Visit Note | Thursday, 19 January 2023

D&O Green Technologies Berhad

(7204 | DOGT MK) Technologies | Semiconductors

***Maintain* BUY**

Exciting Prospects

***Revised* Target Price: RM5.10**

(previously RM4.58)

KEY INVESTMENT HIGHLIGHTS

- **Application of LED in automotive lighting is still growing**
- **Smart LED sales remain robust**
- **OBM positioning solidify the Group outlook**
- **Earnings estimates maintained**
- **Maintain BUY call with a revised TP of RM5.10**

We visited D&O Green Technologies Bhd (D&O) plants yesterday and came back feeling reaffirmed on the outlook of the company due to the following reasons.

Application of LED in automotive lighting is still growing. The future trend of automotive displays will be full-width displays on the dashboard. According to the management, the new full-width displays trend will require almost 15x (approximately 1,000 LEDs) as compared to the current small single displays in a car that usually comprising 60-80 LEDs.

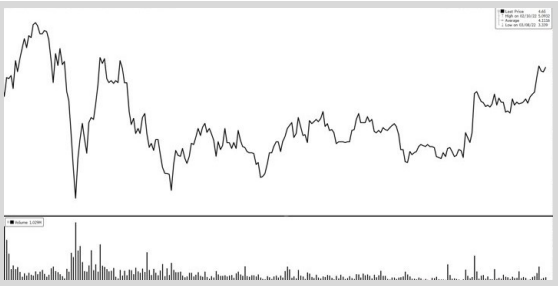
Emerging adoption of edge-lit displays. While edge-lit displays remain to be the most common displays we saw in cars, technology innovation has allowed direct-lit displays to penetrate the market. This will then require more LED installations. Looking at these emerging adoptions, we are reaffirmed that D&O bode well to capture the growing LED applications.

Smart LED sales to remain robust. Management stated that even though the smart LED sales is minimal to the Group's topline, the production of smart LED is expected to grow rapidly and contribute around 10% to the group's revenue in 2023. This is well supported by the increasing average selling price as well as higher production of smart LED in Plant 1 since 2Q2022. We believe these two factors will help to improve margins than the current levels.

Original brand manufacturer (OBM). D&O as an OBM allows the company to retain its position as top five world LED manufacturer despite only operating one plant. According to the management, Plant 2 is underway to be fully utilized in 2025. Apart from that, being an OBM allows the company to have wide customer based to a level where no single customer account more than 10% of the Group's revenue. According to the management, 70-80% of the company's revenue is derived from their top 30 customers. We are positive on this as it mitigates the risk of customer concentration.

RETURN STATISTICS	
Price @ 18th January 2023 (RM)	4.65
Expected share price return (%)	+9.7
Expected dividend yield (%)	+0.9
Expected total return (%)	**+11.0%**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.1	5.8
3 months	8.6	15.5
12 months	3.1	5.5

KEY STATISTICS	
FBM KLCI	1,495.50
Syariah compliant	Yes
Issue shares (m)	1237.142
Estimated free float (%)	69.49593
Market Capitalisation (RM'm)	5753.633111
52-wk price range	RM3.22 - RM5.25
Beta vs FBM KLCI (x)	0.835209
3-mth average daily volume (m)	1.20
3-mth average daily value (RM 'm)	5.00
Top Shareholders (%)	
PRT CAPITAL PTE LTD	13.08
KEEN CAPITAL INVESTMENTS	12.4
OMEGA RIANG SDN BHD	9.12

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Recommendation. Post visit, we make no changes to our earnings forecast. We re-affirm our **BUY** call on D&O with a higher **target price of RM5.10**, premised on pegging the unchanged FY23 EPS of 14.3 against PER of 35.4x (previously was 32.0x), slightly premium compared to the 5-years historical average PER of 29.3x. The premium valuation is justified on the back of robust outlook on the company primarily on the increasing adoption of LED in future automotive designs especially for the EVs. Apart from that, shorter design in or design win process for EV cars help the growth of the company as well. We also like it current positioning as OBM as it helps to retain their quality control on the products as well as increase their customer base. All in all, we maintain our buy recommendation with an upside of 11%.

INVESTMENT STATISTICS

Financial year ending 31st December	2019	2020	2021	2022F	2023F
Revenue	504.3	575.8	846.5	1092.6	1114.0
Operating profit	50.2	68.8	141	198.1	219.5
Profit before tax	47.1	66.3	138.1	198.3	220.4
PATANCI	34.9	49.7	110.5	147.2	164.3
Normalised PATANCI	33.0	46.3	114.9	147.2	164.3
Normalised PATANCI margin (%)	6.5	8.0	13.6	13.5	14.7
Normalised EPS (sen)	2.2	3.0	10.9	12.8	14.3
EPS growth (%)	-10.9	37.3	179.3	17.8	11.6
Price-earnings ratio (x)	168.2	122.5	34.4	29.2	25.8
Dividend per share (sen)	1.0	1.0	1.0	2.5	3.5
Dividend yield (%)	0.3	0.3	0.3	0.7	0.9

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 *rise* 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 *fall* 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