

09 February 2018 | Visit Note

D&O Green Technologies Berhad

Working on higher value products

Maintain NEUTRAL

Unchanged Target Price (TP): RM0.66

INVESTMENT HIGHLIGHTS

- **Production capacity expansion on track**
- **Exterior LED and new products to drive future growth**
- **Acquisition of 27.95% of Dominant shares to be concluded by 1Q18**
- **Expansion initiatives to have earnings impact only from FY19F onwards**
- **Maintain NEUTRAL and TP of RM0.66**

Production capacity expansion on track. We came away feeling reaffirmed of D&O's long-term expansion plan after visiting its plant recently. The company is installing new generation production lines that require less floor area. The company plans to relocate the administrative office to the new property in 2H18. With the additional floor space and newer production lines, its production capacity can potentially double from the current level upon completion of the relocation and installation of new machines. Any positive earnings impact is only expected from FY19F onwards. Recall that D&O has purchased the adjacent factory for RM11m and will carry out the expansion in stages up till 2023. Ultimately, the total production capacity together with the new plant can be three to four times its current capacity as the new machines take up less floor area.

Exterior LED and new products to drive future growth.

Currently, LED for exterior lighting makes up about 25% of its automotive lighting sales. The ratio is expected to increase gradually to 40% in five years' time. On top of that, it is also targeting to roll out its smart red green blue (RGB) product, which commands close to 10 times the average selling prices of existing products, in FY19. With the shift to higher exterior LED lighting and smart RGB, we anticipate for profit margins to improve in the next two years. For FY18F, we had anticipated a 1.1ppt yoy improvement for its EBIT margin.

Acquisition of 27.95% of Dominant shares to be concluded by 1Q18.

The EGM for the acquisition of the additional 28% stake in its main income contributor Dominant will be on 21 Feb. The exercise will see an issuance of 451.17 million irredeemable convertible preference shares (ICPS) in D&O, which is expected to be concluded by 1Q18. We have previously anticipated for earnings impact that's limited to 1.4% from this exercise. We do not anticipate immediate conversion of the ICPS to the D&O shares as the company's free float is hovering around 26%. Overall, the impact of this exercise is expected to be neutral.

RETURN STATS	
Price (8 February 2018)	RM0.605
Target Price	RM0.66
Expected Share Price Return	+9.1%
Expected Dividend Yield	+1.0%
Expected Total Return	+10.1%

STOCK INFO		
KLCI	1,839.44	
Bursa / Bloomberg	7204/ DOGT MK	
Board / Sector	Main/ Technology	
Syariah Compliant	Yes	
Issued shares (m)	1,005.81	
Market cap. (RM'm)	608.51	
Price over NTA	3.31	
52-wk price Range	0.37-0.80	
Beta (against KLCI)	1.59	
3-mth Avg Daily Vol	3.57	
3-mth Avg Daily Value	2.57	
Major Shareholders (%)		
PRT Capital Pte Ltd	16.06	
Keen Capital Investments	15.26	
Omega Riang Sdn Bhd	11.21	
Price Performance (%)	Absolute	Relative
1 month	-19.3	-19.9
3 months	-18.8	-17.3
12 months	63.5	50.1

Continuous research and development (R&D) for new applications of new smarter cars. D&O is working with selected integrated chip makers and car makers for the new generation cars, which also include but not limited to electric and driverless cars. As cars feature more and more smart and safety features, the composition of LED is expected to climb to 50% from about 20% now. D&O typically allocates 3% to 4% of its annual sales for R&D purposes. Besides product designs, it also designs some of its production machineries in-house.

