

## D&O Ventures Berhad

27 December 2004

### Public Issue of 102.6m Shares

**Offer Price - RM0.38**  
**Fair Valuation - RM0.52**

#### Highlights

◆ **Background.** D&O Ventures Berhad (D&O) commenced its operation in 1993 as a sub-contractor of metal-can products for STMicroelectronics Sdn Bhd in small rented factory in Melaka. To-date, D&O has expanded to 'full turnkey' contract manufacturing of semiconductor components for MNCs. Via its wholly owned subsidiary, Omega, D&O's manufacturing and assembly operations are under OEM contract manufacturing arrangement and captive line arrangement, which could involve the full consignment of manufacturing equipment.

◆ **Manufacturing facilities.** D&O owns and operates from two factories located in Batu Berendam Free Trade Zone, Melaka. The production sites have a combined annual production capacity of 1,281m units and an annual production output of 1,076m units. Currently, the facilities are operating at 84-86% of their respective capacity.

◆ **A quality chip manufacturer with diverse product range.** Via Omega, D&O has established itself as a quality contract manufacturer for semiconductor devices specialising in Hermetic Sealed Metal-Cans for lasers, sensors, transistors and diodes, Resin Filled Encapsulation Packages for lights emitting diodes (LEDs) and Thermoset Epoxy Moulded Packages for transistors and diodes. The components are used in diverse products such as mobile phones, audiovisual equipment, traffic lights, computers, telecommunications equipment, automobiles, medical equipment, industry machinery and outdoor advertising digital billboards.

#### LISTING DETAILS

<b>Listing</b>	: Bursa Malaysia Second Board
<b>Listing Date</b>	: 28 December 2004
<b>Tax Resident</b>	: Malaysia
<b>Public issue(m)</b>	: 102.6
Malaysian Public	: 36.5
Directors, Employees, Customers & Suppliers:	5.0
Private Placement	: 61.1

#### MAJOR SHAREHOLDERS

Dato' Mohammed Azlan b. Hashim	: 18.98%
Goh Nan Yang	: 11.59%
Dr. Lim Thian Soo	: 5.60%

#### MANAGEMENT FORECASTS

	FY12/04	FY12/05
Turnover (RMm)	109.1	153.3
PBT (RMm)	16.0	25.2
Net Profit (RMm)	15.7*	23.1
FD EPS (sen)	2.1	3.1

\*Before deducting the pre-acquisition profit of RM10.9m for FY12/04.

#### INVESTMENT STATISTICS

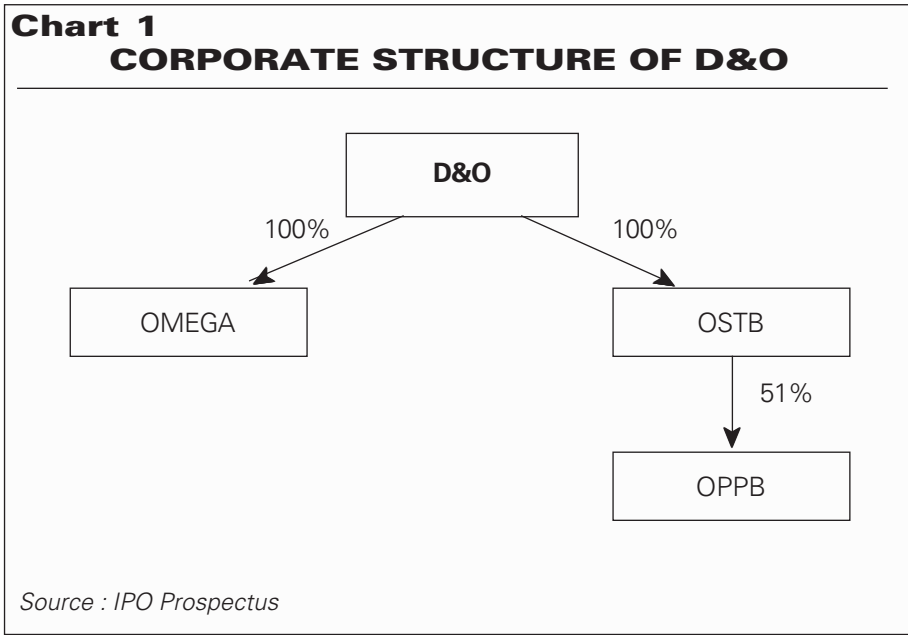
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FYE 31 Dec	Turnover (RMm)	Pre-tax Profit (RMm)	Norm. Net Profit (RMm)	Normalised EPS (sen)	EPS Growth (%)	Net PER (x)	NTA (RM)	P/NTA (x)	GDPS (sen)	GDY (%)
2003a	69.2	9.7	9.2	2.3	25.7	22.7	-	-	-	-
2004f	103.9	15.5	15.1	3.1	36.9	16.6	0.18	2.9	-	-
2005f	150.7	24.4	22.4	3.1	-2.5	17.0	0.20	2.6	1.0	1.9
2006f	189.3	33.3	30.6	4.2	36.8	12.4	0.23	2.3	1.0	1.9

