Datasonic Group Berhad

(5216 | DSON MK) Technology | Hardware and Equipment

Robust Outlook on MyKad and Passport

Maintain **BUY**

Revised **Target Price: RM0.56**

(Previously: RM0.51)

KEY INVESTMENT HIGHLIGHTS

- **Demands for MyKad stays intact, with current level reaching 200k orders per month**
- **MyKad Extension contract is underway, allowing the Group to supply another 2.34m worth of cards and consumables**
- **Passport outlook stay robust on the back of business resumption and lifting of MCO restriction**
- **Maintain BUY with a revised TP of RM0.56**

We attended Datasonic Geoup Berhad (Dsonic) results briefing and remained upbeat on FY23 outlook for the company. The key takeaways from briefing are as follows: -

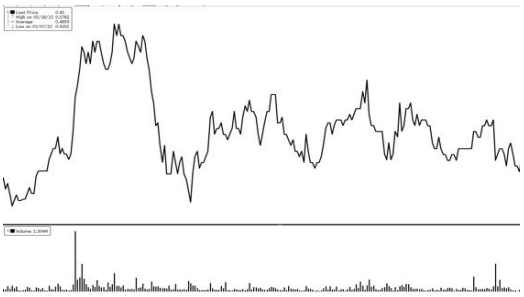
MyKad Production. The management highlighted that production of MyKad, with historically annual demand of 2-2.5m units, is gaining strong traction. Demands for MyKad have been increasing since September FY22, with net adds of 20k-30k orders per month (usual monthly consumption is around 150k-170k). To note, latest orders for Jan-Feb FY23 remains above 200k level and is believe to sustain for the following quarters, on the back of chips shortage recovery in January 2023. Since the management stated that they manage to obtain new batches of raw material from their vendor, we opine that the Group is able to ramp up MyKad production moving forward, meeting the 200k mark per month.

MyKad Extension Contract. The current MyKad and maintenance service contracts are meeting its expiration due this May 2023. Despite that, the management restated that MyKad Extension Contract is underway due to decreasing supply in JPN. In the extension contract, Dsonic will be supplying 2.34m of MyKad, MyTentera, MyPOCA raw cards and consumables for 12 months (1st June 2023- 31st May 2024). On top of that, there are also another additional proposed extension of MyKad estimated contract value of RM25.0m. This contract is to supply JPN with an additional of 1.17m of MyKad and 1.43m consumables. As for the MyKad maintenance service contract mentioned earlier, the Group proposed an extension for 12 months. The estimated contract value for the maintenance service contract is RM19.9m.

MyKad Gen 2. Dsonic also proposed new generation of MyKad that will come with new design and additional security features. The Group proposed to supply 15.25m of new MyKads and consumables for 5 years and estimated contract value worth RM250.0m. The management estimated that MyKad Gen 2 will be commenced earliest by August 2023. Nonetheless, it is worth to note that there is currently no national order from the Government yet for the citizens to apply for MyKad Gen 2. We opine that the Government might not be launching the new MyKad generation soonest by August 2023 as the management needs the LOA 6-7 months earlier before they could supply the new MyKad generation without any supply disruption.

RETURN STATISTICS	
Price @ 1st March 2023 (RM)	0.45
Expected share price return (%)	+24.4
Expected dividend yield (%)	+3.56
Expected total return (%)	**+27.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-8.2	-5.7
3 months	-2.2	-9.8
12 months	1.1	11.4

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	308.79	345.59	351.23
Operating Profit	79.31	89.85	91.32
Profit Before Tax	83.37	100.22	101.86
Core PATAMI	80.26	97.08	98.93
Core EPS	2.80	3.38	3.45
DPS	1.60	1.60	1.60
Dividend Yield	3.56	3.56	3.56

KEY STATISTICS	
FBM KLCI	1,450.2
Issue shares (m)	2,865.36
Estimated free float (%)	46.61
Market Capitalisation (RM'm)	1,274.65
52-wk price range	RM0.41 - RM0.6
3-mth average daily volume (m)	0.77
3-mth average daily value (RM'm)	6.33
Top Shareholders (%)	3.03
Dominion Nexus Sdn Bhd	0.00
Lim Siew Choon	8.75
Amanah Saham Nasional Bhd	7.95

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MyKad Printing System. Dsonic also proposed 77 units of new MyKad printing system to replace the 10 years old machines. According to the management, pilot testing for the new printing system has been done at UTC Penang and has been successfully implemented in JPN Putrajaya. They estimated the contract value to be around RM99.0m.

