

23 August 2018 | 2QFY18 Results Review

D&O Green Technologies Berhad

Earnings growth to accelerate further in 2HFY18

Maintain BUY

Unchanged Target Price (TP): RM0.88

INVESTMENT HIGHLIGHTS

- **Higher sales of automotive LED and improvement in profit margin raised 2QFY18 normalised earnings by +78.7%yoy**
- **1HFY18 normalised earnings within our expectation**
- **Higher plant utilisation rate and new business win for the exterior automotive LED to boost 2HFY18 earnings**
- **Capital spending expected to accelerate further in 2HFY18**
- **Maintain BUY with an unchanged target price of RM0.88**

Impressive earnings growth. D&O Green Technologies Bhd's (D&O) 2QFY18 normalised earnings came in at RM7.4m, representing an impressive increase of +78.7%yoy. The growth in earnings was mainly attributable to increase in sales from both the automotive (+10.6%yoy) and non-automotive segments (+25.1%yoy). There were also better cost management and improvement in production efficiency which led to expansion in profit margin of 6.5% as compared 4.1% achieved in 2QFY17. Note that sales from the Asia region remain flat in view of inventory adjustment which commenced after Chinese new year.


Earnings kept pace with expectation. Driven by the surge in 2QFY18 normalised earnings, D&O 1HFY18 normalised earnings came in at RM14.6m (+52.9%yoy). This accounts for 34.8% and 35.4% of ours and consensus' full year FY18 earnings estimates respectively. Nonetheless, D&O's 1HFY18 financial performance came in within our expectation. This is premised mainly on: i) expected higher 2HFY18 plant utilization rate of 80% (vs 1HFY18: 65%), ii) commercialisation of new business wins especially for the exterior automotive lighting applications such as Rear Combo Light (RCL) and; iii) continuous cost and production optimization initiatives.

Allocating higher capital expenditure (capex) for 2HFY18. 1HFY18 capex of RM16.3m was mainly spent on equipment purchase for new products, capacity expansion, machine upgrade, plant automation and quality control processes. For 2HFY18, management guided that capex will accelerate to RM38m. The additional capex is to mainly cater for the renovation of the new building (approx. RM10m) and laboratory expansion to strengthen Dominant's in-house test capabilities (approx. RM5m).

RETURN STATS	
Price (21 st August 2018)	RM0.75
Target Price	RM0.88
Expected Share Price Return	+17.3%
Expected Dividend Yield	+2.4%
Expected Total Return	+19.7%

STOCK INFO		
KLCI	1,798.1	
Bursa / Bloomberg	7204 / DOGT MK	
Board / Sector	Main / Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	1,040.1	
Market cap. (RMm)	780.1	
Price over NA	2.5x	
52-wk price Range	RM0.53–RM0.80	
Beta (against KLCI)	1.38	
3-mth Avg Daily Vol	1.2m	
3-mth Avg Daily Value	RM0.89m	
Major Shareholders (%)		
PRT Capital Pte. Ltd.	15.53	
Keen Capital Investments	14.75	
Omega Riang Sdn Bhd	10.84	
Price Performance (%)	Absolute	Relative
1 month	7.1	4.6
3 months	5.6	17.5
12 months	24.0	22.3

Target Price. We are maintaining our target price of **RM0.88** per share. This is premised on FY19 EPS of 3.5sen pegged to unchanged FY19 forward PER of 25.2x. Our target PER is based on the group's two year historical average low PER.