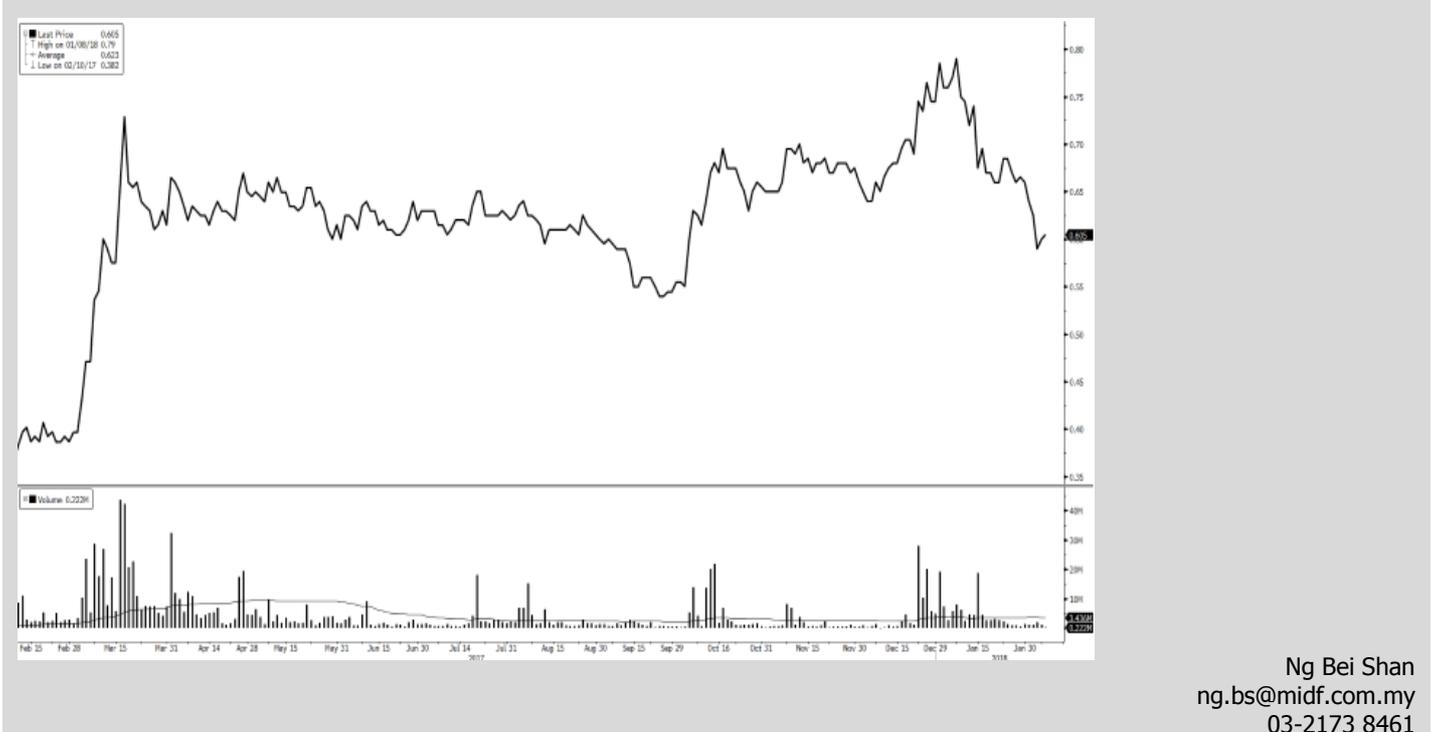
Maintain NEUTRAL and TP of RM0.66 as we make no changes to our estimates. Our TP of RM0.66 is based on an unchanged PER of 25x pegged on FY18F EPS of 2.6 sen. Although we expect FY18F earnings to grow 37%yoy, we believe that much of the positives are being priced-in for the near-term. We expect its expansion initiatives to have an impact from FY19F onwards. With that, we maintain our Neutral recommendation. 

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	421.3	433.1	430.1	481.7	573.2
Pretax Profit (RM'm)	5.3	19.0	29.6	39.5	53.3
Net Profit (RM'm)	0.7	10.2	11.3	19.7	26.9
EPS (sen)	0.1	1.0	1.1	1.9	2.7
EPS growth	81%	1298%	9%	75%	37%
PER (x)	826.6	59.1	54.3	31.1	22.8
Net Dividend (sen)	N/A	N/A	N/A	0.6	0.8
Dividend yield	N/A	N/A	N/A	1.0%	1.3%
Gearing (x)	0.35	0.23	0.17	0.18	0.19
ROE (%)	0.5	5.5	5.7	9.1	11.0
ROA (%)	0.2	2.3	2.4	3.8	4.5
NTA per share (RM)	0.10	0.16	0.17	0.19	0.22
Price to NTA (x)	5.8	3.9	3.6	3.2	2.8

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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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.