Corporate Update | Tuesday, 08 November 2022

Datasonic Group Berhad

(5216 | DSON MK) Technology | Hardware and Equipment

***Maintain* BUY**

Outlook remains upbeat

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

KEY INVESTMENT HIGHLIGHTS

- **Secured foreign worker card (I-Kad) job from the government worth RM140m**
- **Contract win is within expectations**
- **Earnings estimates remain unchanged**
- **Maintain BUY with an unchanged target price of RM0.57**

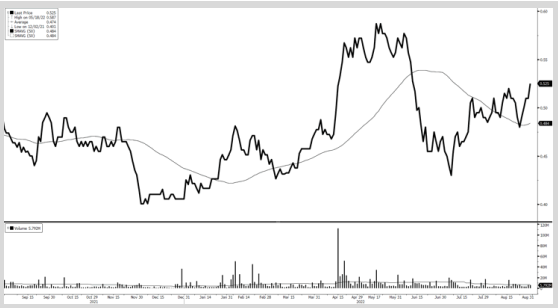
Secured foreign workers card (I-Kad) job from the government. Datasonic Group Berhad (Dsonic) has accepted a Letter of Award (LOA) from Kementerian Dalam Negeri (KDN) for the supply of 10m foreign worker card (i-Kads) to Jabatan Imigresen Malaysia (JIM) for a period of 36 months commencing 1 November 2022 to 31 October 2025. The contract value of RM140m will include work to upgrade the former i-Kad, which was made of PVC and had a standard printing technology, to polycarbonate with a more secure chip and a laser printing system. As part of the contract, Datasonic will also implement the Professional Training and Education for Growing Entrepreneurs (PROTÉGÉ) programme as set by the government. This will be based on the contract value with the minimum number of participants of 58 persons, at no cost to the government.

Within expectation. The contract win is within our expectation as Dsonic is highly experienced in the identity document (ID) space with an established track record as compared to its peers. To recall, Dsonic has been involved in the Malaysia National ID (MyKad) project since 2000 and became a key provider since 2012 after Dsonic started supplying raw MyKads, chips, and operating system (OS). Thereby, wining this contract is not a major surprise for us. We remain our earnings estimate and **BUY** recommendation on Dsonic with an unchanged target price of **RM0.57.** Our target price is derived from pegging its FY23F core EPS of 2.94sen to the Group's 5-year mean PER of 19.5x.

Upbeat outlook. Despite the inflationary pressure and ongoing chip crunch issues, we remain confident that outlook remain upbeat due to its core competency in ID security solutions, primarily for government projects. Dsonic will continue to be the front-runner for the new generation of Mykad contract. Additionally, we are optimistic that Group will be able to win the other major upcoming projects are the Digital MyKad, National Digital ID (e-KYC), and Electronic Medical Records (EMR). All factors considered, we remain upbeat that pent-up demands for travel documents which include the recent win contract of i-Kad will provide greater visibility to the Group earnings.

RETURN STATISTICS	
Price @ 7th November 2022 (RM)	0.505
Expected share price return (%)	+13.0
Expected dividend yield (%)	+3.5
Expected total return (%)	**+16.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	6.1	4.8
3 months	11.8	-4.3
12 months	7.2	13.7

KEY STATISTICS	
FBM KLCI	1,442,12
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	2865.36
Estimated free float (%)	45.34
Market Capitalisation (RM'm)	1,438.82
52-wk price range (RM)	0.39 - 0.6
Beta vs FBM KLCI (x)	0.87
Monthly velocity (%)	5.45
Monthly volatility (%)	2.72
3-mth average daily volume (m)	
3-mth average daily value (RM'm)	9.17
Top Shareholders (%)	6.86
Urusharta Jamaah Sdn Bhd	6.66
Chew Ben Ben	2865.36
Bin Noordin Abu Hanifah	45.34

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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, 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