

## D&O Green Technologies Berhad

(7204 | DOGT MK) Technologies | Semiconductors

### Profit Margin Under Pressure

#### KEY INVESTMENT HIGHLIGHTS

- **Downgrade to NEUTRAL (previously BUY) with a lower TP of RM3.21 post 4QFY23 results announcement**
- **4QFY23 normalised earnings came in better on a year-on-year and quarter-on-quarter basis at RM23.4m, in tandem with the revenue growth**
- **Nonetheless, FY23 normalised still contracted by -60.8%yoy to RM46.0m mainly impacted by higher cost of sales and finance costs**
- **While we expect revenue to continue to grow, the profitability will continue to be impacted by operating costs**

**Concern with costs.** We are downgrading our recommendation to **NEUTRAL** (previously BUY) with a lower target price of RM3.21 in conjunction with the release of the 4QFY23 financial results. We expect the revenue to remain on expansionary mode. However, taking cue from the 4QFY23 results announcement, we are concern on the higher cost which led to contraction in profit margin. We expect the recovery on profit margin may take some time which largely depend on the utilization rate.

**Quarterly revenue hits record high.** D&O's 4QFY23 normalised earnings improved by +41.1%yoy and +11.9%qoq to RM23.4m. This was in tandem with the stronger revenue performance of RM310.0m. (+25.4%yoy; +14.0%qoq). We understand that during the quarter-in-review the utilisation rate has been steadily increasing to approximately 90%.

**Double digit decline in FY23 performance.** On a cumulative basis, FY23 normalised earnings amounted to RM46.0m, a decline of -60.8%yoy. This was despite a +3.4%yoy growth in revenue to RM1,016.6m.

The group incurred higher costs of sales which emanated from higher depreciation and amortization, electricity, and wages costs. In addition, finance cost also expanded by +181.7%. This has led to lower profit margin of 4.5%.

All in, the group's FY23 financial performance fail to meet our expectation by a variance of more than 10% mainly due to the unfavourable cost structure.

**Reduction in earnings estimates.** Given the underperformance, we cut FY24 and FY25 earnings estimates by -37.3% and -33.7% to RM71.1m and RM90.4m respectively. This is mainly achieved by inputting a higher cost structure to better reflect the results thus far.

**Lower target price.** Given the earnings estimate adjustment, we are revising our target price. We are also rolling forward our valuation base year to FY25 and derived a target price of RM3.21. This is based on revised FY25 EPS of 7.9sen against unchanged target PER of 40.8x.

## Downgrade to NEUTRAL

(Previously BUY)

**Revised Target Price: RM3.21**

(Previously RM4.03)

#### RETURN STATISTICS

Price @ 26 <sup>th</sup> February 2024 (RM)	3.49
Expected share price return (%)	-8.0
Expected dividend yield (%)	+0.4
<b>Expected total return (%)</b>	<b>-7.6</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	-1.8
3 months	-2.5	-6.9
12 months	-22.4	-27.2

#### INVESTMENT STATISTICS (RM)

FYE December	2024E*	2025F	2026F
Revenue	1,184	1,310	1,451
Operating Profit	98.0	122.6	148.0
Profit Before Tax	86.8	110.5	135.0
Core PATAMI	71.1	90.4	110.2
Core EPS (sen)	6.2	7.9	9.6
DPS (Sen)	1.3	1.3	1.3
Dividend Yield (%)	0.4	0.4	0.4

#### KEY STATISTICS

FBM KLCI	1,547.6
Issue shares (m)	1,237.3
Estimated free float (%)	65.6
Market Capitalisation (RM'm)	4,371.1
52-wk price range	RM3.03-RM4.72
3-mth average daily volume (m)	1.41
3-mth average daily value (RM'm)	4.93
Top Shareholders (%)	
PRT Capital Pte Ltd	13.07
Keen Capital Investments	12.39
Omega Riang Sdn Bhd	9.11

**D&O GREEN TECHNOLOGIES BHD: 4QFY23 RESULTS SUMMARY**

(All in RM'm unless stated otherwise)	Quarterly Results			Cumulative			
	31st December	4QFY23	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Revenue		310.0	25.4	14.0	1016.6	983.0	3.4
EBITDA		54.4	65.7	22.0	141.7	157.6	-10.1
Depreciation and amortisation		-22.6	26.8	15.7	-80.3	-64.0	25.4
EBIT		31.8	111.9	26.9	61.4	93.7	-34.4
Finance costs		-6.0	86.1	1.8	-21.5	-7.6	181.7
Interest income		2.7	281.7	12.9	9.6	4.5	113.2
Contribution from JV		0.0	n.m.	n.m.	0.0	0.0	n.m.
Profit before taxation		28.4	128.1	32.2	49.5	90.5	-45.3
Taxation		-1.6	-166.6	-4.4	-1.8	-7.1	-74.4
Non-controlling interest		-2.5	82.4	60.1	-3.5	-8.3	-57.2
PATANCI		24.3	79.3	33.3	44.1	75.1	-41.3
Normalised PATANCI		23.4	41.1	11.9	46.0	117.3	-60.8
EPS (sen)		1.4	72.4	28.2	2.8	7.3	-60.8
			+/- pts	+/- pts			+/- pts
EBITDA margin (%)		17.5	4.3	1.2	13.9	16.0	-2.1
EBIT margin (%)		10.3	4.2	1.0	6.0	9.5	-3.5
Normalised PATANCI margin (%)		7.8	2.4	1.1	4.5	11.9	-7.4
Effective tax rate (%)		5.7	25.4	-2.2	3.7	7.8	-4.2

Source: Company, MIDFR

**FINANCIAL SUMMARY**

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	983.0	1016.6	1184.0	1310.4	1451.1
EBITDA	157.6	141.7	187.7	221.5	245.9
EBIT	93.7	61.4	98.0	122.6	148.0
PBT	90.5	49.5	86.8	110.5	135.0
Normalised PATANCI	117.3	46.0	71.1	90.4	110.2
Normalised EPS (sen)	7.3	2.8	6.2	7.9	9.6
Normalised EPS Growth (%)	2.8	-60.8	117.6	27.2	22.0
PER (x)	48.0	122.6	56.3	44.3	36.3
Dividend Per Share (sen)	1.3	1.3	1.3	1.3	1.3
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology