

3 February 2020

Technology | Hardware & Equipment

## Datasonic Group (DSON MK)

**Buy** (Maintained)

### New Scope Of Work To Boost Earnings; Stay BUY

Target Price (Return) MYR1.96 (+34%)  
 Price: MYR1.46  
 Market Cap: USD481m  
 Avg Daily Turnover (MYR/USD) 12.42m/3.03m

- **Maintain BUY and TP of MYR1.96, 34% upside plus c.2% yield.** We deem the change of scope for the supply of passport chip contract a win-win solution as it will elevate Datasonic's earnings, while the Government is able to generate savings by recalibrating the quantity of chip supply and leaving the total contract sum unchanged. This additional scope of work is within our expectations and we believe the news will continue to underline management's capabilities in securing new contract wins.

- **Additional scope of work for KDN.** Datasonic has received an additional scope of work to be included under the existing Malaysian passport chip supply contract from the Home Ministry. The additional scope of work includes maintenance services for hardware and software of auto gate and chips, equipment and application of Public Key Infrastructure (PKI) and Public Key Directory (PKD) at a value of MYR38.25m. Concurrently, KDN reduced the quantity of passport chips from 12.5m to 11m amounting to MYR38.25m, leaving the total contract sum unchanged at MYR318.75m. Recall, the initial contract awarded to Datasonic back in 2015 for the supply of 12.5m of passport chips expiring on 30 Nov 2021 was RM318.75m.

- **Win-win solution.** We believe the agreed new scope of work under the existing passport chip supply contract is favourable to both the Government and Datasonic. Instead of going through a long process and commit to an additional contract to these works, the Government is able to generate savings by recalibrating the quantity of chip supply based on the current burn rate of c.2m pa and outstanding quantity of c.6.3m units. On the other hand, this will contribute positively to the earnings of Datasonic with an additional revenue of MYR15m pa. Also, the company is able to recognise unbilled revenue retrospectively from May 2019, in which most of the costs have been expensed. This announcement and potential earnings contributions are within our expectations and have been imputed into our forecasts.

- **An integrated service provider.** Following the additional scope of work, Datasonic is now the integrated service provider for KDN in high security immigration-related solutions, which include passport chips and booklet, polycarbonate data page, PKI and PKD, and auto gate maintenance. We believe with a higher barrier of entry on solutions related to national security, the company stands a good chance of clinching a new contract to supply auto gate solutions at Bangunan Sultan Iskandar (BSI) in Johor. Next in the line would be the Foreign Visa System (VLN), which is expected in February and National Integrated Immigration System (NIIS), in which the tender period will close on 4 Mar.

- **Forecasts are unchanged** as this additional scope of work is within our expectations. TP remains at MYR1.96 based on 39x FY21F (Mar) P/E (implying 0.5x probability of the hypothetical value of MYR1.44/share from VLN). We believe multiple contract extensions and Datasonic's proven track record continue to underline management's capabilities in securing new contract wins.

- **Key downside risks** include fluctuations in orders and contract discontinuation. We note that failure in the VLN contract bid may see TP revert to the previous level of MYR1.21.

Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (MYRm)	259	220	267	279	287
Recurring net profit (MYRm)	67	39	66	68	69
Recurring net profit growth (%)	6.5	(41.5)	68.3	2.4	2.0
Recurring EPS (MYR)	0.05	0.03	0.05	0.05	0.05
Recurring P/E (x)	33.0	56.2	33.4	32.6	32.0
P/BV (x)	8.3	8.4	7.8	7.3	6.8
P/CF (x)	20.0	32.8	32.4	31.1	29.7
Dividend yield (%)	2.4	1.2	2.1	2.1	2.2
EV/EBITDA (x)	14.6	35.8	26.4	25.9	25.5
ROE (%)	25.4	13.7	24.3	23.2	22.1
Net debt to equity (%)	42.7	35.5	31.8	25.2	18.6

Source: Company data, RHB

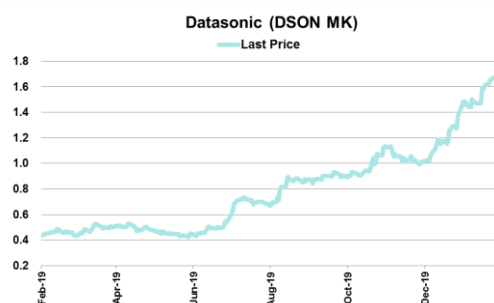
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.4)	(1.4)	28.1	114.7	224.4
Relative	2.3	2.3	32.3	121.1	233.5
52-wk Price low/high (MYR)	0.425 - 1.69				



