D&O Green Technologies

Dampened by Trade War and WLTP

MARKET PERFORM ↔

Price:	**RM0.785**	
Target Price:	**RM0.750**	↔

Expected Capital Gain:	*-RM0.035*	*-4.5%*
Expected Divd. Yield:	*RM0.012*	*+1.5%*
Expected Total Return:	*-RM0.023*	*-3.0%*

FY18 core PATAMI surged 75% YoY to RM38.2m, within consensus estimate at 98%, but 7% shy of ours as sales were affected by trade war and WLTP. YoY, 4Q18 core PATAMI more than doubled on higher automotive LED sales, GP margin and stake in Dominant. QoQ, core PATAMI jumped 40% on seasonality and better cost management. No dividend was announced, as expected. Maintain FY19E core PATAMI and introduce FY20E PATAMI of RM69.4m. Maintain MP with an unchanged TP of RM0.750.

Within consensus but missed our estimate. FY18 core PATAMI surged 75% YoY to RM38.2m, which is within consensus estimate at 98%, but 7% shy of ours. We attribute the slight earnings miss to the Chinese imposition of tariffs on US vehicles and the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) emission regulation, both of which have affected vehicle sales in the regions during 4Q18. As a result, FY18 revenue came in short at RM491m, vs. our forecast of RM537m. No dividend was announced during the quarter, as expected.

YoY, 4Q18 revenue climbed 6% on the back of higher automotive LED sales. The segment's revenue contribution continued to inch up further to 97% from 95% in 4Q17, which is consistent with the group's strategy to shun cut-throat competition facing the general LED market (general lighting and LED TV), while switching focus to the higher-margin Automotive segment. The effort, alongside better operating efficiency, led to a 3.6-ppt expansion in GP margin to 29.7%. Coupled with lower minority interests arising from additional acquired stake in Dominant, core PATAMI more than doubled to RM14.2m.

QoQ, 4Q18 revenue rose 14% on seasonality. Traditionally, 4Q is the strongest quarter as customers increase orders to prepare for higher year-end and Chinese New Year demands. Meanwhile, core PATAMI jumped by a larger quantum (+40%) due to a 1.3-ppt improvement in GP margin as well as relatively stagnant R&D expenses and lower overheads.

Expansionary plan is intact. D&O's 5-year expansion plan with its new 2.41 hectare land-cum-factory building (additional 2x land area, which could house 3x additional capacity), is still ongoing. Currently, we are conservatively assuming an additional 25-30% capacity through FY20, which supports our 26-28% growth forecasts for the Automotive segment in FY19-20. In terms of product mix, the higher-margin exterior lightings only constituted c.35% of total Automotive revenue in FY18. The contribution is expected to progressively increase to 50% in 2-3 years, anchored by new supply wins from Tier 1 Automotive LED customers, especially in the headlamps space, alongside existing orders of Day Running Lights, Side signals, Position Lamps, and Rear Combination Lamps, which are still seeing rapid deployment in new vehicles. Meanwhile, on interior lightings, the group is currently working on its smart RGB products and targets commercialisation by 2020. We note that the smart RGB products could see an ASP that is at least 3-4x higher than existing interior LED lightings.

No changes in FY19E core PATAMI as prospects remain intact, while introducing FY20E core PATAMI of RM69.4m, premised on automotive-driven revenue growth 26% and a GP margin of 28%.

Maintain MARKET PERFORM with an unchanged TP of RM0.750 based on an unchanged FY19E PER of 18.0x, in line with the valuation of its German competitor – OSRAM. While D&O offers exciting growth prospects, we believe valuation is stretched at current price levels.

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

KLCI Index	**1,726.18**

Stock Information

Bloomberg Ticker	DOGT MK Equity
Bursa Code	7204
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	1,103.2
Market Cap (RM m)	866.0
Par value per share (RM)	0.10
52-week range (H)	1.00
52-week range (L)	0.55
Free Float	61%
Beta	1.4
3-mth avg daily vol	2,419,802

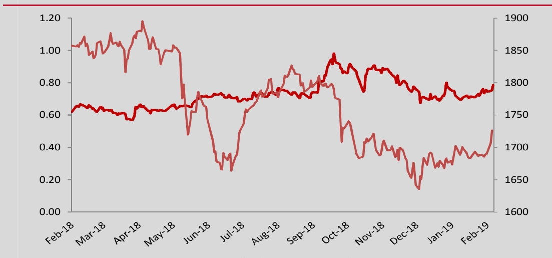
Major Shareholders

Prt Capital Pte Ltd	14.6%
Keen Capital Investments	13.9%
Omega Riang Sdn Bhd	10.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	490.8	626.0	787.0
EBIT	85.1	104.8	128.6
PBT	52.1	68.8	90.8
Net Profit	36.0	52.6	69.4
Core PATAMI	38.2	52.6	69.4
Consensus (NP)	-	49.8	52.1
Earnings Revision	-	-	-
Core EPS (sen)	3.3	4.2	5.2
Core EPS growth (%)	75.1	28.4	23.7
NDPS (sen)	1.0	1.2	1.4
NTA per Share (RM)	0.28	0.29	0.31
Price to NTA (x)	2.8	2.7	2.5
PER (x)	24.1	18.7	15.2
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	7%	9%	10%
Return on Equity (%)	12%	14%	17%
Net Div. Yield (%)	1.2%	1.5%	1.8%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	12.9%	-11.3%	26.6%
Relative (%)	112.9%	88.7%	126.6%