Issued shares (m) (RM0.10 par)	:	730.0	Mkt capitalisation (RMm)	:	379.6
Issued capital (RMm)	:	73.0	Price/NTA (x)	:	3.5
NTA/share (RM)	:	0.15	Net cash post IPO (RMm)	:	20.6

Note: Valuations are based on RHBRI's fair value estimate of RM0.52

◆ **D&O has a distinctive clientele base** which includes various multinational companies in Malaysia. Over the years, Agilent Technology has overtaken STMicroelectronics to be D&O's largest customer. In FY12/03, Agilent Technology contributed 62.2% to total revenue, followed by STMicroelectronics Sdn Bhd at 28.2% of total revenue. The group exports 100% of its products through other various MNCs located at various free trade or industrial zones in Malaysia or at licensed manufacturing warehouses and direct shipments to USA, Germany and Singapore.



**Table 1**  
**PRINCIPAL ACTIVITIES OF SUBSIDIARIES**

Company	Principal Activity
Omega	Provision of 'full turnkey' contract manufacturing of semiconductor components which are supplied mainly to multinational companies engaged in the manufacture of semiconductor products
OSTB	Currently dormant. OSTB shall commence operations in the design, manufacture and supply of photonics semiconductor products
OPPB	Currently dormant. OPPB shall commence operations in the provision of engineering design, research and development of photonics products' assembly, packaging and testing process as well as marketing and sales of photonics products and manufacturing services.

