

06 June 2018

D&O Green Technologies

Accelerating Growth

Our **POSITIVE** conviction is reaffirmed post a recent visit; with catalysts being: (i) better products portfolio, (ii) production capacity expansion, and (iii) higher stake in Dominant to anchor a 2-year CNP CAGR of 60%. We expect higher PATAMI contribution from the consolidation of Dominant from 2Q18 onwards (from 61.84% to 89.8% stake), with 2H18 to see stronger volume ramp-up. Upgrade to OP on a higher rollover TP of RM0.810 (from RM0.640).

Reaping the fruit. D&O's profitability has improved by leaps and bounds since it rejiggered its portfolio three years ago with the exit from the highly competitive and less profitable LED markets (for general lighting and LED TV) to focus on its core competency in Automotive LED. Note that a 3-year GP CAGR of 24% was observed despite the flat revenue CAGR of 3%; with margin on the uptrend from 17.4% in FY14 to 25.4% in FY17. On the recently concluded 1Q18 results, GP margin continued to scale new high, at 27.2% on better product mix, all against the backdrop of industry-wide adverse currency translations. As of 1Q18, sales contribution from Automotive LED is already at c.95% compared to 50% three years ago, with utilisation rate running at an optimal rate of 75% (near to full capacity).

Huge expansion to address capacity constraints. D&O's 5-year expansion plan- that is stemming from its new 2.41 hectare land-cum-factory building (additional 2x of land area, which could house 3x additional capacity), is intact. Construction will be completed in 1Q19, with its head office the first to move in. As of now, we only conservatively expect an additional 25-30% capacity from existing capacity till FY19, with sales assumption underpinned by Automotive products. In terms of product mix, high-margin (by certain ppt) exterior lightings contributed only 30% of total Automotive revenue in FY17. We expect c.45% share in FY19 to be anchored by new supply Business wins with Tier 1 Automotive LED customers stemming from new headlamps, alongside existing orders of Day Running Lights, Side signals, Position Lamps, Rear Combination Lamps which are still seeing wide adoption in new vehicles. Meanwhile on its 70%-sales denominated interior lightings, we gather that the group is already working on its smart RGB products (interior lighting) which would see commercialisation by 2020. Note that this single product, could see ASP of at least 3x-4x higher than existing interior LED lightings. All in, we expect GP margin to hover at 26-27% even after assuming weaker USD/MYR assumption of RM3.90/USD for both years, which anchor our 2-year NP CAGR of 60%.

Settlement to the long-dragged out lawsuit. The group has announced yesterday that its subsidiary- Dominant (defendant)'s court case with Geepar Enterprise Sdn Bhd (Plaintiff) has finally come to a settlement with a final settlement amounted to RM10.2m (inclusive of interest). Recall that this lawsuit is related to the trade payables on the previous invoices that D&O has yet to pay since 2010 due to the ongoing conflict between both parties. As this RM10.2m settlement is lesser than the RM13.3m where D&O has previously accrued under its trade payable in its FY17, net gains of RM3.2m will then be recognised in the 2Q18 following the settlement, which is a POSITIVE development to the company from both financial and litigation perspectives.

Upgrade to OUTPERFORM with a higher TP of RM0.810 (from RM0.640). Post meeting, we tweaked our FY19E CNP by +6% to account for better product mix while maintaining our FY18E CNP as our assumptions remain intact. With an unchanged 24.0x FY19E PER (at its 3-year forward average PER, which is also in line with the valuation of its closest global peer- OSRAM (Germany), our TP is now at RM0.810 based on a rollover valuation to FY19E to capitalise on its growth trajectory.

Risks to our call include: (i) slower-than-expected sales, (ii) disruption of dies supply, (iii) replacement/obsolescence of LED technology, (iv) adverse currency fluctuations, and (v) adverse foreign labour policy.

