



Datasonic Group Berhad

(5216 | DSON MK) Technology | Hardware and Equipment

Detecting Weakness in Sequential Performance

KEY INVESTMENT HIGHLIGHTS

- **Downgrade to NEUTRAL with a lower target price of RM0.50 post the announcement of 1QFY24 financial results**
- **While 1QFY24 earnings improved to RM19.0m (+58.2%yoy), we see some weakness (-16.1%qoq) on a sequential basis**
- **Demand may potentially plateau as backlog steadily clears**
- **The high effective tax rate to continue to suppress earnings upside potential**
- **The group remain committed to its dividend payment**

Effective tax rate remains high. We are downgrading our recommendation for Datasonic to **NEUTRAL** from BUY previously with a lower **target price of RM0.50**. We detected some slowdown in the latest quarterly result where revenue contracted on a sequential basis. This could indicate that demand could potentially plateau after a surge in demand seen in FY23. The effective tax rate also remains elevated. In addition, efforts to diversify away from the local business scene have yet materialise.

Lower sequential performance. Datasonic 1QFY24 earnings improved by +58.2%yoy to RM19.0M. This was mainly supported by higher supply of smart cards, passport and personalisation services.

However, on a sequential basis, there was a -16.1%qoq contraction in earnings. This was led by -19.1%qoq decline in revenue in view of lower supply of smart cards and passports. Note that the effective tax rate remained elevated at 28.5%.

All in, Datasonic's 1QFY24 financial performance came in below our expectation, making up 19.6% of our FY24 full year earnings estimates.

No let up in dividend payment. In view of the group's strong financial position, a 0.6sen dividend was announced in 1QFY24. This translated into a payout ratio of 89.6%.

Inputting a more conservative earnings estimate. We are lowering our earnings estimates for FY24 to FY26 to between RM71.1m and RM79.0m. This is to account for the sequentially lower demand as well as the elevated effective rate.

A more palatable target price. Following our earnings downgrade, we are lowering our **target price to RM0.50**. This is derived by pegging CY24 EPS of 2.4sen against unchanged target PER of 20x. The latter is the group's five years historical average PER.

Geographical diversification may take time. Late 2023, the group entered a MoA with the Republic of Guinea to provide land management solutions and services. However, there has yet been any progress. Thus, we opine that the group's effort to diversify out of Malaysia may take some time to materialise.



Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM0.50

(Previously: RM0.57)

RETURN STATISTICS

Price @ 30th August 2023 (RM)	0.48
Expected share price return (%)	+4.2
Expected dividend yield (%)	+4.2
Expected total return (%)	+8.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	1.6
3 months	6.7	8.7
12 months	-6.9	-3.1

INVESTMENT STATISTICS

FYE Mar	2024E	2025F	2026F
Revenue	340	345	373
Operating Profit	108.7	110.4	119.4
Profit Before Tax	100.2	100.0	108.2
Core PATAMI	71.1	73.0	79.0
Core EPS	2.5	2.5	2.8
DPS	2.0	2.0	2.1
Dividend Yield	4.1	4.2	4.3

KEY STATISTICS

FBM KLCI	1,451.94
Issue shares (m)	2,816.13
Estimated free float (%)	43.07
Market Capitalisation (RM'm)	1,351.74
52-wk price range	RM0.41-RM0.54
3-mth average daily volume (m)	5.49
3-mth average daily value (RM'm)	2.57
Top Shareholders (%)	
Urusharta Jamaah Sdn Bhd	8.82
Abu Hanifah bin Noordin	8.00
Demi Mekar Sdn Bhd	6.10

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DATASONIC GROUP BERHAD: 1QFY24 RESULTS SUMMARY

FYE 31st March (in RM'm, unless otherwise stated)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)
Revenue	84.8	64.1	32.4	104.9	-19.1
EBITDA	30.4	19.5	56.5	34.8	-12.6
Depreciation and amortisation	-2.8	-2.5	11.9	-3.6	-22.3
EBIT	27.7	17.0	63.1	31.3	-11.5
Interest expense	-0.7	-0.3	181.4	-0.6	27.8
Interest income	-0.3	-0.2	36.4	0.1	-484.2
PBT	26.6	16.5	61.5	30.8	-13.4
Taxation	-7.6	-4.5	70.4	-8.1	-5.8
MI	0.0	0.0	-50.0	0.0	-75.0
PATANCI	19.0	12.0	58.2	22.7	-16.1
Normalised PATANCI					
EPS (sen)	0.67	0.42	60.0	0.80	-15.6
			+/- ppts		+/- ppts
EBITDA margin (%)	35.9	30.4	5.5	33.2	2.7
EBIT margin (%)	32.6	26.5	6.1	29.8	2.8
Normalised PATANCI margin (%)	22.4	18.8	3.7	21.6	0.8
Effective tax rate (%)	28.5	27.0	1.5	26.2	2.3

Source: Company, MIDF

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	136.4	344.7	339.5	345.0	373.2
EBIT	16.7	121.4	108.7	110.4	119.4
PBT	12.7	108.2	100.2	100.0	108.2
PATANCI	10.2	76.4	71.1	73.0	79.0
Normalised PATANCI	10.3	76.9	71.1	73.0	79.0
Normalised EPS (sen)	0.4	2.7	2.5	2.5	2.8
Normalised EPS Growth (%)	1.0	649.3	-8.1	2.7	8.2
PER (x)	133.3	17.8	19.4	18.9	17.4
Dividend Per Share (sen)	0.6	2.0	2.0	2.0	2.1
Dividend yield (%)	1.3	4.2	4.1	4.2	4.3

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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 <i>rise</i> 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 <i>fall</i> 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