

D&O Green Technologies Bhd

(7204 | DOGT MK) Technologies | Semiconductors

Yet to feel the full impact of Covid-19

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings reduced by -1.5%yoy to RM5.6m, which came in below our expectation**
- **Underutilisation of manufacturing capacity as well as higher operating cost led to contraction in 1QFY20 profit margin**
- **Nonetheless, 1QFY20 revenue grew to RM118.2m, mainly supported by the Asia and Europe markets**
- **Covid-19 pandemic to have a more profound effect on the company from 2QFY20 onwards**
- **Downgrade to Trading Sell with a revised TP of RM0.63**

Marginal decline in earnings. D&O Green Technologies Bhd (D&O) 1QFY20 normalised earnings came in at RM5.6m, a slight decline of -1.5%yoy. This was mainly due to decline in gross profit margin to 25.6% (vs 1QFY19: 27.0%) as well as higher distribution and administrative expenses. Note that the contraction in gross profit margin was attributable to the underutilization of manufacturing capacity during the second half of March 2020. All in, this came below ours and consensus expectation, accounting for 12.3% and 13.0% of full year FY20 earnings estimates respectively.

Not much impact from Covid-19 yet. 1QFY20 revenue expanded by +4.5%yoy to RM118.2m. This was mainly premised on higher revenue from Asia and Europe to RM69.4m (+1.7%yoy) and RM33.1m (+24.0%yoy) respectively. As for the negative effects of the Covid-19 pandemic, it was only felt from second half of March 2020 onwards. Nonetheless, the US market has shown contraction in demand, decreasing by -11.9%yoy to RM12.5m.

Lower R&D spending. The group's research and development expenses came in -15.2%yoy lower to RM5.0m. This was in view of fewer outsource product reliability testing following a major upgrade of Dominant's in-house laboratory capabilities.

Impact. We are inputting lower FY20/21/22 earnings estimates of RM32.5/42.1/48.2m respectively as we take into account the disruption in automotive production activities as well as anticipation of lower automotive demand which emanate from the Covid-19 pandemic.

Target price. Post our earnings downgrade, we are reducing our target price to **RM0.63** (previously RM0.79). This is premised on pegging FY21 EPS of 2.8sen against unchanged forward PER of 22.6x.

Downgrade to Trading Sell. We are expecting a more profound impact on the Covid-19 pandemic from 2QFY20 onwards. Note that automotive production has been impacted by the temporary plant closure up to May 2020. We view that this would adversely impact the group's well-being.

Downgrade to **TRADING SELL**

(previously Neutral)

Revised Target Price: RM0.63

(previously RM0.79)

RETURN STATISTICS

Price @ 16 th June 2020 (RM)	0.73
Expected share price return (%)	-13.7
Expected dividend yield (%)	+1.4
Expected total return (%)	-12.3

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	9.4	1.2
3 months	42.5	15.8
12 months	30.2	40.5

KEY STATISTICS

FBM KLCI	1,517.71
Syariah compliant	Yes
Issue shares (m)	1,119
Estimated free float (%)	63.07
Market Capitalisation (RM'm)	852.07
52-wk price range (RM)	0.43– 0.92
Beta vs FBM KLCI (x)	1.3
Monthly velocity (%)	11.02
Monthly volatility (%)	17.17
3-mth average daily volume (m)	4.97
3-mth average daily value (RM'm)	3.1
Top Shareholders (%)	
PRT Capital Pte Ltd	14.31
Keen Capital Investments	13.6
Omega Riang Sdn Bhd	9.99

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In addition, the possibility of the occurrence of a second-wave of coronavirus outbreak could potentially lead to another disruption in the automotive production activities and vehicle demand. Meanwhile, we expect the operating expenses to remain elevated which could suppress the group's profit margin. As we view that the outlook to remain challenging in the near term, we are downgrading our recommendation to **TRADING SELL** from neutral previously. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	490.8	504.3	494.8	532.2	563.0
Operating profit	54.2	50.2	43.4	55.9	62.1
Profit before tax	52.1	47.1	42.3	55.5	62.3
Profit after tax after non-controlling interest	36.0	34.9	31.8	42.3	48.3
Normalised PATANCI	34.8	33.0	31.8	42.3	48.3
Normalised PATANCI margin (%)	7.1	6.5	6.4	8.0	8.6
Normalised EPS (sen)	2.4	2.2	2.1	2.8	3.2
EPS growth (%)	33.3	-10.9	-4.9	33.2	14.0
Price-earnings ratio (x)	29.9	33.2	34.9	26.2	23.0
Dividend per share (sen)	1.0	1.0	1.0	1.0	1.0
Dividend yield (%)	1.4	1.4	1.4	1.4	1.4

Source: Company, MIDFR

D&O GREEN TECHNOLOGIES BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	118.2	113.1	4.5	150.5	-21.5
EBITDA	16.4	17.1	-4.3	28.5	-42.7
Depreciation and amortisation	-10.1	-8.1	24.3	-10.5	-4.0
EBIT	6.2	9.0	-30.3	18.0	-65.3
Finance costs	-0.9	-0.7	24.1	-1.1	-15.9
Interest income	0.2	0.0	552.2	0.1	47.1
PBT	5.5	8.3	-33.5	17.0	-67.8
Taxation	-1.1	-1.5	-23.8	-3.2	-64.8
Non-controlling interest	-0.5	-0.7	-38.5	-1.5	-70.1
PATANCI	3.9	6.0	-35.2	12.3	-68.2
Normalised PATANCI	5.6	5.7	-1.5	9.8	-42.9
Normalised EPS (sen)	0.4	0.4	-1.8	0.6	-43.1
			+/- ppts		+/- ppts
EBITDA margin (%)	13.8	15.1	-1.3	19.0	-5.1
EBIT margin (%)	5.3	7.9	-2.6	12.0	-6.7
Normalised PATANCI margin (%)	4.8	5.0	-0.3	6.5	-1.8
Effective tax rate (%)	20.4	17.8	2.6	18.7	1.7

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.