

Datasonic Group

RESULTS UPDATE

BUY

Closing Price	RM 0.49
Target Price	RM 0.65
Consensus Price	RM 0.63

Stock Return Information

KLCI	1,488.80
Expected share price return (%)	32.7
Expected dividend return (%)	2.4
Expected total return (%)	35.1

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	DSON MK
Msia Ticker / Stock Code	DSOINIC/5216
Shares Issued (m)	2,962.0
Market Capitalisation (RM m)	1,451.4
52 Week Hi/Lo Price (RM)	0.60/0.40
Avg Trading Volume (3-mth)	6,220,344
Est Free Float (%)	45.2
YTD Returns (%)	19.5
Beta (x)	0.84

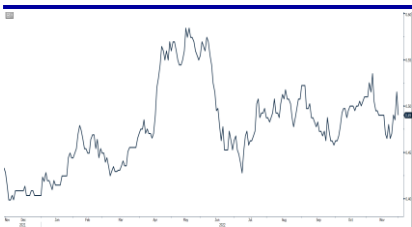
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	-3.92	-6.89
3 mth	-6.67	-6.46
12 mth	12.64	13.19

Major Shareholders (%)

Urusharta Jamaah Sdn Bhd	9.2
Bin Noordin Abu Hanifah	8.0
Chew Ben Ben	6.6

1-Year Share Price Performance



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Record High Quarter

We maintain our **BUY** rating for DSONIC with the same **TP** of **RM0.65**, by ascribing an unchanged target 21x PER to our FY24F EPS. We like Dsonic for: 1) its reputable track record in public space, 2) robust in-house research and developments, and 3) its strong balance sheet with a net cash position. Key downside risks include: 1) weaker-than-expected orderbook replenishment, and 2) delays in project delivery.

In line with expectation. We deem Dsonic's 1HFY23 top and bottom line to be within our expectations.

Y-o-Y. The group's revenue increased by more than three-fold to RM93.6m in 2QFY23 from RM28.7m in the same quarter in the previous year. The higher revenue was mainly attributable to approximately 400k and 1.2m MyKads and consumables delivered in the quarter, compared to none in the previous corresponding period and the higher number of passports delivered. In tune with the surge in revenue, its net profit increased by twenty-four-fold to RM24.9m, from RM1.0m in the previous quarter.

Q-o-Q. On similar grounds, top and bottom line expanded by 46.1% and two-fold respectively.

Cumulative. The group also returned to black in 1HFY23 with a cumulative net profit of RM36.9m, compared to a net loss of RM4.6m in the previous period, due to higher sales.

Dividend. Dsonic had declared a 2nd interim dividend of 0.5 sen, raising 1HCY23's total dividends to 0.75 sen, which is higher than 1HCY23's cumulative dividends of 0.22 sen.

Orderbook. As of September 2022, Dsonic's outstanding orderbook stands at approximately RM339.3m, with passport-related orders contributing around 32.0% of the orderbook. On top of that, the newly secured I-Kad project in November 2022 will boost the total orderbook to around RM479.3m, providing earnings visibility for at least one-and-half years.

Forecast. We maintain our projections until there are more developments from potential contracts.

Figure 1: Historical and Forecast Financial Performance

FYE Mar (RM m)	FY20	FY21	FY22	FY23(F)	FY24(F)
Revenue	247.5	138.4	136.4	307.3	322.3
EBIT	69.7	14.2	14.2	101.4	104.8
EBIT margin (%)	28.2	10.2	10.4	33.0	32.5
PBT	63.4	11.1	12.7	99.7	102.3
PBT margin (%)	25.6	8.0	9.3	32.4	31.7
PAT	60.3	7.3	10.2	79.6	91.9
PAT margin (%)	24.4	5.3	7.5	25.9	28.5
EPS (sen)	2.0	0.2	0.3	2.7	3.1
Diluted EPS (sen)*	1.4	0.2	0.2	1.8	2.1
PER (x)	24.1	198.8	141.7	18.2	15.8
Diluted PER (x)*	35.0	289.4	206.3	26.6	23.0
DPS (sen)	3.0	1.1	0.6	1.2	1.2
Dividend yield (%)	6.1	2.1	1.2	2.4	2.4

Source: Company, Inter-Pacific Research

*Based on enlarged share capital of 4,312 million outstanding shares (after conversion of warrants).

