



1 June, 2018

Datasonic (DSON MK)

Below

BUY

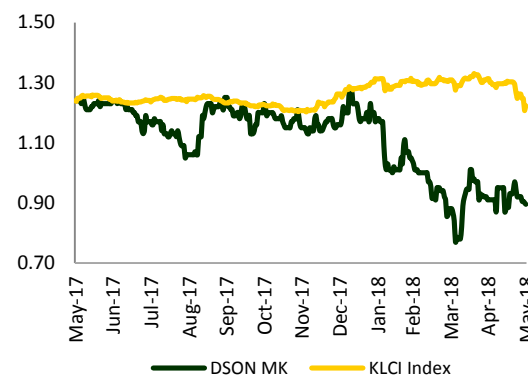
Share Price **RM0.90**

Target Price **RM1.20 +34.1%**

More delivery needed

- 4QFY18 revenue fell 30.2% yoy to RM65m on lower delivery of personalisation services and passports. However, the impact was partially offset by lower opex and effective tax rate.
- Overall, FY18 core earnings eased by only 1.2% yoy and fell short at only 77% of our estimates due to the shortfall in MyKad and passport deliveries.
- We cut FY19F/FY20F/FY21F forecasts by 20.9%/11.4%/2.9% on assumption of lower MyKad and passport deliveries and at lower rates given the PH government's more prudent policy undertone.
- Maintain BUY with lower DCF-derived TP of RM1.20 that implies FY19F PE of 20.2x before easing to 18.2x in FY20F.

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	(1.6)	(13.1)	(25.0)
vs FBM KLCI	5.3	(8.2)	(26.8)

Stock Data

Mkt Cap (RM)	1,208.3
Free float (%)	61.5
Issued shares (m)	1,350.0
52w H/L (RM)	1.30 / 0.77
3m avg daily volume (m)	2,273,264

Major Shareholders (%)

Abu Hanifah Nordin	15.1
Ben Ben Chew	13.7
Gerbang Subur S/B	9.7

FYE Mar (RM m)	FY17	FY18	FY19F	FY20F	FY21F
Turnover	318	259	285	303	320
EBITDA	113	93	118	125	133
Pretax Profit	72	70	83	92	101
Core Profit	66	65	81	90	98
Consensus NP			102	106	
EPS (sen)	4.9	4.8	6.0	6.6	7.3
PER (x)	18.4	18.6	14.9	13.5	12.3
DPS (sen)	2.5	4.0	5.0	5.5	6.0
D. Yield (%)	2.8	4.5	5.6	6.1	6.7
P/B (x)	4.6	4.5	4.1	3.9	3.7

Key Ratios (%)

ROE	25.2	24.4	27.2	28.7	29.8
EBITDA margin	35.4	36.0	41.3	41.3	41.6
Pretax margin	22.6	27.2	29.2	30.4	31.5
Net margin	20.6	25.1	28.4	29.6	30.7

Source: Bloomberg, BIMB Securities

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Earnings upset mitigated by lower opex

Datasonic's 4QFY18 revenue declined 30.2% yoy to RM65m on lower delivery of personalisation services and passports. However, these were partially cushioned by lower net opex and effective tax rate which saw core earnings easing by only 1.5% yoy to RM17m. EBITDA margin notably expanded by 976bps to 37.5%.

Sequential improvement

On qoq basis, revenue grew 7.2% on higher MyKad deliveries which are better margin products. This led to a 15% EBITDA growth and margin expansion. We believe EBITDA growth was also due to backlog delivery of orders from the prior quarter. Overall, core earnings grew by 18.6%.

FY18 below expectation

Its FY18 revenue fell 18.8% to RM258.6m as product deliveries came short of our expectations. Overall, core earnings eased by 0.8% to RM65.0m and made up only 77% of our FY18F estimates.

Revisiting our forecast

We cut our FY19F/FY20F/FY21F earnings by 20.9%/11.4%/2.9% as we pare down our expectations of product deliveries over these periods. Management noted that the National Registration Department (KDN) would be drawing down on existing inventory before new orders are made. Also, with the PH government taking a more prudent approach in expenditures and intends to break monopolistic businesses, we believe tenders of existing contracts could be carried out for the entry of new players.

Maintain BUY with TP of RM1.20

We retain our BUY call with a lower DCF-derived TP of RM1.20 (from RM1.45) (WACC: 5.1%, g: 0.5%). Our TP implies FY19E PE of 20.2x and 18.2x in FY20E. We believe this is fair as its c.RM700m order book provides visibility of up to FY23F.

Quarterly figures

Datasonic FYE 31 Mar (RMm)	Quarterly			Change (%)		Cumulative		YTD (%)	BIMB	12M/F
	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18			
Revenue	92.6	60.3	64.6	7.2%	-30.2%	318.4	258.6	-18.8%	298.6	86.6%
EBITDA	25.7	21.0	24.2	15.2%	-5.6%	108.6	91.0	-16.3%	108.6	83.7%
EBIT	20.2	17.3	19.5	12.7%	-3.6%	80.8	75.1	-7.1%	92.5	81.2%
Pretax profit	18.9	15.5	17.8	15.3%	-5.6%	71.9	70.3	-2.1%	86.9	80.9%
Taxation	(1.0)	(0.9)	(0.5)	-46.9%	-53.3%	(9.4)	(3.2)	-65.6%	(2.4)	136.3%
Net Profit	17.6	14.6	17.3	18.6%	-1.5%	65.6	65.0	-0.8%	84.4	77.0%
EPS (sen)	1.3	1.1	1.3	17.8%	-1.5%	4.9	4.8	-0.8%	6.3	77.0%
Net gearing (x)	0.5	0.5	0.4			0.4	0.4		0.5	
EBITDA margin (%)	27.7	34.9	37.5			34.1	35.2		36.4	
EBIT margin (%)	21.8	28.7	30.2			25.4	29.0		31.0	
PBT margin (%)	20.4	25.7	27.6			22.6	27.2		29.1	
Net profit margin (%)	19.0	24.2	26.8			20.6	25.1		28.3	
Effective tax rate (%)	5.1	5.5	2.5			13.0	4.6		2.7	

Source: BIMB Securities, Company

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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