

21 February 2025

Technology | Hardware & Equipment

Datasonic Group (DSO MK)

Buy (Maintained)

Lifted By Stronger Demand, Operating Efficiency; BUY

Target Price (Return): MYR0.50 (50.2%)
Price (Market Cap): MYR0.34 (USD210m)
ESG score: 3.1 (out of 4)
Avg Daily Turnover (MYR/USD) 3.85m/0.86m

- **Keep BUY, new MYR0.50 TP (from MYR0.61), 50% upside, c.6% FY25F (Mar) yield.** Datasonic Group's 9MFY25 earnings of MYR76.9m met expectations with 48.3% YoY growth supported by higher ASPs and iKad orders. Despite the absence of long-term contract for the major solutions, the current below-mean valuation is attractive, given DSON's strong cash flow generation amid sustained demand for its various solutions, and potential upside from new project/contract wins. No changes to our forecasts, but we factor in the dilution impact from the newly listed warrant into our TP.
- **Met expectations.** 9MFY25 revenue of MYR269.7m (+6.8% YoY) and core profit of MYR76.9m were in line, at 78.4% and 76.8% of our and consensus' full-year estimates. YoY revenue was buoyed by stronger demand for passport and smartcard solutions, higher ASPs, and higher contribution from the iKad segment. These, coupled with lower depreciation costs lifted core profit growth. 3QFY25 core profit rose 21.6% YoY and 20.8% QoQ, mainly on stronger demand and lower depreciation charges.
- **Looking to replenish the orderbook.** Following the recent contract extensions, the current orderbook is in excess of MYR270m. Management also remains committed towards securing more overseas projects, given DSON's cost competitiveness and the quality of its security documents. Locally, it is targeting more auto gate and IT-related jobs. The group's earnings outlook remains healthy on the back of sustained strong demand for its various government-related solutions and margin expansion.
- **Forecasts and ratings.** We maintain our forecasts, as DSON's results were within expectations. However, our TP is lowered to MYR0.50 from MYR0.61 as we factor in the dilution impact and potential cash proceeds (MYR0.07 per share) from the 1.391bn free warrants (listed today) with an exercise price of MYR0.2117 (in-the-money) and 3-year maturity. Our TP is pegged to an unchanged 20x P/E FY26F (at the 5-year mean), inclusive of a 2% ESG premium, as DSON's 3.1 ESG score is above the country mean. We like the group for its competitive strength in its niche solutions, healthy yields, strong cash flow generation, and potential upside from new project wins at attractive valuations.
- **Key downside risks:** Higher input costs, weaker-than-expected orders, non-renewal of contracts, and changes in government policies.

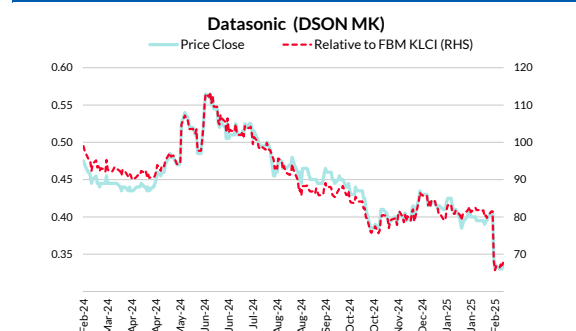
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.3)	(16.3)	(14.1)	(28.7)	(29.5)
Relative	(14.4)	(16.6)	(12.8)	(24.7)	(30.9)
52-wk Price low/high (MYR)				0.33	-0.57



Source: Bloomberg

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (MYRm)	345	368	388	373	359
Recurring net profit (MYRm)	76	92	98	88	83
Recurring net profit growth (%)	646.7	20.8	6.4	(10.3)	(5.9)
Recurring P/E (x)	18.27	15.12	14.21	15.85	16.84
P/B (x)	3.9	3.8	3.6	3.5	3.3
P/CF (x)	19.72	24.82	8.75	12.62	13.22
Dividend Yield (%)	6.0	6.6	5.6	5.0	4.7
EV/EBITDA (x)	8.81	8.72	8.76	9.51	9.77
Return on average equity (%)	21.7	25.4	26.0	22.2	20.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.3 (EXCELLENT)

S Score: 3.0 (GOOD)

G Score: 2.7 (GOOD)

Please refer to the ESG analysis on the next page

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Emissions And ESG

Trend analysis

Total GHG emissions increased by c.26% YoY to due to expanded production operations during the year to support the increase in product demand at its manufacturing centres.

Emissions (tCO ₂ e)	Mar-22	Mar-23	Mar-24	Mar-25
Scope 1	0	0	0	-
Scope 2	320	366	458	-
Scope 3	45	48	62	-
Total emissions	365	414	520	na

Source: Company data, RHB

Latest ESG-Related Developments

Datasonic's inclusion in both the FTSE4Good Bursa Malaysia Index and the FTSE4Good Bursa Malaysia Shariah Index in Dec 2023 is a testament of the group's sturdy ESG practices and commitment to transparency. 100% of its production sites are ISO 14001:2015 Environmental Management Systems certified, which is testament to its commitment to protect the environment.

