

29 November 2018 | 3QFY18 Results Review

D&O Green Technologies Berhad

Capital spending remains at elevated level

Downgrade to NEUTRAL
(previously BUY)

Revised Target Price (TP): RM0.86
(previously RM0.88)

INVESTMENT HIGHLIGHTS

- **Higher sales of automotive LED and improvement in profit margin raised 3QFY18 normalised earnings to RM9.6m**
- **However, cumulative 9MFY18 normalised earnings failed to kept pace with ours and consensus expectations**
- **9MFY18 capex came in at RM41.3m, in-line with management guidance of up to 12% of revenue.**
- **Declared first interim dividend of 0.5sen per share**
- **Downgrade to NEUTRAL with a revised TP of RM0.86**

Double digit earnings growth. D&O Green Technologies Bhd's (D&O) 2QFY18 normalised earnings came in at RM9.6m, which represent an increase of +18.6%yoy. The growth in earnings was mainly attributable to increase in automotive LED sales to RM117.5m. This was further boosted by better cost management, production efficiency improvements. Nonetheless, the rise in earnings was partially offset by higher R&D expenses which were attributable to additional product test qualifications for new and existing products.

4QFY18 earnings to trend higher sequentially. Driven by the growth in 3QFY18 normalised earnings, D&O's 9MFY18 normalised earnings came in at RM24.5m (+40.0%yoy). This is below ours and consensus expectations, accounting for 58.3% and 60.0% of full year FY18 earnings estimates respectively. Nonetheless, we are expecting 4QFY18 earnings to be sequentially higher as compared to 3QFY18 in view of: i) anticipated higher plant utilisation rate, ii) new business wins especially for the exterior automotive lighting applications such as Rear Combo Light (RCL) and; iii) continuous cost and production optimization initiatives.

Sustained capital spending. 9MFY18 capital expenditure (capex) remained elevated at RM41.2m, in comparison with 9MFY17 capex of RM41.6m. This is in-line with management annual capex guidance of up to 12% of revenue. The bulk of the capex was spent on new production equipment, machine upgrades, process automation, new laboratory and QC equipment and renovation costs.


Dividend. The group announced first interim dividend of 0.5sen per share. We are expecting the group to progressively declare higher dividend, given its healthier cash balance.

RETURN STATS	
Price (28 st November 2018)	RM0.845
Target Price	RM0.86
Expected Share Price Return	+1.8%
Expected Dividend Yield	+2.1%
Expected Total Return	+3.9%

STOCK INFO		
KLCI	1,686.55	
Bursa / Bloomberg	7204 / DOGT MK	
Board / Sector	Main / Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	1,040.1	
Market cap. (RMm)	928.1	
Price over NA	2.5x	
52-wk price Range	RM0.55–RM1.00	
Beta (against KLCI)	1.37	
3-mth Avg Daily Vol	5.5m	
3-mth Avg Daily Value	RM4.6m	
Major Shareholders (%)		
PRT Capital Pte. Ltd.	14.71	
Keen Capital Investments	13.97	
Omega Riang Sdn Bhd	10.27	
Price Performance (%)	Absolute	Relative
1 month	13.4	13.2
3 months	-6.6	24.1
12 months	26.1	28.6

Earnings impact. We are revising downwards FY18 earnings and FY19 earnings by -8.0% and -5.5% respectively as we assume a more conservative revenue growth rate assumption for the automotive led segment.

Target Price. We are revising our target price to **RM0.86** 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.

