Datasonic Group Berhad

(5216 | DSON MK) Technology | Hardware and Equipment

Maintain BUY

Outlook Remains Interesting

Revised **Target Price: RM0.51**

(Previously: RM0.57)

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 normalised earnings of RM53.0m missed our expectation**
- **Smart cards and passports supply continue to boost growth**
- **Benefitting from the relaxation of travel restrictions**
- **Earnings estimates revised downward**
- **Maintain BUY with a revised target price of RM0.51**

Missed expectation. Datasonic Group Berhad (Dsonic) reported normalised earnings of RM53.0m in 9MFY23 which made up 63% of ours and 70% of consensus' full-year estimates respectively. The negative deviation was attributable to lower-than-expected earnings from passport and MyKad-related services (CustomisedSolutions) in 9MFY23 despite the reopening of international borders. Meanwhile, the Group declared a third interim single-tier dividend of 0.50sen per share. (9MFY23: 1.25sen vs 0.35sen in 9MFY22).

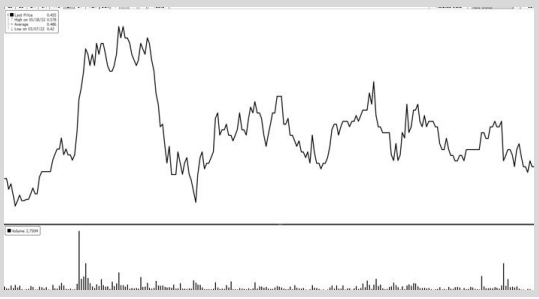
Quarterly. Dsonic's revenue was up by +128.4%yoy from RM35.9m in 3QFY22 to RM82.1m in 3QFY23. The encouraging performance was attributed to greater supplies of smart cards, passports and personalization services which led to greater PBT (+1,143.5%yoy). In tandem, the Group's core earnings rose by +979.9%yoy to RM16.3 m 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 better orders for passports in the ride of travel boom.

Cumulatively. In 9MFY23, the Group recorded a jumped in the top line of RM239.9m or +192.3%yoy. The significant growth in revenue was supported by greater supply of smart cards, passports and personalization services amounted RM203.4m, which was greater than the total of RM57.1m earned in the preceding financial period. This resulted in normalized earnings of RM53.0m.

Outlook. We see stable outlook for Dsonic as we believe that Dsonic's track record in national ID security documents since 2012 is unrivalled by peers due to its strong R&D team and cutting-edge technologies. We also believe that the Group's prospects will continue to improve on the back of pent-up demand for travel documents, which will coincide with the relaxation of travel restrictions. Furthermore, on the strength of its ready technology, management is confident in securing new contracts for the soon-to-be-released MyKad new generations, as well as contract extensions for passport-related solutions, MyKad-related solutions, i-Kad solutions, and national digital ID cards.

RETURN STATISTICS	
Price @ 27th February 2023 (RM)	0.455
Expected share price return (%)	+12.22
Expected dividend yield (%)	+3.92
Expected total return (%)	**+16.14**

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	1,455.50
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. We revised our earnings estimate for FY23F-25F downward between -2.7% to -10.5% and derived a lower target price of **RM0.51** (previously RM0.57). This is premised on pegging its new FY23F core EPS of 2.62sen to the unchanged PER of 19.5x which is in line with the Group's 5-year mean PER. 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 a upside of +16.14%.

INVESTMENT STATISTICS

Financial year ending 31st March (in RM'm, unless otherwise stated)	2021A	2022A	2023F	2024F	2025F
Revenue	138.41	136.43	289.66	296.88	313.60
COGS	-66.43	-62.91	-127.45	-130.63	-134.85
Gross profit	71.99	73.52	162.21	166.25	178.75
Gross profit margin (%)	52.01	53.89	56.00	56.00	57.00
Operating profit/EBITDA	26.70	27.71	74.40	77.19	81.54
Operating profit margin (%)	19.29	20.31	25.69	26.00	26.00
Profit before tax	11.09	12.74	78.21	86.09	90.94
Taxation	3.81	2.51	3.11	3.14	2.92
Profit after tax	7.28	10.23	75.09	82.95	88.02
Profit after tax margin (%)	5.26	7.49	25.92	27.94	28.07
Core EPS (sen)	0.18	0.36	2.62	2.89	3.07
Core EPS growth (%)	-91.95	100.00	627.34	10.46	6.11
PER (x)	252.78	126.39	17.38	15.73	14.82
DPS (sen)	1.05	0.59	1.79	0.01	0.86
Dividend yield (%)	2.31	1.30	3.92	0.02	1.89

Source: Company, MIDF

DATASONIC GROUP BERHAD: 3QFY23 RESULTS SUMMARY

Financial year ending 31st March (in RM'm, unless otherwise stated)	3Q23	QoQ (%)	YoY (%)	9M22	9M21	YoY (%)
Revenue	82.1	-12.3	128.4	239.9	82.1	192.3
EBITDA	33.3	-26.4	439.5	102.7	7.4	1280.1
Depreciation and amortisation	-8.9	-8.8	100.3	-26.7	-11.9	-224.5
EBIT/(LBIT)	24.4	-31.3	1327.8	75.9	-4.5	1801.5
Finance costs	-0.5	32.8	20.1	-1.1	-1.1	0.0
Other income	1.1	40.9	64.0	2.6	3.1	-17.3
PBT/(LBT)	25.0	-30.3	1143.5	77.4	-2.5	3192.2
Taxation	-8.3	-24.5	1529.6	-23.8	-0.6	-3744.4
PAT/LAT	16.7	-32.9	1012.5	53.7	-3.1	1809.2
MI	0.0	50.0	-14.3	0.0	0.0	46.7
PATAMI/(LATAMI)	16.7	-32.9	1017.3	53.6	-3.2	1800.3
Normalised PATAMI/(LATAMI)	16.3	-34.8	979.9	53.0	-3.2	1766.0
Normalised EPS/(LPS) (sen)	0.7	-0.2	12.1	2.2	-0.1	20.9
		+/- ppts	+/- ppts			+/- ppts
EBITDA margin (%)	40.6	-0.2	1.4	42.8	9.1	3.7
EBIT margin (%)	29.7	-0.2	-1.0	31.6	-5.4	-6.8
Effective tax rate (%)	-33.2	-0.1	-1.2	-30.7	25.4	-2.2

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