DSON plans to establish GHG reduction targets and explore renewable energy sources, particularly solar, to reduce its carbon footprint. At the same time, it will align its climate disclosures with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 29 Nov 2024

E Score: 3.3 (EXCELLENT)

Datasonic is committed to pollution prevention by properly managing waste generation and reducing wastage of natural resources. Energy-savings initiatives are implemented throughout its premises. The group also recycles any waste such as carton boxes and plastic containers for internal consumption only.

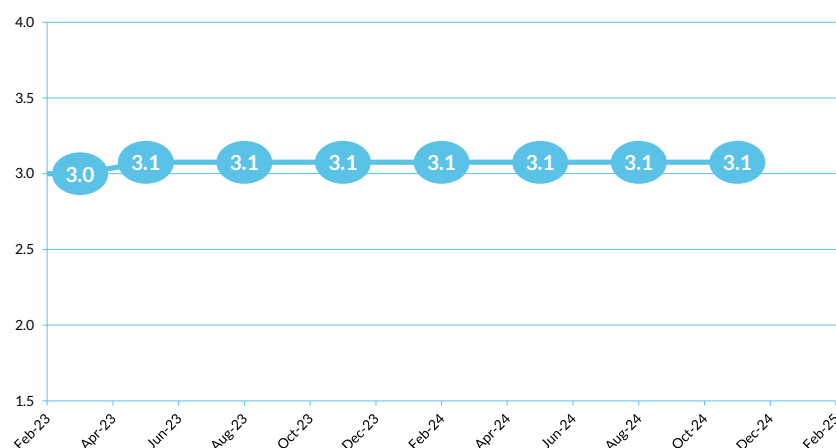
S Score: 3.0 (GOOD)

Datasonic strives to provide a safe and healthy working environment to its employees. Accident occurrences at its manufacturing facilities are low.

G Score: 2.7 (GOOD)

More than half of Datasonic's board are independent directors. The group has consistent investor engagement and is forthcoming in its guidance.

ESG Rating History



Source: RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Malaysia	Recurring EPS	0.02	0.02	0.02	0.02	0.02
Technology	DPS	0.02	0.02	0.02	0.02	0.02
Datasonic Group	BVPS	0.09	0.09	0.09	0.10	0.10
DSON MK	Return on average equity (%)	21.7	25.4	26.0	22.2	20.1
Buy						
	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Valuation basis	Recurring P/E (x)	18.27	15.12	14.21	15.85	16.84
Datasonic is valued at 20x FY26 P/E	P/B (x)	3.9	3.8	3.6	3.5	3.3
	FCF Yield (%)	4.8	2.8	10.3	4.7	6.8
Key drivers	Dividend Yield (%)	6.0	6.6	5.6	5.0	4.7
i. New contract wins;	EV/EBITDA (x)	8.81	8.72	8.76	9.51	9.77
ii. Higher demand for its various solutions.	EV/EBIT (x)	11.77	10.65	9.69	10.84	11.26
Key risks	Income statement (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Key downside risks include:	Total turnover	345	368	388	373	359
i. Weaker-than-expected orders;	Gross profit	189	214	216	204	197
ii. Contract non-renewals;	EBITDA	147	153	145	134	128
iii. Changes in government policy.	Depreciation and amortisation	(37)	(28)	(14)	(17)	(17)
	Operating profit	110	126	131	118	111
	Net interest	(2)	(3)	(2)	(2)	(2)
	Pre-tax profit	108	122	129	116	109
	Taxation	(32)	(30)	(31)	(28)	(26)
	Reported net profit	76	92	98	88	83
	Recurring net profit	76	92	98	88	83
Company Profile	Cash flow (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Datasonic is principally involved in the provision of ICT solutions that include smart card personalisation services, customisation of large-scale government ICT solutions, project management and technical consultancy services.	Change in working capital	(51)	(66)	47	6	6
	Cash flow from operations	71	56	159	111	106
	Capex	(4)	(17)	(16)	(45)	(10)
	Cash flow from investing activities	(4)	(17)	(16)	(45)	(10)
	Dividends paid	(43)	(69)	(79)	(70)	(66)
	Cash flow from financing activities	(17)	(70)	(84)	(75)	(71)
	Cash at beginning of period	121	158	113	173	163
	Net change in cash	49	(31)	60	(10)	24
	Ending balance cash	170	127	173	163	187
	Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total cash and equivalents	158	113	173	163	187
	Tangible fixed assets	122	116	118	146	139
	Total investments	4	4	4	4	4
	Total assets	465	468	493	505	515
	Short-term debt	41	46	22	20	18
	Total long-term debt	19	14	33	30	27
	Total liabilities	105	101	107	100	94
	Total equity	360	367	387	404	421
	Total liabilities & equity	465	468	493	505	515
	Key metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Revenue growth (%)	152.7	6.8	5.3	(3.8)	(3.8)
	Recurrent EPS growth (%)	646.7	20.8	6.4	(10.3)	(5.9)
	Gross margin (%)	54.9	58.2	55.8	54.6	55.0
	Operating EBITDA margin (%)	42.5	41.7	37.5	36.0	35.6
	Net profit margin (%)	22.1	25.0	25.3	23.6	23.1
	Dividend payout ratio (%)	109.1	99.3	80.0	80.0	80.0
	Capex/sales (%)	1.1	4.5	4.1	12.1	2.8
	Interest cover (x)	66.2	39.1	57.3	56.3	58.6