Source: Bloomberg

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## Financial Exhibits

<b>Asia</b> Malaysia Other Hardware Datasonic Group Bloomberg DSON MK BUY	<b>Financial summary</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20F</b>	<b>Mar-21F</b>	<b>Mar-22F</b>
	Recurring EPS (MYR)	0.05	0.03	0.05	0.05	0.05
	DPS (MYR)	0.04	0.02	0.03	0.04	0.04
	BVPS (MYR)	0.20	0.19	0.21	0.22	0.24
	ROE (%)	25.43	13.74	24.29	23.16	22.07
<b>Valuation basis</b> We use a target P/E of 39x to value Datasonic.	<b>Valuation metrics</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20F</b>	<b>Mar-21F</b>	<b>Mar-22F</b>
	Recurring P/E (x)	33.0	56.2	33.4	32.6	32.0
	P/B (x)	8.3	8.4	7.8	7.3	6.8
	FCF Yield (%)	2.8	2.0	2.6	2.8	2.9
	Dividend yield (%)	2.4	1.2	2.1	2.1	2.2
<b>Key drivers</b> i. New contract wins; ii. Higher demand for passports.	EV/EBITDA (x)	14.6	35.8	26.4	25.9	25.5
	EV/EBIT (x)	29.7	47.7	29.8	29.2	28.7
<b>Key risks</b> i. Fluctuation in orders; ii. Regulatory risk; iii. Failure in contract bid.	<b>Income statement (MYRm)</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20F</b>	<b>Mar-21F</b>	<b>Mar-22F</b>
	Total turnover	259	220	267	279	287
	Gross profit	73	47	132	136	139
	EBITDA (adj.)	90	65	87	88	89
	Depreciation & amortisation	(11)	(16)	(10)	(10)	(10)
<b>Company Profile</b> Datasonic is engaged in providing ICT solutions, includes smart card personalisation, passport solutions such as secure IDs or chip-based credit/debit bank cards.	Operating profit	78	49	77	78	79
	Net interest	(8)	(8)	(5)	(5)	(4)
	Pre-tax profit	70	40	72	74	75
	Taxation	(3)	(4)	(6)	(6)	(6)
	Net profit	67	36	66	68	69
	Recurring net profit	67	36	66	68	69
	<b>Cash flow (MYRm)</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20F</b>	<b>Mar-21F</b>	<b>Mar-22F</b>
	Change in working capital	28	4	(8)	(7)	(5)
	Cash flow from operations	111	68	68	71	75
	Capex	(49)	(16)	(10)	(10)	(10)
	Cash flow from investing activities	(21)	(27)	(10)	(10)	(10)
	Dividends paid	(68)	(34)	(46)	(48)	(49)
	Cash flow from financing activities	(82)	(39)	(69)	(51)	(52)
	Cash at beginning of period	18	25	33	22	33
	Net change in cash	8	1	(11)	11	13
	Ending balance cash	25	27	22	33	46
	<b>Balance sheet (MYRm)</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20F</b>	<b>Mar-21F</b>	<b>Mar-22F</b>
	Total cash and equivalents	32	33	22	33	46
	Tangible fixed assets	218	219	219	219	219
	Total investments	-	-	-	-	-
	Total assets	445	447	445	464	483
	Short-term debt	52	55	45	44	43
	Total long-term debt	90	81	68	66	65
	Total liabilities	179	185	163	161	160
	Total equity	267	263	283	304	324
	Total liabilities & equity	445	447	445	464	483
	<b>Key metrics</b>	<b>Mar-18</b>	<b>Mar-19</b>	<b>Mar-20F</b>	<b>Mar-21F</b>	<b>Mar-22F</b>
	Revenue growth (%)	(19)	(15)	22	4	3
	Recurrent EPS growth (%)	7	(41)	68	2	2
	Gross margin (%)	28	22	50	49	48
	Operating EBITDA margin (%)	35	29	33	32	31
	Net profit margin (%)	26	18	25	24	24
	Capex/sales (%)	19	7	4	4	3
	Interest cover (x)	12	10	6	15	17

Source: Company data, RHB

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