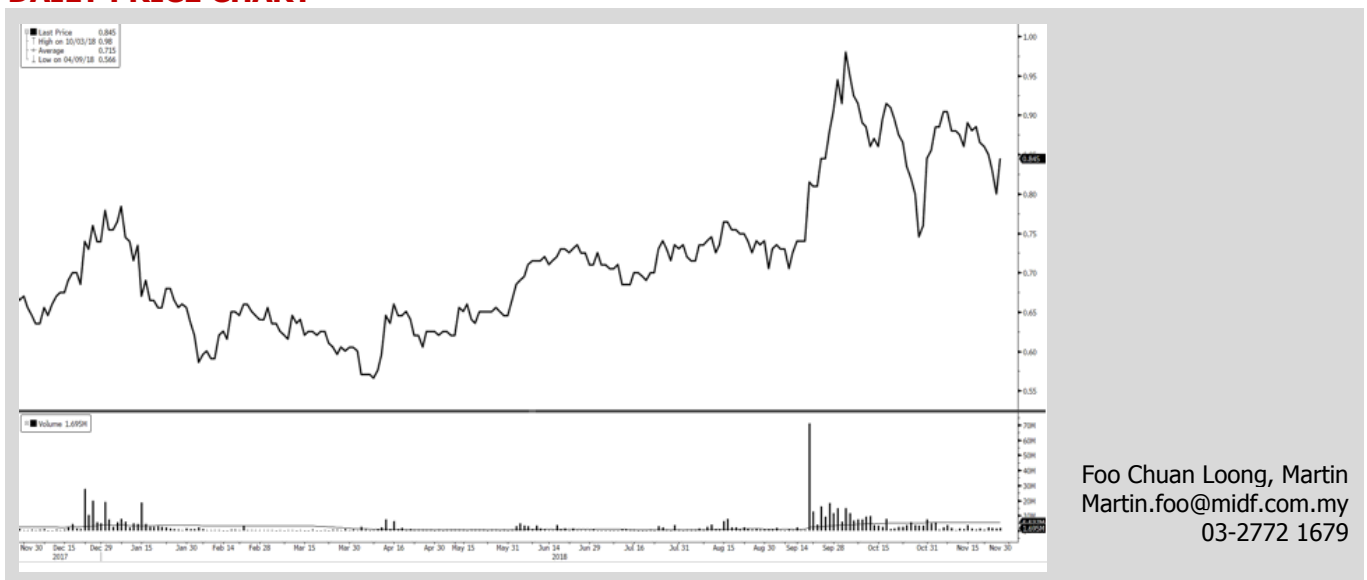
Downgrade to NEUTRAL. The shift in focus to automotive LED lighting has greatly improved the group's earnings growth prospect in recent years. Premised on new automotive model rollout and advancement in the production know-how, we expect the group would be able to consistently expand its profit margin 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. However, we are anticipating the future earnings growth rate to taper off in view of high base effect. In addition, at current share price, the dividend yield is rather unattractive at approximately two percent. All factors considered, we are downgrading our recommendation to **NEUTRAL** from buy previously. 

INVESTMENT STATISTICS

Financial year ending 31 st Dec (in RM'm, unless otherwise stated)	2016	2017	2018E	2019F
Revenue	430.1	463.3	507.8	623.1
Operating profit	31.5	47.7	50.8	65.0
Profit before tax	29.6	45.7	49.4	63.2
Profit after tax after non-controlling interest	11.3	22.4	38.6	50.5
Normalised PATANCI	12.8	26.8	38.6	50.5
Normalised PATANCI margin (%)	3.0	5.8	7.6	8.1
Normalised EPS (sen)	1.3	2.6	2.6	3.4
Price-earnings ratio (x)	66.9	33.0	33.0	25.2
DPS (sen)	-	1.0	1.3	1.8
Dividend yield (%)	-	1.2	1.5	2.1

Source: Company, MIDFR

DAILY PRICE CHART



Foo Chuan Loong, Martin
 Martin.foo@midf.com.my
 03-2772 1679

D&O GREEN TECHNOLOGIES BHD – 3QFY18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 30th June	3Q18	% YoY	% QoQ	2018	2017	% YoY
Revenue	123.8	11.9	9.3	350.2	330.8	5.9
EBITDA	21.8	-2.1	10.9	59.1	52.9	11.6
Depreciation and amortisation	-7.7	10.9	2.8	-22.4	-20.7	8.5
EBIT	14.1	-8.0	15.9	36.7	32.3	13.6
Finance costs	-0.8	61.6	84.5	-1.7	-1.6	6.5
Interest income	0.1	348.0	138.3	0.2	0.1	86.5
PBT	13.4	-9.8	13.8	35.1	30.7	14.3
Taxation	-1.8	-51.9	-30.8	-6.7	-6.0	11.7
MI	-1.2	-72.2	20.0	-4.4	-9.3	-52.8
PATANCI	10.4	54.1	27.6	24.0	15.4	56.0
Normalised PATANCI	9.6	18.6	29.4	24.8	17.5	41.8
Normalised EPS (sen)	0.6	-18.2	29.2	1.8	1.7	4.5
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	17.6	-2.5	0.3	16.9	16.0	0.9
EBIT margin (%)	11.4	-2.5	0.6	10.5	9.7	0.7
Normalised PATANCI margin (%)	7.7	0.4	1.2	7.1	5.3	1.8
Effective tax rate (%)	13.8	-12.0	-8.9	19.2	19.6	-0.4

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X) pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report. It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.