

30 November 2017

D&O Green Technologies

Missed Expectations

9M17 NP missed expectation owing to unfavourable forex coupled with higher distribution and administrative expenses. Thus, we cut our FY17E/FY18E CNP by 20%/10%. FY18 prospect is bright to be underpinned by: (i) better products portfolio, (ii) production capacity expansion, and (iii) higher stake in DOMINANT to anchor a robust 2-year NP CAGR of 38%. However, upside is limited, capped by its premium valuation. Maintain MP with a lower TP of RM0.650.

Below expectations. The group recorded 3Q17 CNP of RM1.2m (-67% QoQ, -71% YoY), bringing 9M17 CNP to RM11.5m (+8%) which made up 55% of both our and consensus full-year estimates. Note that the core NP has been adjusted mainly for an one-off product liability insurance claim settlement of RM5.6m. Negative deviation was due to the unfavourable forex coupled with higher distribution and administrative expenses (+20% YoY) in 3Q17. However, absence of dividend was as expected. We anticipated 0.5 sen total dividends to be paid for FY17E, which have already been paid out on July 2017.

YoY, 9M17 revenue increased by 10% with better Automotive sales (+26%) offsetting the weaker sales in Non-Automotive segment. This is in line with the group's strategy which is to exit the highly competitive and less profitable LED markets (for general lighting and LED TV) to focus on its core competency in the higher-margin Automotive segment. With better product portfolio, core NP improved by 8% despite higher R&D cost of 29% (at 5% of the group's revenue). **QoQ**, 3Q17 revenue improved by 9% anchored by better sales in both segment. However, with higher distribution and administrative expenses (+20%) coupled with higher effective tax rate of 25.8% (vs 13.7% in 2Q17), core NP dropped by 67%. Note that the core NP has been adjusted for the one-off product liability insurance claim settlement amounting to RM5.6m.

Boiling point of expansion. As of 3QFY17, the group's utilisation rate (UR) is running at an optimal rate of 75%, contributed mainly by Automotive business. We are particularly positive on this as the earnings from Automotive segment remains very sticky given the stringent qualification stage as well as high barriers of entry. To cater for future growth, the group has in Oct 2016 purchased a land-cum-factory building to address the short-term capacity constraints and to cope with the anticipated medium-to-long term demand growth in the Automotive Segment. Management plans to develop the new factory in stages over a period of five years from 2018. Upon full development of the new factory, management estimates that it would be able to increase its production capacity by c.3x from current level. For FY18, we only conservatively expect an additional 30% capacity from existing capacity. All in, we estimate a 2-year CNP CAGR of 38% for the period of FY17E-FY18E, to be driven by: (i) 2-year revenue CAGR of 20% on the assumption of UR of 75%/80% in FY17E/FY18E alongside capacity expansion of +30% in FY18, (ii) higher earnings contribution from DOMINANT (additional 27.95% stake acquisition) as well as EBIT margin assumptions of 6.7-8.1% on better operational efficiency in FY18.

Maintain MARKET PERFORM with a lower TP of RM0.650 (from RM0.730). Post model updates, we cut our FY17E/FY18E CNP by 20%/10% to account for weaker USD/MYR assumption of RM4.20/USD (from RM4.30/USD) as well as higher distribution and administrative expenses. All in, our TP is lowered to RM0.650, still based on an ascribed 26.0x FY18E PER (average 3-year forward PER). This valuation is also in line with its closest peer JHM, which is trading at 2-year forward PER of 25.0x. Even with a higher-than-industry valuation being applied (+44% of the high-end semiconductor industry players of 18.0x 2-year forward PER) for its niche position in the auto LED market, we still see limited capital upside from here. Maintain MARKET PERFORM.

