

D&O Green Technologies Berhad

(7204 | DOGT MK) Technologies | Semiconductors

Maintain NEUTRAL

Slightly lower profit margin

Revised Target Price: RM0.79
(previously RM0.64)

KEY INVESTMENT HIGHLIGHTS

- **Higher distribution and administrative expenses led to -18.0%yoy decline in 4QFY19 normalised earnings**
- **Full year FY19 normalised earnings contracted by -5.7%yoy to RM33.0m, in-line with ours and consensus expectations**
- **Topline contribution supported by commercialisation of new business wins**
- **Slowdown in demand from the consumer electronic segment to persist**
- **Maintain Neutral with a revised TP of RM0.79**

Contraction in profit margin. D&O Green Technologies Bhd (D&O) 4QFY19 normalised earnings came in at RM11.4m, a decline of -18.0%yoy. This was mainly due to higher distribution and administrative expenses. However, the decline in earnings was partially cushioned by higher revenue of RM150.5m (+7.0%yoy) due to increasing customer penetration.

In-line with expectations. Cumulatively, full year FY19 normalised earnings amounted to RM33.0m which translates into a reduction of -5.7%yoy. This was mainly attributable to the decline in profit margin to 6.5% (vs FY18: 7.8%). Nonetheless, the lower profit margin was partially offset by the slight expansion in FY19 revenue to RM504.3m. All in, the group's FY19 financial performance came in within ours and consensus expectations, accounting for 95.0% and 97.8% of full year FY19 earnings estimates.

Bigger market share. FY19 revenue recorded a growth of +2.8%yoy to RM504.3m. This was premised on increased LED demand from the commercialisation of new business wins for the automotive segment. However, the non-automotive segment reduced by -40.5%yoy due to slower demand from the consumer electronics sector.

Impact. Premised on FY19 financial performance, we fine tune FY20 and FY21 earnings estimates to RM45.5m and RM52.5m respectively.

Target price. We are rolling forward our valuation base year to FY21 and derive a new target price of **RM0.79** (previously RM0.64). This is premised on pegging FY21 EPS of 3.5sen against forward PER of 22.6x. Our target PER is the group's one standard deviation above the two year historical average.

Maintain NEUTRAL. The geo-political tension would inadvertently affect consumer sentiment. This would, in-turn, impact the well-being of the automotive market and subsequently the investment plans of major car companies. Fortunately, the group's earnings has remains resilient as shown in the latest quarterly earnings. This is partly due to the new business wins which indicates that the group is steadily gaining market share from its peers.

RETURN STATISTICS

Price @ 26 th February 2020 (RM)	0.80
Expected share price return (%)	-1.3
Expected dividend yield (%)	+1.3
Expected total return (%)	0.0

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-12.1	-7.5
3 months	-5.9	23.1
12 months	8.1	23.9

KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	Yes
Issue shares (m)	1107.35
Estimated free float (%)	62.54
Market Capitalisation (RM'm)	900.31
52-wk price range (RM)	0.49–0.92
Beta vs FBM KLCI (x)	1.17
Monthly velocity (%)	90.33
Monthly volatility (%)	32.45
3-mth average daily volume (m)	3.63
3-mth average daily value (RM'm)	3.05
Top Shareholders (%)	
PRT Capital Ltd	14.35
Keen Capital Investments	13.64
Omega Riang Sdn Bhd	10.02

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Coupled with the on-going cost management strategy, we expect profit margin to remain resilient. On another note, the dividend yield is anticipated to remain minimal to sustain its expansion plan and meet its R&D initiatives. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	490.8	504.3	553.7	590.3	624.6
Operating profit	54.2	50.2	62.3	69.9	77.3
Profit before tax	52.1	47.1	61.2	69.4	77.4
Profit after tax after non-controlling interest	36.0	34.9	45.5	52.5	59.3
Normalised PATANCI	34.9	33.0	45.5	52.5	59.3
Normalised PATANCI margin (%)	7.1	6.5	8.2	8.9	9.5
Normalised EPS (sen)	2.4	2.2	3.0	3.5	3.9
EPS growth (%)	33.6	-10.9	38.2	15.3	13.0
Price-earnings ratio (x)	32.7	36.7	26.6	23.0	20.4
Dividend per share (sen)	1.0	1.0	1.0	1.0	1.0
Dividend yield (%)	1.3	1.3	1.3	1.3	1.3

Source: Company, MIDFR

D&O GREEN TECHNOLOGIES BHD: 4QFY19 RESULTS SUMMARY

Financial year ending 31 st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	2019	2018	%
Revenue	150.5	7.0	19.7	504.3	490.8	2.8
EBITDA	30.5	18.2	40.2	87.6	84.9	3.2
Depreciation and amortisation	-10.5	28.8	13.8	-37.4	-30.6	22.2
EBIT	19.9	13.4	59.8	50.2	54.2	-7.5
Finance costs	-1.1	87.9	28.9	-3.4	-2.3	46.4
Interest income	0.1	264.3	45.7	0.3	0.2	40.6
PBT	19.0	11.3	61.9	47.1	52.1	-9.7
Taxation	-3.4	8.0	106.4	-8.0	-9.9	-19.2
Non-controlling interest	-1.7	9.2	62.3	-4.2	-6.2	-32.9
PATANCI	13.9	12.4	53.7	34.9	36.0	-3.0
Normalised PATANCI	11.4	-18.0	19.6	33.0	34.9	-5.7
Normalised EPS (sen)	0.7	-18.1	19.7	2.2	2.4	-10.9
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	20.2	1.9	3.0	17.4	17.3	0.1
EBIT margin (%)	13.2	0.7	3.3	9.9	11.1	-1.1
Normalised PATANCI margin (%)	7.5	-2.3	0.0	6.5	7.1	-0.6
Effective tax rate (%)	18.1	-0.6	3.9	17.0	19.0	-2.0

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.