Source : IPO Prospectus

**Table 2**

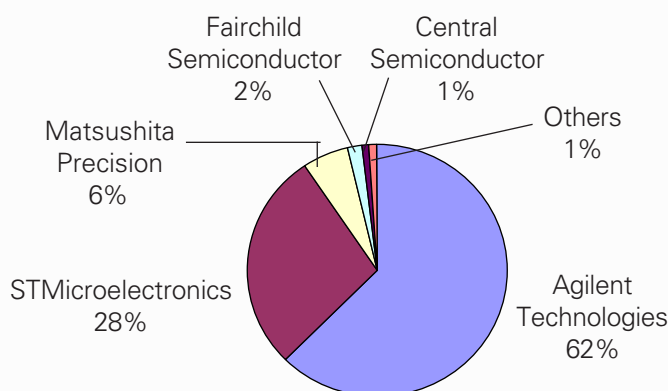
**PRODUCTS AND SERVICES**

Product Type	Product Application	Usage/End Product Applications
Transistor Metal-Can	Transistor, power transistor, voltage regulator and IC	<ul style="list-style-type: none"> <li>◆ Avionics system</li> <li>◆ Automotive, electronic and military hardware</li> <li>◆ Industrial Equipment</li> <li>◆ Power generating</li> </ul>
Opto Metal-Can	Infrared emitter and infrared decoder	<ul style="list-style-type: none"> <li>◆ Home appliances</li> <li>◆ Data transmission and telecommunications equipment</li> </ul>
Photonics Metal-Can - VCSEL - Infra-Red - UV - Radio Frequency	Emitter and detector, media using light wavelength or radio frequency or pressure	<ul style="list-style-type: none"> <li>◆ Wireless communication hardware</li> <li>◆ Weather station monitor</li> <li>◆ Sport watches</li> <li>◆ Welding helmets</li> <li>◆ Sun bed dosimeter</li> <li>◆ Purification of air, water and waste water system</li> <li>◆ Automotive engine management system</li> <li>◆ Medical equipment</li> <li>◆ Industrial equipment</li> </ul>
Small Outline Transistor/ Diode Radio Frequency Mixer	Voltage regulator, diode transistor and radio frequency mixer	<ul style="list-style-type: none"> <li>◆ Cellular phone</li> <li>◆ Computer</li> <li>◆ Audio-visual equipment</li> <li>◆ Traffic signals</li> <li>◆ Advertising billboard</li> <li>◆ Car lights and industrial equipment</li> </ul>
Discrete Transistor	Transistor and voltage regulator	<ul style="list-style-type: none"> <li>◆ Cellular phone</li> <li>◆ Computer</li> <li>◆ Audio-visual equipment</li> <li>◆ Traffic signals</li> <li>◆ Advertising billboard</li> <li>◆ Car lights and industrial equipment</li> </ul>
LED Lamps	Outdoor display lighting, equipment indicator lighting and infrared light emitter	<ul style="list-style-type: none"> <li>◆ Audio visual equipment</li> <li>◆ Household electronic equipment</li> <li>◆ Traffic signals</li> <li>◆ Automobile cockpit and back lighting</li> </ul>

Source : IPO Prospectus

**Chart 2**

**CUSTOMER MIX FOR FY12/03**



Source : IPO Prospectus

◆ **Lights emitting diode (LED)** is one of the major revenue contributors to D&O. LED is made up by several layer of semiconductor materials. The active layer of the LED will generate the lights when a DC voltage is applied to it. The LED will be able to generate different types of colour depending on the material used. Materials such as GasAs, GaP, AlInGaP, GaN and InGaN are used to produce LED colour ranging from Blue to Red. It will also provide a full spectrum of colours.

◆ **Main benefits of high brightness LED** are:-

- 1) Energy efficiency
- 2) Long lifetime thus reducing maintenance cost
- 3) Design flexibility and dynamic colour control
- 4) Robustness
- 5) Saturated colours and low voltage DC operation

Comparing to the conventional light sources, high brightness LEDs are not subject to: 1) sudden failure -“nonpassive” failure, or explosions can occur with high-intensity-discharged lamps; 2) inconsistencies in dimming ; and 3) defined environmental hazards in disposal like mercury in fluorescent lamps.

◆ **Earnings rose at CAGR of 70% p.a. in FY12/99-03 on the back of revenue CAGR of 60% p.a.** Revenue grew from RM10.6m in FY12/99 to RM69.2m in FY12/03 while net profit rose from RM1.1m to RM9.2m during the same period. Even during the global semiconductor industry downturn 2000, D&O still managed to report yoy increase of 78.7% in revenue, due to the first full year of contribution from the LED lamps business. We attribute the low net profit margin of 5.2% in FY12/00 to the initial start-up cost. Thereafter, improved cost efficiency (due largely to better overheads absorption) and low effective tax rate (due to availability of reinvestment allowances) enabled the company to sustain its net profit margins at 13-16% in FY12/02-03, compared to 10% in FY12/99. For the 7MFY12/04, D&O recorded revenue of RM56.9m and net profit of RM9.5m, which translate into annualised yoy growth of 40.8% and 76.1%.

◆ **D&O benefited from the strong demand growth in LED lamps.** Based on Strategies Unlimited Research Data, the high brightness LED market grew at CAGR of 47% since 1995. The strong increase in LED lamps has contributed to the growth in revenue, particularly for its opto products. Sales contribution from opto products grew at a stronger CAGR of 65.9% in FY12/99-03 compared to CAGR of 45.2% p.a. registered by the sales of discrete products. The revenue contribution of opto products expanded from 57% of total revenue in FY12/99 to 65% in FY12/03.