Outlook. Notably, Dsonic's 1st Malaysia self-made passport polycarbonate data page was approved recently with first 3,000 specimen delivered, and another 50,000 complete passport booklets with the self-made polycarbonate data page are slated for delivery by the end of this year. As the new self-made polycarbonate page can reduce the cost of a passport by RM2.00/booklet, more locally manufactured passport booklets will be produced as well as replacing the existing passports progressively. We anticipate this will favour Dsonic in the long run, given that it took nearly two years to come out with the final product which cannot be easily replicated by its competitors.

In view of the growing demand for passports, Dsonic is in the discussions with Jabatan Imigresen Malaysia (JIM) to increase the ceiling quantity for the supply of passport chips by an additional 2m units and to extend the supply of passport booklets by 5 years, which could potentially bring in another RM918m-RM1.05b in orderbook if the negotiations materialise.

To enhance the security features of MyKads, the government plans to issue MyKad Gen 2 where Dsonic proposes to supply 15.3m MyKads and consumables for 5 years, coupled with the new MyKad printing systems (existing systems are more than 10 years old), which could add RM450m to its orderbook. On the existing MyKad and maintenance contracts, the management targets to obtain the LOA for both extensions by early 2023.

Aside from that, Dsonic proposes to install more auto gates at a few sites such as Bangunan Sultan Iskandar, Sultan Abu Bakar Complex and Woodland checkpoints as these locations are slated for the installation of auto gates. In addition to installations, the company aims to secure maintenance contracts for all the existing auto gates it had installed. Some potential foreign clients also visited Dsonic's manufacturing facility, demonstrating their interest in Dsonic's auto gates.

Apart from the personal identification projects, Dsonic has entered the Metaverse industry by forming a 60:40 joint venture with Meta Doers. Dsonic is also in negotiations with government agencies such as the Ministry of Education and a few universities to integrate augmented reality or virtual reality into education systems. The move will allow Dsonic to reduce its reliance on government contracts, but as these undertakings are still at the initial stages, there will be no significant impact on its prospects in near future.

Figure 2: Quarterly Results Comparison

FYE Mar (RM m)	2QFY23	2QFY22	YoY	1QFY23	QoQ	1HFY23	1HFY22	YoY
			%		%			%
Revenue	93.6	28.7	>100	64.1	46.1	157.7	46.1	>100
EBIT	36.3	1.2	>100	16.7	>100	53.0	(3.8)	>100
PBT	35.9	0.9	>100	16.5	>100	52.4	(4.5)	>100
PAT	24.9	1.0	>100	12.0	>100	36.9	(4.6)	>100
PATAMI	24.9	1.0	>100	12.0	>100	36.9	(4.6)	>100
			<i>ppt</i>		<i>ppt</i>			<i>ppt</i>
EBIT margin (%)	38.7	4.3	34.4	26.1	12.6	33.6	(8.1)	41.8
PBT margin (%)	38.4	3.1	35.3	25.7	12.6	33.2	(9.8)	43.0
PAT margin (%)	26.6	3.5	23.1	18.8	7.8	23.4	(10.1)	33.5

Source: Company, Inter-Pacific Research

Figure 3: Segmental Breakdown

FYE Mar (RM m)	2QFY23	2QFY22	YoY	1QFY23	QoQ	1HFY23	1HFY22	YoY
Revenue			%		%			%
Customised solutions	79.5	26.3	>100	55.8	42.5	135.2	43.6	>100
Manufacturing	14.2	2.5	>100	8.3	70.0	22.5	2.5	>100

Source: Company, Inter-Pacific Research

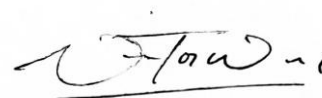
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Rating Systems

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest & Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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