OUTPERFORM ↑

Price: **RM0.695**

Target Price: **RM0.810** ↑

Expected Capital Gain: **RM0.115 +16.6%**

Expected Divd. Yield: **RM0.007 +1.0%**

Expected Total Return: **RM0.122 +17.6%**

KLCI Index **1,755.14**

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,037.7
Market Cap (RM m)	721.2
Par value per share (RM)	0.10
52-week range (H)	0.80
52-week range (L)	0.53
Free Float	59%
Beta	1.8
3-mth avg daily vol	766,475

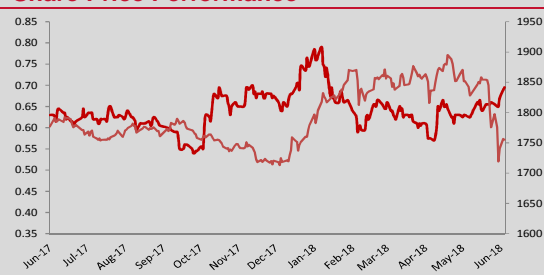
Major Shareholders

PRT Capital Pte Ltd	15.6%
Keen Capital Investments	14.8%
Omega Riang Sdn Bhd	10.9%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	463.3	568.7	700.0
Gross Profit	117.6	148.9	188.3
EBITDA	78.4	90.5	107.5
PBT	45.7	55.4	70.4
Net Profit	22.4	39.5	50.1
Core PATAMI	19.5	39.5	50.1
Consensus (NP)	-	40.2	51.6
Earnings Revision	-	-	+6%
Core EPS (sen)	1.9	2.7	3.4
Core EPS growth (%)	21.3	42.8	26.9
NDPS (sen)	0.5	0.7	0.9
NTA per Share (RM)	0.21	0.21	0.23
Price to NTA (x)	3.3	3.3	3.0
PER (x)	37.3	26.1	20.6
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	4%	7%	8%
Return on Equity (%)	9%	13%	14%
Net Div. Yield (%)	0.7%	1.0%	1.3%

Share Price Performance

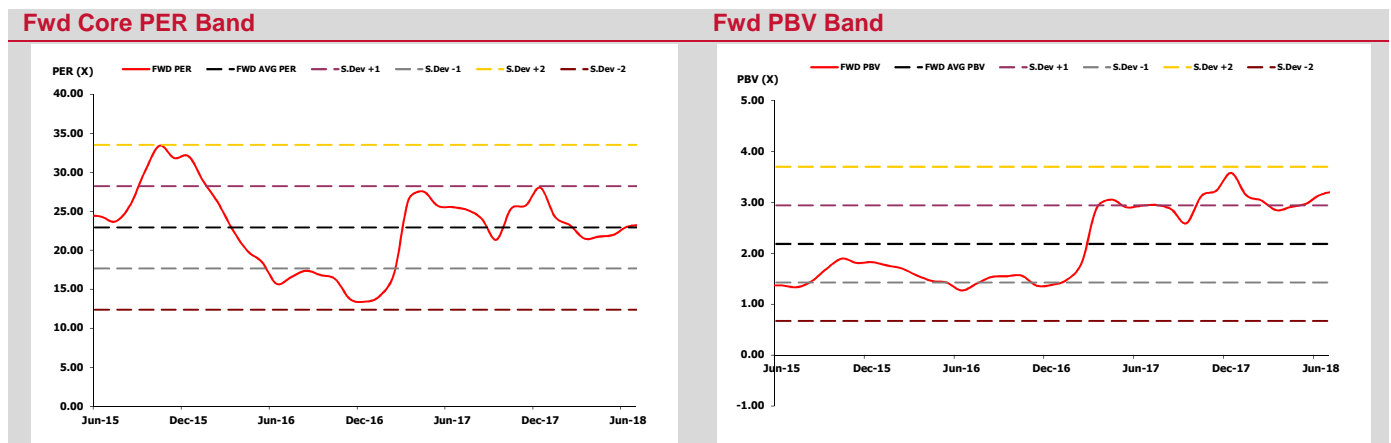


	1 mth	3 mths	12 mths
Absolute (%)	10.3%	8.6%	10.3%
Relative (%)	15.0%	13.3%	12.2%