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Results Highlights

FYE Dec (RM'm)	4Q FY18	3Q FY18	QoQ Chg	4Q FY17	YoY Chg	12M FY18	12M FY17	YoY Chg
Turnover	**140.6**	**123.8**	**13.5%**	**132.5**	**6.1%**	**490.8**	**463.3**	**5.9%**
GP	41.8	35.2	18.7%	34.6	20.6%	139.0	117.6	18.2%
EBIT	17.6	14.3	23.6%	15.5	13.8%	54.4	47.8	13.8%
Adjusted EBIT	19.7	14.0	40.7%	14.7	34.0%	55.6	46.9	18.7%
PBT/(LBT)	17.0	13.4	27.0%	15.0	13.5%	52.1	45.7	14.0%
Taxation	-3.2	-1.8	-72.5%	-3.4	7.3%	-9.9	-9.5	-4.8%
PAT	13.9	11.6	19.7%	11.6	19.7%	42.2	36.3	16.4%
Core PAT	15.9	11.3	40.9%	**10.8**	47.7%	**44.9**	**35.3**	27.1%
Net Profit / (Loss)	12.3	10.4	18.8%	6.9	77.6%	36.0	22.4	60.8%
Core NP	**14.2**	**10.1**	**39.8%**	**6.5**	**119.2%**	**38.2**	**21.8**	**75.4%**
FD EPS (sen)	0.8	0.7	18.6%	0.7	23.3%	2.5	2.1	16.1%
DPS (sen)	0.0	0.5	N.M.	0.0	N.M.	0.5	0.5	0%
GP margin	29.7%	28.4%		26.1%		28.3%	25.4%	
EBIT margin	12.5%	11.5%		11.7%		11.1%	10.3%	
Adjusted EBIT margin	14.0%	11.3%		11.1%		11.3%	10.1%	
Pretax margin	12.1%	10.8%		11.3%		10.6%	9.9%	
NP margin	8.8%	8.4%		5.2%		7.3%	4.8%	
CNP margin	10.1%	8.2%		4.9%		7.8%	4.7%	
Effective tax rate	-18.7%	-13.8%		-22.9%		-19.0%	-20.7%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q FY18	3Q FY18	QoQ Chg	4Q FY17	YoY Chg	12M FY18	12M FY17	YoY Chg
Total Revenue (RM'm)	**140.6**	**123.9**	**13.5%**	**132.5**	**6.1%**	**490.8**	**463.3**	**5.9%**
Automotive	135.9	117.5	15.7%	126.9	7.1%	467.0	441.9	5.7%
Non-automotive	4.7	6.4	-26.8%	5.7	-17.8%	23.7	21.4	10.8%

Source: Company, Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BERHAD	0.785	866.0	Y	12/2019	27.6%	25.7%	37.6%	32.0%	24.1	18.7	15.2	2.8	2.7	14.4%	1.5%	0.750	MP
KESM INDUSTRIES BERHAD	9.27	398.7	Y	07/2019	-9.8%	15.1%	-41.8%	48.8%	10.1	17.4	11.7	1.1	1.1	6.3%	1.2%	8.00	MP
MALAYSIAN PACIFIC INDUSTRIES BERHAD	10.14	2,016.8	N	06/2019	8.1%	5.4%	16.0%	5.8%	11.8	10.2	9.6	1.8	1.7	13.6%	3.1%	13.00	OP
P.I.E. INDUSTRIAL BERHAD	1.63	626.0	Y	12/2018	-6.4%	16.5%	-16.4%	32.9%	14.9	17.8	13.4	1.6	1.5	8.6%	3.1%	1.70	OP
SKP RESOURCES BHD	1.36	1,700.3	Y	03/2019	-9.2%	16.5%	-13.3%	19.0%	13.2	15.4	13.0	3.0	2.8	18.8%	3.3%	1.25	OP
UNISEM (M) BERHAD	3.08	2,239.4	Y	12/2018	-6.3%	8.7%	-34.5%	34.4%	14.2	19.9	15.1	1.5	1.5	7.0%	2.9%	3.30	Accept Offer

Source: Bloomberg, 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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