Passport Production. The management also highlighted that demand for passport has been very solid since April 2022. To note, annual demand for passport was around 2.2m units, prior to the pandemic. As to last month, the management reiterate their estimation that there are 4.0m units of outstanding passports to renew. We believe this will provide a booster to the Group's passport segment by almost 2x for next quarter or two.

Passport Extension Contract. To recall, the issuance of passport in 3QFY23 has been slightly disturbed due to brief supply chain issue. If it was not for the supply chain disruption, we opine the Group will be able to hit the new record high of 838k units of passport issuance recorded in the quarter before. Due to increasing demands for passport coupled with current passport components contracts meeting expiration in November 2023, the Group is proposing 5-year extension for 12.5m units of passport polycarbonate, chip and booklet contracts worth estimated RM867.0m – RM1.0b. They also propose higher chip celling quantity which worth around RM51.0m contract value.

Maintain Buy. Post the company briefing, we revised our estimates for FY23F-FY25F upward by 6.9%-12.33% and derived a revised target price of **RM0.56** from RM0.51 premised on pegging a forward PER of 20x, the Group's 5-year mean PER, against the new FY23 EPS of 2.8sen. We are sanguine on Dsonic's ability to secure more government projects as well as churning sustainable earnings on the back of its strong track record in delivering national security documents. We maintain **Buy** with a revised target price of RM0.56.

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	138.4	136.4	308.8	345.6	351.2
EBITDA	26.7	27.7	79.3	89.9	91.3
PBT	11.1	12.7	83.4	100.2	101.9
Tax	3.8	2.5	3.1	3.1	2.9
PAT	7.3	10.2	80.3	97.1	98.9
Core PATAMI	6.5	10.3	80.3	97.1	98.9

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
PPE	134.4	131.3	134.6	133.4	133.1
Others	43.1	32.8	46.4	40.8	40.0
Total Non-Current Asset	177.5	164.1	181.0	174.2	173.1
Cash and Bank Balances	4.6	10.7	11.3	13.5	14.2
Others	138.4	226.0	250.0	269.1	290.8
Total Current Asset	143.0	236.7	261.2	282.7	305.0
Total Asset	**320.5**	**400.8**	**442.3**	**456.9**	**478.1**
LT Borrowings	50.1	28.1	46.6	41.6	38.8
ST Borrowings	44.1	30.2	42.4	34.6	35.7
Total Liability	**94.2**	**58.3**	**89.0**	**76.2**	**74.5**
Share Capital	135.0	261.3	261.3	261.3	261.3
Other Equity	91.3	81.2	91.9	119.4	142.3
Total Equity	**226.3**	**342.5**	**353.2**	**380.7**	**403.6**
Liability + Equity	**320.5**	**400.8**	**442.3**	**456.9**	**478.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	11.09	12.74	78.21	86.09	90.94
Depreciation of PPE	9.73	12.00	12.97	12.21	11.73
Tax paid	-2.93	-2.18	-2.76	-2.92	-2.70
Others	61.80	-24.54	-1.48	-0.56	8.27
CFO	**79.69**	**-1.99**	**86.94**	**94.83**	**108.24**
Purchase of PPE	-2.26	-7.32	-11.16	-12.00	-12.50
Others	1.21	3.13	1.65	1.91	1.97
CFI	**-1.05**	**-4.20**	**-9.51**	**-10.09**	**-10.53**
Borrowings repaid	-63.25	-42.32	-73.68	-68.46	-61.93
Dividend paid	-26.33	-11.48	-48.00	-38.00	-30.00
Others	12.83	132.56	70.00	68.00	52.00
Others	12.83	132.56	70.00	68.00	52.00
CFF	**-76.75**	**78.75**	**-51.68**	**-38.46**	**-39.93**
Net increase / (decrease)	1.90	72.57	30.91	60.41	68.70
Cash and cash equivalents at the beginning of the year	40.26	42.19	114.79	145.73	206.17
Cash and cash equivalents at the end of the year	**42.19**	**114.79**	**145.73**	**206.17**	**274.90**

Profitability Margins (%)	2021A	2022A	2023E	2024F	2025F
EBITDA margin	19.3	20.3	25.7	26.0	26.0
PBT margin	8.0	9.3	27.0	29.0	29.0
PAT margin	5.3	7.5	25.9	27.9	28.1
Core PAT margin	4.7	7.5	25.9	27.9	28.1

Source: Bloomberg, 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