MARKET PERFORM ↔

Price:	RM0.670	
Target Price:	RM0.650	↓
Expected Capital Gain:	-RM0.020	-3.0%
Expected Divd. Yield:	RM0.005	+0.7%
Expected Total Return:	-RM0.015	-2.3%

KLCI Index 1,720.38

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	1,002.3
Market Cap (RM m)	671.6
Par value per share (RM)	0.10
52-week range (H)	0.74
52-week range (L)	0.29
Free Float	57%
Beta	1.3
3-mth avg daily vol	2,559,061

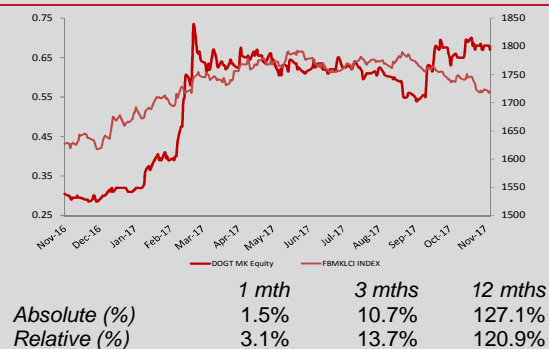
Major Shareholders

Prt Capital Pte Ltd	16.1%
Keen Capital Investments	15.3%
Omega Riang Sdn Bhd	11.3%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	430.1	483.7	620.4
EBITDA	59.1	63.8	84.7
PBT	29.6	30.2	47.9
Net Profit	11.3	16.6	37.1
Core PATAMI	19.5	16.6	37.1
Consensus (NP)	-	20.3	34.0
Earnings Revision	-	-20%	-10%
Core EPS (sen)	1.9	1.6	2.5
Core EPS growth (%)	85.7	-16.4	55.3
NDPS (sen)	0.0	0.5	0.8
NTA per Share (RM)	0.19	0.20	0.20
Price to NTA (x)	3.4	3.3	3.4
PER (x)	34.9	41.7	26.8
Debt-to-Equity ratio (x)	0.2	0.2	0.2
Return on Asset (%)	4%	3%	7%
Return on Equity (%)	10%	8%	13%
Net Div. Yield (%)	0.0%	0.7%	1.2%

Share Price Performance



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Risks to our call include: (i) Disruption of dies supply, (ii) Replacement/obsolescence of LED technology, (iii) Adverse currency fluctuations, and (iv) Adverse foreign labour policy.

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	110.7	101.8	8.8%	103.1	7.4%	330.8	301.5	9.7%
EBIT	15.4	8.2	87.3%	7.5	105.5%	32.3	19.2	68.1%
Adjusted EBIT	9.9	8.2	20.6%	9.2	7.6%	28.5	22.5	26.6%
PBT/(LBT)	14.9	7.7	94.4%	6.9	115.0%	30.7	17.4	76.4%
Taxation	-3.8	-1.0	-265.6%	-2.7	-42.9%	-6.0	-3.6	-68.1%
PAT	11.0	6.1	82.0%	4.2	160.5%	24.7	13.8	78.6%
Net Profit (NP)	6.7	3.7	81.3%	2.5	167.1%	15.4	7.5	106.4%
Core NP	1.2	3.7	-67.4%	4.2	-71.4%	11.5	10.7	7.7%
EPS (sen)	0.6	0.4	79.9%	0.2	159.5%	1.5	0.7	102.7%
DPS (sen)	0.0	0.5		0.0		0.5	0.0	
EBIT margin	13.9%	8.1%		7.3%		9.8%	6.4%	
Adjusted EBIT margin	8.9%	8.0%		8.9%		8.6%	7.5%	
PBT margin	13.4%	7.5%		6.7%		9.3%	5.8%	
NP margin	1.1%	3.6%		4.1%		3.5%	3.6%	
Effective tax rate	-25.8%	-13.7%		-38.8%		-19.6%	-20.6%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Total Revenue (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Total Revenue (RM'm)	110.7	101.8	8.8%	101.8	8.8%	330.8	301.5	9.7%
Automotive	105.0	96.7	8.6%	96.7	8.6%	315.1	251.1	25.5%
Non-automotive	5.7	5.1	11.6%	5.1	11.6%	15.8	50.3	-68.7%

Source: Company, 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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