Datasonic Group Berhad

(5216 | DSON MK) Technology | Hardware and Equipment

***Maintain* BUY**

Outlook Stay Bright

***Unchanged* Target Price: RM0.57**

KEY INVESTMENT HIGHLIGHTS

- **Normalised earnings of RM37.0m deemed within expectation**
- **Increased supplies of smart cards and passports to drive the revenue growth**
- **Prime beneficiary of borders reopening**
- **Earnings estimates remain unchanged**
- **Maintain BUY with an unchanged target price of RM0.57**

Within expectation. Datasonic Group Berhad (Dsonic) reported normalised earnings of RM37.0m in 1HFY23 which made up 44% of ours and 49% of consensus full-year estimates respectively. We deem 1HFY23 earnings fall within expectations as we anticipate higher earnings from passport and MyKad-related services (Customised Solutions) in 2HFY23 on the back of the reopening of international borders. Meanwhile, the Group declared a second interim single-tier dividend of 0.50sen per share (1HFY23: 0.75sen vs 0.225sen in 1HFY22).

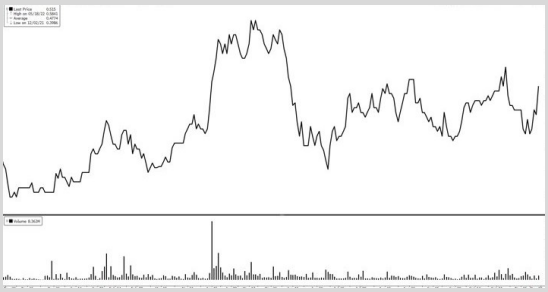
Quarterly. Dsonic's revenue was up by +46.1%qoq from RM64.1m in 1QFY23 to RM93.6m in 2QFY23. The better performance was supported by higher supplies of smart cards, passports and personalization services which led to greater PBT (+117.9%qoq). In tandem, the Group's core earnings rose by +107.7%qoq to RM25.0m due to higher demands from customers for the said materials and services. Looking forward, we anticipate stronger earnings for the rest of the year due to increase orders for passports in the ride of travel boom.

Cumulatively. The Group recorded a huge jumped in the top line of RM157.7m or +241.8%yoy. The significant growth in revenue was supported by more supply of smart cards, passports and personalization services amounted RM139.87m, which was greater than the total of RM31.85m earned in the preceding financial period. This resulted into impressive normalized earnings of RM37.0m or +469.2%yoy growth.

Outlook. While the formation of new unity government may pose risk of securing more government projects, we opine that Dsonic's track record since 2012 in national ID security documents is unbeatable by the peers due to its strong R&D team and cutting-edge technologies. We also believe that the Group has an improved prospect due to the expected pent-up demands for travelling documents in tandem to the easing of travelling restrictions. On top of that, the management is confident to secure new contracts for the soon to-be-rolled-out MyKad new generations as well as contract extension for passport-related solutions, MyKad-related solutions, i-Kad solutions and national digital ID cards on the back of its readied technology.

RETURN STATISTICS	
Price @ 29th November 2022 (RM)	0.515
Expected share price return (%)	+10.7
Expected dividend yield (%)	+3.5
Expected total return (%)	**+14.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.0	-1.0
3 months	10.8	2.7
12 months	17.0	20.0

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	2,865.36
Estimated free float (%)	45.16
Market Capitalisation (RM'm)	1,458.76
52-wk price range (RM)	0.39 - 0.6
Beta vs FBM KLCI (x)	0.84
3-mth average daily volume (m)	6.06
3-mth average daily value (RM'm)	3.00
Top Shareholders (%)	0.00
Urusharta Jamaah Sdn Bhd	9.19
Chew Ben Ben	7.95
Bin Noordin Abu Hanifah	6.59

MIDF Research
research@midf.com.my

Maintain BUY with unchanged TP of RM0.57. We remain optimistic on Dsonic's outlook due to the Group's commitment to stay ahead of security technology which makes them much more appealing than the peers to continuously be selected as the national ID security-related solutions vendor. Hence, we maintain our **BUY** call on Dsonic with an unchanged target price of **RM0.57** per share by pegging its FY23F core EPS of 2.94sen to the Group's 5-year mean PER of 19.5x.

INVESTMENT STATISTICS

Financial year ending 31st March (in RM'm, unless otherwise stated)	2021A	2022A	2023F	2024F	2025F
Revenue	138.41	136.43	294.66	296.88	313.60
COGS	-66.43	-62.91	-129.65	-130.63	-134.85
Gross profit	71.99	73.52	165.01	166.25	178.75
Gross profit margin (%)	52.01	53.89	56.00	56.00	57.00
Operating profit/EBITDA	26.70	27.71	75.68	77.19	81.54
Operating profit margin (%)	19.29	20.31	25.69	26.00	26.00
Profit before tax	11.09	12.74	87.40	89.57	93.50
Taxation	3.81	2.51	3.11	3.14	2.92
Profit after tax	7.28	10.23	84.29	86.42	90.58
Profit after tax margin (%)	5.26	7.49	28.60	29.11	28.88
Core EPS (sen)	0.18	0.36	2.94	3.01	3.16
Core EPS growth (%)	-91.95	100.00	716.37	2.54	4.81
PER (x)	283.33	141.67	14.76	16.92	16.15
DPS (sen)	0.01	0.01	0.02	0.01	0.01
Dividend yield (%)	2.06	1.18	3.50	1.96	2.18

Source: Company, MIDF

DATASONIC GROUP BERHAD: 2QFY23 RESULTS SUMMARY

Financial year ending 31st March (in RM'm, unless otherwise stated)	2Q23	QoQ	YoY	6M22	6M21	YoY
Revenue	93.6	46.1	>100	157.7	46.1	>100
EBITDA	45.3	87.9	>100	69.4	1.3	>100
Depreciation and amortisation	-9.8	23.2	>100	-17.8	-7.4	>100
EBIT/(LBIT)	35.5	119.8	>100	51.6	-6.2	>100
Finance costs	-0.4	33.5	-3.0	-0.6	-0.8	-19.0
Other income	0.8	30.7	2.9	1.4	2.4	-40.7
PBT/(LBT)	35.9	117.9	>100	52.4	-4.5	>100
Taxation	-11.0	147.2	>100	-15.5	-0.1	>100
PAT/LAT	24.9	107.0	>100	36.9	-4.6	>100
MI	0.0	0.0	33.3	0.0	0.0	-120.0
PATAMI/(LATAMI)	24.9	107.0	>100	36.9	-4.6	>100
Normalised PATAMI/(LATAMI)	25.0	107.7	>100	37.0	6.5	>100
Normalised EPS/(LPS) (sen)	0.9	1.1	48.4	1.3	-0.1	12.9
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	48.3	0.3	2.1	44.0	2.7	15.0
EBIT margin (%)	37.9	0.5	23.0	32.7	-13.4	-3.4
Effective tax rate (%)	-30.7	-0.1	-1.1	-29.5	2.8	-11.7

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 companies 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 loess, 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 companies 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 *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