◆ **Prospects remain bright despite the slowdown of semiconductor industry.** Despite the expected slowdown of worldwide semiconductor industry in 2005, D&O's management has projected average growth of 49.1% in revenue and 58.9% in net profit for FY12/04-05. According to its IPO prospectus, management has forecast revenue of RM109.1m (+57.6% yoy) and normalised net profit of RM16.0m (fully diluted EPS : 2.1sen) for FY12/04. For FY12/05, management projected net profit of RM23.1m (EPS: 3.1sen) on the back of RM153.3 revenue (+40.5% yoy).

D&O's **future growth will be underpinned by:-**

- 1) **Robust growth of LED lamps, on the back of :-**
  - a) The worldwide conversion of traffic signals from single bulb to LED lamps;
  - b) The replacement of conventional single light bulbs to LED lamps for the automotive rear lighting;
  - c) The rising demand for outdoor electronic billboard display screens for advertisement and sports stadium electronic screens for the 2008 China Olympic event;
  - d) The increase in demand for personal computers and laptop due to improvement of worldwide economy

According to the company's IPO prospectus, the revenue contribution for the opto products is projected to grow at 57.3% yoy to RM70.6m or 65% of total revenue in FY12/04.

- 2) **New contract for discrete metal can products.** The procurement of a new manufacturing contract for TO-3 with an existing customer is expected to increase the sales of discrete metal can products. This is projected to increase sales of discrete products by 12% yoy to RM22.6m or 21% of total revenue in FY12/04, based on management's forecast stated in the IPO prospectus.
- 3) **Further capacity expansion.** The capital expansion caters for the extension of the existing building is to cater for the increase in capacity for the OEM products. This extension will cost RM1.5m. Another RM6.4m has been allocated for a new construction of a four-storey factory building to cater for the capacity expansion of LED products. This expansion will enable the company to produce a high-end laser diode to be used in wireless computer mouse, which will contribute approximately RM9m to the group's revenue in the future.
- 4) **Diversifying product range and exploration of new export market.** The group expects to :
  - a) expand its OEM product portfolios, in particular, the Discrete Surface Mount products;
  - b) develop packaging technology of VCSEL for Photonics Technology application; and
  - c) develop solution for wireless semiconductor and UV sensor devices.

◆ **Earnings forecasts.** We project FY12/04-06 normalised net profit at RM15.1m (EPS : 3.1sen), RM22.4m (EPS : 3.1sen) and RM30.6m (EPS: 4.2sen), on the back of an average growth of 40.3% p.a. in total revenue during the same period. Revenue growth is projected to be driven by the transfer of a major customer's in-house manufacturing

activities in LED lamps to Omega as well as new contracts.

◆ **Our indicative fair value is RM0.52/share**, based on 17x of our projected FY12/05 EPS of 3.1sen, which is at a PER-growth ratio of 1x. We project its average EPS to grow by 17.2% p.a. in FY12/05-06 (after factoring in the effect of enlarged share capital post IPO listing). Currently, the local semiconductor industry is trading at average prospective PERs of 14.6x and 12.1x respectively against an average 2-year forward EPS growth of 26.2% p.a. Globetronics, a close comparable with exposure to opto products, is trading at FY12/05-06 PERs of 19.9x and 18.0x against an average 2-year forward EPS growth of 12.9% p.a. MEMS Tech is currently priced at FY07/05-06 PERs of 16.8x and 7.5x, respectively, against an average EPS growth of 114% (based on IBES consensus estimates).