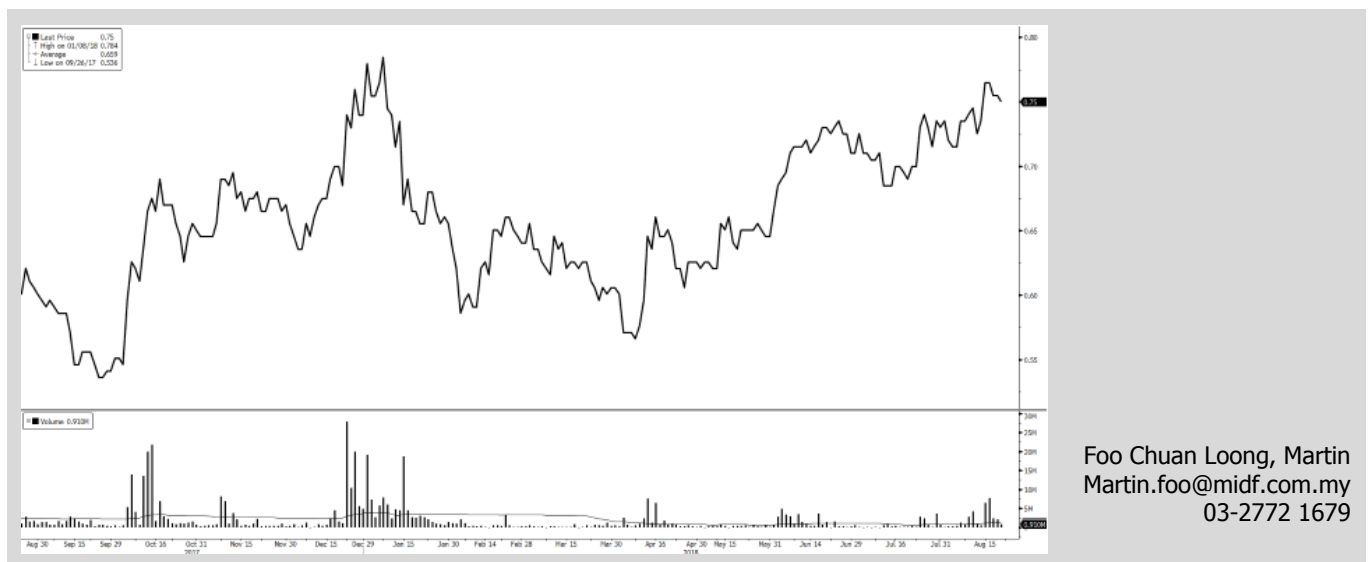
Maintain BUY. The shift in focus to automotive LED lighting has greatly improved the group's earnings growth prospect in recent years. Premised on new automotive model rollout and advancement in the production know-how, we expect the group would be able to consistently expand its profit margin and thus, earnings. In the immediate term, the demand of exterior automotive LED would pick up at a higher pace as compared to interior automotive LED. On a longer term horizon, the group's earnings growth would stem from the increase in adoption of ambient lighting in conjunction with the higher acceptance for autonomous car. The expectation of progressive increase in dividend payment, in view of better financial position, would further elevate the stock attractiveness. All factors considered, we are maintaining our **BUY** recommendation on the stock. 

INVESTMENT STATISTICS

Financial year ending 31 st Dec (in RM'm, unless otherwise stated)	2016	2017	2018E	2019F
Revenue	430.1	463.3	543.1	642.8
Operating profit	31.5	47.7	55.1	67.3
Profit before tax	29.6	45.7	53.7	65.5
Profit after tax after non-controlling interest	11.3	22.4	42.0	52.4
Normalised PATANCI	12.8	26.8	42.0	52.4
Normalised PATANCI margin (%)	3.0	5.8	7.7	8.2
Normalised EPS (sen)	1.3	2.6	2.8	3.5
Price-earnings ratio (x)	59.4	29.3	27.0	21.6
DPS (sen)	-	1.0	1.3	1.8
Dividend yield (%)	-	1.3	1.7	2.4

Source: Company, MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

D&O GREEN TECHNOLOGIES BHD – 2QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 30 th June	2QFY18	% YoY	% QoQ	2018	2017	% YoY
Revenue	113.3	11.3	0.2	226.3	220.1	2.8
EBITDA	19.7	29.7	11.6	37.3	30.7	21.6
Depreciation and amortisation	-7.5	7.3	2.1	-14.8	-13.8	7.3
EBIT	12.2	48.7	18.3	22.5	16.9	33.3
Finance costs	-0.5	-19.9	-2.4	-0.9	-1.1	-18.9
Interest income	0.0	193.8	135.0	0.1	0.1	-5.6
PBT	11.8	54.1	19.5	21.7	15.8	36.9
Taxation	-2.7	154.4	20.2	-4.9	-2.2	123.0
MI	-1.0	-65.5	-60.3	-3.5	-4.9	-28.8
PATANCI	8.1	118.9	58.4	13.3	8.7	52.5
Normalised PATANCI	7.4	78.7	2.4	14.6	9.6	52.9
Normalised EPS (sen)	0.5	22.5	2.4	1.1	0.9	16.1
		+/- pts	+/- pts			+/- pts
EBITDA margin (%)	17.4	2.5	1.8	16.5	13.9	2.5
EBIT margin (%)	10.8	2.7	1.7	9.9	7.7	2.3
Normalised PATANCI margin (%)	6.5	2.5	0.1	6.5	4.3	2.1
Effective tax rate (%)	22.6	8.9	0.1	22.6	13.8	8.7

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.