Desmond Chong
cwchong@kenanga.com.my
+603-2172 2637

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E	FY Dec (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	433.1	430.1	463.3	568.7	700.0	Growth (%)					
Gross Profit	82.9	98.9	117.6	148.9	188.3	Turnover	3%	-1%	8%	23%	23%
EBITDA	46.7	59.1	78.4	90.5	107.5	EBITDA	48%	27%	33%	15%	19%
D&A	-23.2	-27.2	-30.6	-32.9	-35.0	Operating Profit	148%	36%	50%	20%	26%
Operating Profit	23.5	32.0	47.8	57.5	72.5	PBT	256%	56%	55%	21%	27%
Other Income	18.4	6.0	0.0	0.0	0.0	Adj. Net Profit	727%	51%	25%	103%	27%
Interest Exp.	-3.1	-2.4	-2.1	-2.1	-2.1	Adj. FD EPS	729%	49%	21%	43%	27%
Associate	-1.4	0.0	0.0	0.0	0.0	Profitability (%)					
PBT	19.0	29.6	45.7	55.4	70.4	GP Margin	19%	23%	25%	26%	27%
Taxation	-1.4	-8.5	-9.5	-11.5	-14.6	EBITDA Margin	11%	14%	17%	16%	15%
Minority Interest	7.3	9.8	13.9	4.4	5.6	Operating Margin	5%	7%	10%	10%	10%
Net Profit	10.2	11.3	22.4	39.5	50.1	PBT Margin	4%	7%	10%	10%	10%
Core NP	10.3	15.5	19.5	39.5	50.1	Core Net Margin	2%	4%	4%	7%	7%
						Effect. Tax Rate	7%	29%	21%	14%	14%
						ROA	2%	3%	4%	7%	8%
						ROE	6%	8%	9%	13%	14%
						DuPont Analysis					
						Net Margin (%)	2%	4%	4%	7%	7%
						Assets Turnover (x)	1.0	0.9	1.0	1.1	1.2
						Leverage Factor (x)	1.7	1.6	1.5	1.7	1.7
						ROE (%)	6%	8%	9%	13%	14%
						Leverage					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
						Net Cash/(Debt)	1.5	5.6	-4.9	3.7	6.3
						Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
						Valuations					
						EPS (sen)	1.0	1.5	1.9	2.7	3.4
						NDPS (sen)	-	-	0.5	0.7	0.9
						BVPS (RM)	0.19	0.19	0.21	0.21	0.23
						PER (x)	67.5	45.3	37.3	26.1	20.6
						Net Div. Yield (%)	-	-	0.7	1.0	1.3
						PBV (x)	3.7	3.6	3.3	3.3	3.0
						EV/EBITDA (x)	14.6	11.7	8.8	7.7	6.5

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Malaysian Technology Peers Comparison

NAME	Price 05/06/18	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	Core Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
CORE COVERAGE														
MPI	10.20	2028.8	12.0	15.9	13.8	2.8%	16.4%	183.3	134.4	154.8	-27%	15%	8.15	MP
UNISEM	2.51	1836.8	11.6	16.2	12.5	4.4%	11.4%	157.9	113.6	147.4	-28%	30%	1.55	UP
KESM	16.10	692.5	15.7	13.0	11.9	1.0%	14.3%	44.0	53.3	58.0	21%	9%	18.30	MP
DOGT	0.695	721.2	37.3	26.1	20.6	1.2%	8.9%	19.5	39.5	50.1	103%	27%	0.810	OP
SKPRES	1.50	1875.3	14.5	12.3	11.3	4.5%	22.8%	127.0	149.8	163.6	18%	9%	1.85	OP
PIE	1.25	480.1	11.4	10.8	8.8	5.7%	10.5%	42.0	44.3	54.6	5%	23%	1.75	OP
NOTION	0.545	180.0	0.1	0.0	0.1	0.0%	3.4%	11.8	-42.6	13.8	-461%	+132%	0.440	UP

Source: 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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.



Chan Ken Yew
Head of Research