**Table 3**  
**UTILIZATION OF IPO LISTINGS**

	<b>RMm</b>
Public Issue of 102.596m shares of RM0.10 each at RM0.35 per share	39.0
<b>Total funds raised</b>	<b>39.0</b>
Capital expenditure	7.8
Purchase of production equipment and tooling	21.8
Purchase of new management information system infrastructure	0.8
R&D expenditure	3.0
Working capital	3.6
Listing expenses	2.0
<b>Total utilisation</b>	<b>39.0</b>

*Source : IPO Prospectus*

**Table 4**
**EARNINGS REVIEW AND FORECAST**

<b>FYE 31 Dec (RMm)</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004f</b>	<b>2005f</b>	<b>2006f</b>
Revenue	10.6	18.9	27.3	40.3	69.2	103.9	150.7	189.3
EBITDA	1.8	2.3	6.3	9.2	13.0	20.9	33.8	46.6
Amortisation	(0.1)	(0.5)	(0.7)	(0.5)	(0.1)	(0.2)	(0.2)	(0.2)
Depreciation	(0.4)	(0.5)	(0.9)	(1.3)	(2.6)	(4.5)	(8.3)	(12.1)
EBIT	1.3	1.2	4.7	7.4	10.3	16.3	25.3	34.2
Interest Income	0.1	0.1	0.1	0.2	0.2	0.0	0.0	0.0
Interest Expense	(0.3)	(0.3)	(0.5)	(0.6)	(0.8)	(0.8)	(0.9)	(0.9)
PBT	1.1	1.0	4.3	7.0	9.7	15.5	24.4	33.3
PBT ex EI	1.1	1.0	4.3	7.0	9.7	15.5	24.4	33.3
Tax	0.0	0.0	(1.0)	(0.6)	(0.5)	(0.3)	(2.0)	(2.7)
MI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	1.1	1.0	3.3	6.4	9.2	15.1	22.4	30.6
Less Pre-acquisition profit	0.0	0.0	0.0	0.0	0.0	(10.9)	0.0	0.0
Net profit after pre-acq profit	1.1	1.0	3.3	6.4	9.2	4.2	22.4	30.6
Issued shares (m)	627.4	627.4	627.4	627.4	627.4	627.4	730.0	730.0
Fully diluted EPS (sen)	0.2	0.2	0.5	1.0	1.5	0.7	3.1	4.2
Weighted avg no of shrs (m)	206.3	217.4	297.2	348.1	402.7	481.7	730.0	730.0
<b>EPS (sen)*</b>	<b>0.5</b>	<b>0.5</b>	<b>1.1</b>	<b>1.8</b>	<b>2.3</b>	<b>3.1</b>	<b>3.1</b>	<b>4.2</b>
PER (x) @ IPO price	72.2	83.9	34.3	20.8	16.6	12.1	12.4	9.1
<b>PER (x) @ RHBRI FV</b>	<b>99.0</b>	<b>115.0</b>	<b>47.1</b>	<b>28.5</b>	<b>22.7</b>	<b>16.6</b>	<b>17.0</b>	<b>12.4</b>
Gross div/sh (sen)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Div yield (%) @ RHBRI FV	0.0	0.0	0.0	0.0	0.0	0.0	1.9	1.9
NTA (RM/share)						0.18	0.20	0.23
P/NTA (x)						2.9	2.6	2.3
<b>Margins (%)</b>								
EBITDA	17.2	12.0	22.9	22.9	18.8	20.1	22.4	24.6
EBIT	12.3	6.4	17.2	18.4	14.9	15.7	16.8	18.1
PBT	10.3	5.2	15.6	17.3	14.1	14.9	16.2	17.6
Net Profit	10.3	5.2	12.0	15.8	13.4	14.6	14.8	16.2
Effective tax rate	0.0	0.0	22.8	9.1	5.1	2.2	8.2	8.0
<b>Growth (%)</b>								
Revenue	-	78.7	44.6	47.6	71.6	50.1	45.1	25.6
EBITDA	-	-	-	47.5	41.2	60.4	61.7	37.9
Net Profit	-	-	-	93.2	45.4	63.7	47.8	36.8
EPS*	-	-	-	65.0	25.7	36.9	-2.5	36.8

\* based on weighted average issued shares

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