

D&O Green Technologies

Steady Utilisation with Upside Potential

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D&O's run rate has remained stable at c.70% recorded in 1QFY24 since Apr and but should gradually pick up from Jun onwards on increased orders from China. There is no urgent need for D&O to invest in Plant 3 as new technology and improved processes have freed up space at its existing plants. We maintain our forecasts, TP of RM3.60 and MARKET PERFORM call.

We came away from D&O's post-1QFY23 results briefing feeling neutral. The key takeaways are as follows:

- D&O indicated it was operating at c.70% utilisation rate of Plant 1 in the reported 1QFY24 and the run rate has remained steady since Apr but should gradually pick up from Jun onwards on increased orders from China which typically account for c.50% of the group's total revenue. This is in line with the reports from China Association of Automobile Manufacturers (CAAM) where sales of passenger cars increased 10.7% in 1QCY24. Meanwhile the European Automobile Manufacturers' Association recorded a 4.4% increase in car sales during the same period.
- With regards to its machinery optimisation plan, the group has adopted flip-chip technology (vs. traditional two-step die bond and wire bond), a single LED assembly process, which in turn increased throughput by 2.7x to 32,000 pcs/hr (up from 12,000 pcs/hr). Additionally, it has introduced a new LED encapsulation process, compression moulding, which boosted throughput by 3.6x to 43,000 pcs/hr (from 12,000 pcs/hr). These improvements coupled with space saving from its in-house double-decker machines have resulted in 35% space saving. Consequently, D&O has deferred plans for Plant 3 by another three years. Plant 1 (with a revenue capacity of RM1.0-1.2b/year) will be sufficient for 2024, while Plant 2 will accommodate growth until 2026-27.
- D&O continues to see good traction for its proprietary Single Footprint (i.e. SpicePlus 2520) LED platform to cater to four power categories, with five colours selection for rear combination lamps. This unified platform will help to minimize retooling, which will boost efficiency. In addition, the adoption of a single footprint strategy also reduces package size and enhances thermal control. Meanwhile, headlamp products (i.e. NagaJo 1519) are anticipated to grow further with more significant uptick in 2HCY24.

Forecasts. Maintained.

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

Investment case. We like D&O for: (i) its unique exposure in the automotive LED business, (ii) its penetration into the electric vehicle market, and (iii) venture into next-generation smart LEDs which yield higher margins. However, we are more inclined to stay cautious until we see the return of more sustained orders from its customers. Maintain **MARKET PERFORM**.

Risks to our call include: (i) sharp increase in automotive demand, (ii) faster-than-expected ramp up in its smart LED segment, and (iii) quicker-than-expected recovery in the global economy.

MARKET PERFORM ↔

Price : **RM3.72**
Target Price : **RM3.60** ↔

Share Price Performance



KLCI	1,615.8
YTD KLCI chg	11.1%
YTD stock price chg	-2.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DOGT MK Equity
Market Cap (RM m)	4,606.5
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

Insas Bhd	13.7%
KWAP	9.3%
EPF	8.6%

Summary Earnings Table

FYE Jun (RM m)	2023A	2024F	2025F
Turnover	1,016.6	1,169.0	1,402.8
EBITDA	147.3	218.4	271.7
PBT	49.5	119.4	169.0
Net Profit	44.8	104.7	148.3
Core Net Profit	44.8	104.7	148.3
Consensus	-	109.9	146.0
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)	5.1	4.6	4.1
PER (x)	100.9	43.1	30.5
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

29 May 2024

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	3.72	3.60	-3.2%	4,606.5	Y	12/2024	8.5	12.0	133.7%	41.6%	44.0	31.1	4.6	10.8%	1.4	0.4%
GHL SYSTEMS BHD	OP	1.05	1.08	2.8	1,198.6	Y	12/2024	2.4	2.8	-3.5%	15.8%	43.9	38.0	2.2	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.40	4.00	17.6%	12,790.5	Y	06/2024	9.4	11.8	8.6%	25.8%	36.1	28.7	4.8	13.4%	8.9	2.6%
JHM CONSOLIDATION BHD	MP	0.620	0.610	-1.6%	372.7	Y	12/2024	3.3	4.1	40.0%	21.7%	18.6	15.2	1.1	6.2%	0.5	0.8%
KELINGTON GROUP BHD	OP	3.06	4.10	34.0%	2,045.3	Y	12/2024	16.1	19.4	1.0%	20.5%	19.0	15.7	4.8	27.7%	4.5	1.5%
KESM INDUSTRIES BHD	MP	6.37	7.04	10.5%	274.0	Y	07/2024	4.0	8.1	-65.1%	102.8%	158.9	78.4	0.8	0.5%	0.0	0.0%
LGMS BHD	OP	1.55	1.16	-25.2%	706.8	Y	12/2024	4.6	5.6	88.4%	21.8%	33.5	27.4	6.8	22.2%	0.9	0.6%
M'SIAN PACIFIC INDUSTRIES BHD	OP	38.88	46.84	20.5%	7,734.4	Y	06/2024	74.5	138.0	141.8%	85.2%	52.2	28.2	3.7	7.2%	35.0	0.9%
NATIONGATE HOLDINGS BHD	OP	1.86	1.58	-15.1%	3,857.5	Y	12/2024	6.3	6.9	114.8%	9.6%	29.5	26.9	7.2	27.4%	1.0	0.5%
OPPSTAR BHD	OP	1.47	1.72	17.0%	941.2	Y	03/2024	3.4	5.7	3.3%	66.7%	42.7	25.6	6.1	15.1%	0.9	0.6%
P.I.E. INDUSTRIAL BHD	OP	6.25	6.75	8.0%	2,400.3	Y	12/2024	22.2	28.7	15.7%	29.3%	28.2	21.8	3.6	13.4%	7.0	1.1%
SKP RESOURCES BHD	MP	1.11	0.850	-23.4%	1,734.2	Y	03/2024	5.7	6.4	-38.4%	13.1%	19.5	17.3	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										31.7%	31.6%	35.7	27.1	3.9	12.8%		1.0%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★	★	
	Emissions Management	★	★	★	☆	
SPECIFIC	Technology & Innovation	★	★	★	★	
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★	★	
	Ethical Practices	★	★	★	☆	
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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