Source: Company data, RHB

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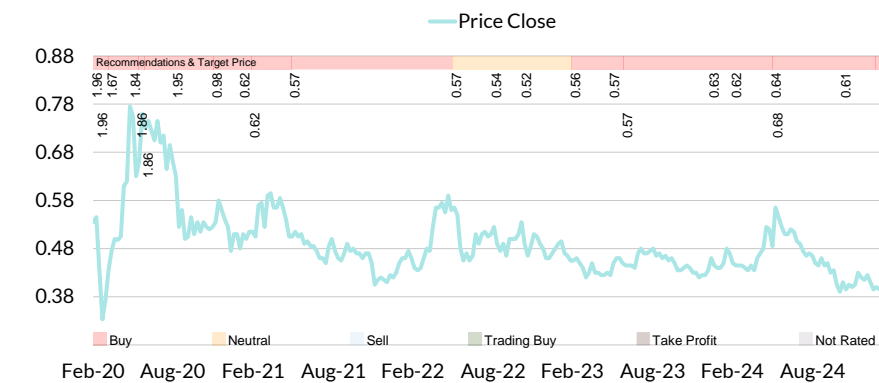
Results At a Glance

Figure 1: 9MFY25 results review

FYE Mar (MYRm)	3QFY24	2QFY25	3QFY25	QoQ (%)	YoY (%)	9MFY24	9MFY25	YoY (%)	Comments
Revenue	80.5	81.0	97.9	20.8	21.6	252.6	269.7	6.8	YoY: Higher orders for both smart cards and passport-related solutions, cushioned by the ramp-up of iKad supply, higher consumables, and ASP hike.
EBITDA	29.1	32.5	43.1	32.4	47.9	97.1	116.7	20.1	
EBITDA margin (%)	36.2	40.2	44.0			38.5	43.3		9M25: Stronger margins from ASP revision.
Depreciation & amortisation	(7.2)	(3.8)	(3.7)	1.9	49.0	(22.6)	(11.5)	49.2	
EBIT	21.9	28.8	39.4	36.9	79.7	74.5	105.2	41.2	The majority of its equipment was fully depreciated.
EBIT margin (%)	27.2	35.5	40.2			29.5	39.0		
Interest expense	(0.9)	(0.6)	(0.5)	24.7	43.7	(2.4)	(1.9)	22.0	
Interest income	-	-	-	Nm	Nm	-	-	Nm	
Associates	-	-	-	Nm	Nm	-	-	Nm	
El/others	0.7	(2.5)	(2.5)	(0)	Nm	1.8	(5.2)	Nm	
Pre-tax profit	21.8	25.6	36.4	42.1	66.8	73.9	98.1	32.8	Gains and losses related to FX rates, disposals, ESOS expenses and short-term investments.
Pre-tax margin (%)	27.1	31.6	37.2			29.3	36.4		
Tax	(5.4)	(7.9)	(9.4)	(20.3)	(76.4)	(20.3)	(26.4)	(30.4)	
Effective tax rate (%)	24.5	30.6	26.0			27.4	26.9		
Minority Interest	0.0	0.0	0.0	(83.3)	(77.8)	0.0	0.0	61.5	
Net profit	16.5	17.8	26.9	51.6	63.5	53.7	71.7	33.7	
Core profit	15.7	20.3	29.5	45.1	87.5	51.9	76.9	48.3	Within expectations.
Net margin (%)	19.5	25.1	30.1			20.5	28.5		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-01-21	Buy	0.61	0.41
2024-11-29	Buy	0.68	0.40
2024-06-04	Buy	0.68	0.51
2024-05-31	Buy	0.64	0.49
2024-03-01	Buy	0.62	0.45
2024-01-10	Buy	0.63	0.46
2023-12-01	Buy	0.57	0.43
2023-06-26	Buy	0.57	0.45
2023-05-28	Buy	0.57	0.43
2023-02-27	Buy	0.56	0.46
2022-11-08	Neutral	0.52	0.50
2022-08-31	Neutral	0.54	0.53
2022-06-01	Neutral	0.57	0.58
2022-03-01	Buy	0.57	0.46
2022-02-18	Buy	0.57	0.48

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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Analyst	Company
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