

15 August 2018 | Visit Note

D&O Green Technologies Berhad

Robust earnings outlook

Upgrade to BUY
(Previously NEUTRAL)
Higher Target Price (TP): RM0.88
(previously RM0.74)

INVESTMENT HIGHLIGHTS

- **Conventional car replacement and facelift cycle translates into strong earnings visibility for the group**
- **Better demand for automotive exterior LED serves as immediate catalyst**
- **Strong cash generation capability to support progressive dividend payment**
- **Upgrade to BUY with a higher target price of RM0.88**

Good business horizon. Traditionally, new cars are fully redesigned every five years. In between redesigns, the cars are given facelift every two to three years. Being one of the top global suppliers in the automotive light emitting diode (LED) market, D&O Green Technologies Bhd (D&O) products' visibility would mimic the automotive replacement and facelift cycle. This visibility would place D&O in a better position to strategise and plan ahead as compared to its peers in the semiconductor.

Strong demand for the exterior automotive LED segment. At present, more than one quarter of the demand for the automotive LED come from the exterior automotive LED while the rest stem from the interior automotive LED. In the immediate term, demand for the exterior automotive LED is expected to pick up pace. This concurs with LEDinside's views that the automotive LED market is expected to grow by +12.4%yoy in 2018, primarily driven by demand for headlamp, fog light and automotive panel.

Figure 1: Exterior illumination



Source: Company

RETURN STATS	
Price (14 th August 2018)	RM0.735
Target Price	RM0.88
Expected Share Price Return	+19.7%
Expected Dividend Yield	+2.4%
Expected Total Return	+22.1%

STOCK INFO		
KLCI	1,783.78	
Bursa / Bloomberg	7204 / DOGT MK	
Board / Sector	Main / Industrial	
Syariah Compliant	Yes	
Issued shares (mil)	1,041.1	
Market cap. (RMm)	764.5	
Price over NA	2.5x	
52-wk price Range	RM0.53–RM0.80	
Beta (against KLCI)	1.40	
3-mth Avg Daily Vol	0.70m	
3-mth Avg Daily Value	RM0.67m	
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	7.3.	3.6
3 months	3.5	16.3
12 months	20.5	19.7

Figure 2: D&O's global customer profile for exterior automotive LED



Source: Company

Strong financial position. Due to the strong cash generating capability, the group has been in a net cash position since 2017. This reaffirms the group's commitment towards its R&D activities and capital spending. The improvement in the financial position has also enables the group to recommence their dividend payment of 1.0sen per share in FY17. To recall, the group's last dividend payment was made for financial year ending 2008 at 0.35sen per share. Moving forward, we expect the strong cash generating capability to enable the group to progressively increase its dividend payment.

Impact to earnings. We are adjusting FY18 and FY19 earnings marginally lower to RM42.0m and RM52.4m respectively as we are reducing our contribution from the non-automotive segment and assuming slightly higher labour costs.

Target price. We are rolling forward our valuation base year to FY19 and derive a new target price of **RM0.88** per share (previously RM0.74 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.

Upgrade to 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 upgrading our recommendation to **BUY** from Neutral previously. 

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)	58.2	28.7	26.4	21.2
DPS (sen)	-	1.0	1.3	1.8
Dividend yield (%)	-	1.4	1.8	2.4

Source: Company, MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

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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.