth (%)	-54.0	133.9	41.6
NDPS (sen)	0.6	1.4	2.0
BVPS (RM)	0.72	0.79	0.89
Price/BV (x)	5.2	4.7	4.2
PER (x)	102.6	43.8	31.0
Net Gearing (x)	0.5	0.5	0.4
ROA (%)	2.5	5.5	7.0
ROE (%)	5.1	10.8	13.5
Dividend Yield (%)	0.2	0.4	0.5

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Results Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	273.7	310.0	-11.7%	214.7	27.5%	273.7	214.7	27.5%
GP	57.6	81.2	-29.1%	33.9	70.0%	57.6	33.9	70.0%
EBIT	7.6	34.5	-78.0%	3.1	142.9%	7.6	3.1	142.9%
Interest Expense	-5.9	-6.0	197.5%	-4.3		-5.9	-4.3	235.1%
EI	0.0	0.0		0.0		0.0	0.0	
PBT	13.4	28.5	-52.7%	-1.2	1217.6%	13.4	-1.2	1217.6%
Taxation	-1.0	-1.6	37.9%	1.8	-155.7%	-1.0	1.8	-155.7%
Net Profit (NP)	11.3	24.3	-53.6%	0.9	1206.6%	11.3	0.9	1206.6%
Core NP	11.3	24.3	-53.6%	0.9	1206.6%	11.3	0.9	1206.6%
EPS (sen)	0.9	2.0	-53.7%	0.1	1206.0%	0.9	0.1	1206.0%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
GP margin	21.0%	26.2%		15.8%		21.0%	15.8%	
EBIT margin	7.0%	11.1%		1.5%		7.0%	1.5%	
Pretax margin	4.9%	9.2%		-0.6%		4.9%	-0.6%	
CNP margin	4.1%	7.8%		0.4%		4.1%	0.4%	
Effective tax rate	-7.6%	-5.8%		-152.0%		-7.6%	-152.0%	

Source: Kenanga Research

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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	MP	3.71	3.60	-3.0%	4,594.1	Y	12/2024	8.5	12.0
GHL SYSTEMS BHD	OP	1.01	0.880	-12.9%	1,152.9	Y	12/2024	2.4	2.8	-3.5%	15.8%	42.3	36.6	2.1	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.41	4.00	17.3%	12,828.1	Y	06/2024	9.4	11.8	8.6%	25.8%	36.2	28.8	4.9	13.4%	8.9	2.6%
JHM CONSOLIDATION BHD	MP	0.670	0.610	-9.0%	403.0	Y	12/2024	3.3	4.1	40.0%	21.7%	20.1	16.4	1.2	6.2%	0.5	0.7%
KELINGTON GROUP BHD	OP	3.09	4.10	32.7%	2,065.3	Y	12/2024	16.1	19.4	1.0%	20.5%	19.2	15.9	4.8	27.7%	4.5	1.5%
KESM INDUSTRIES BHD	MP	6.43	7.06	9.8%	276.6	Y	07/2024	6.2	10.3	-46.2%	67.2%	104.0	62.2	0.8	0.7%	0.0	0.0%
LGMS BHD	OP	1.48	1.16	-21.6%	674.9	Y	12/2024	4.6	5.6	88.4%	21.8%	32.0	26.2	6.5	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	38.56	46.84	21.5%	7,670.7	Y	06/2024	74.5	138.0	141.8%	85.2%	51.7	27.9	3.7	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.88	1.58	-16.0%	3,899.0	Y	12/2024	6.3	6.9	114.8%	9.6%	29.8	27.2	7.3	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.46	1.72	17.8%	934.8	Y	03/2024	3.4	5.7	3.3%	66.7%	42.4	25.4	6.1	15.1%	0.9	0.6%
P.I.E. INDUSTRIAL BHD	OP	5.90	6.75	14.4%	2,265.8	Y	12/2023	22.2	28.7	15.7%	29.3%	26.6	20.6	3.4	13.4%	7.0	1.2%
SKP RESOURCES BHD	MP	1.12	0.850	-24.1%	1,749.8	Y	03/2024	5.7	6.4	-38.4%	13.1%	19.6	17.5	2.0	10.3%	2.8	2.5%
UNISEM (M) BHD	MP	4.14	3.70	-10.6%	6,678.1	Y	12/2024	10.2	12.7	100.1%	24.9%	40.7	32.6	2.7	6.8%	6.0	1.4%
Simple Average										31.8%	31.6%	35.6	27.0	3.9	12.8%		1.0%

Source: Kenanga Research

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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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