Corporate Update| Monday, 12 December 2022

Datasonic Group Berhad

(5216 | DSON MK) Technology | Hardware and Equipment

Maintain BUY

Inked MOA with MUHAT

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

KEY INVESTMENT HIGHLIGHTS

- **Inked MOA with MUHAT to combine capacities and resources on matters pertaining to printing security documents, digitizing and improving the land management solutions and services of the Republic of Guinea (eLandROG).**
- **Earnings estimates remain unchanged.**
- **Maintain BUY with an unchanged target price of RM0.57**

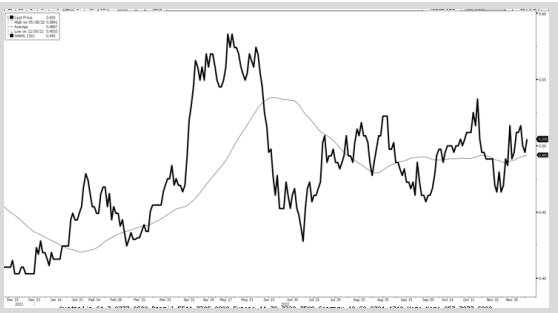
MOA with MUHAT. Datasonic Group Berhad (Dsonic) has inked a Memorandum of Agreement (MOA) with the Ministry of Urban Planning, Housing and Territorial Development (MUHAT) of the Republic of Guinea last Friday, 9th December 2022 to cooperate and collaborate on matters pertaining to printing security documents, digitizing and improving the land management solutions and services of the Republic of Guinea (eLandROG). The Project will include; i) the implementation of a new computerised citizen data in land matters; ii) the incorporation of biometric authentication of land data; iii) manufacture, supply and customisation of high security documents for the land title; iv) the implementation of new secure procedures with an emphasis on transparency and efficiency in the processing of land title applications and authorisations; and v) the development and provision of relevant technical materials.

Salient Terms of the MOA. In the collaboration, Dsonic will be the prime contractor while MUHAT will be the Project owner. Dsonic will carry out feasibility study on the Project which is to be carried out, as well as the economic model. The scope of the Project includes; i) to carry out, present and submit the feasibility study to MUHAT; ii) to build, implement and provide technical support for eLandROG; iii) to manufacture, provide and personalise secure land documents; and iv) to provide technology transfer to an identified local company and Department executives. The duration of the project will be 10 years (plus 5 years of Project extension) and the profit-sharing rate will be 60% for MUHAT and 40% to Dsonic.

Opinion. This is not the first global business undertaken by Dsonic as the Group used to supply printing system previously for Bahrain. In fact, presently Dsonic is supplying the Autogate system for Indonesia. Therefore, we believe the MOA does provide opportunity for the Group to expand their products and services offering globally but we are neutral on it given that the financial and operation impacts could only be determined upon formalization of a final agreement, which is expected to be completed by 1HCY2023.

RETURN STATISTICS	
Price @ 9th December 2022 (RM)	0.495
Expected share price return (%)	+15.2
Expected dividend yield (%)	+3.5
Expected total return (%)	**+18.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.1	2.4
3 months	8.6	5.6
12 months	21.7	22.6

KEY STATISTICS	
FBM KLCI	1,477.19
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	2,865.36
Estimated free float (%)	45.33
Market Capitalisation (RM'm)	1,430.44
52-wk price range (RM)	0.4 - 0.6
Beta vs FBM KLCI (x)	0.77
3-mth average daily volume (m)	6.67
3-mth average daily value (RM'm)	3.30
Top Shareholders (%)	
Urusharta Jamaah Sdn Bhd	9.16
Bin Noordin Abu Hanifah	7.95
Chew Ben Ben	6.44

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Maintain **BUY**. We like Dsonic as it is known as a prominent security solution player for Malaysia primarily the national ID's products and services. Though the newly formed Government poses regulatory risk to the Group in terms of securing the contracts of supplying the new generation of identity card that is expected to be rolled out soon, the Group's cutting-edge technology still appears to be more attractive compared to the peers to continuously be selected as the national ID security-related solutions vendor. All factors considered, we maintain our BUY call on Dsonic with an unchanged target price of **RM0.57**.

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