

DATASONIC GROUP BHD (“DATASONIC”) – IC Producer

Recommendation: Buy

Share Price: RM2.17

FINANCIAL SUMMARY

FYE 31 Dec (RM mil)	2010	2011	2012F	2013F
Revenue	39.6	78.4	197	267
EBITDA	13.1	23.9	57.1	73.4
EBITDA Margin (%)	33.1	30.5	28.9	27.5
Pre-tax Profit	11.4	21.7	48.5	62.4
Net Profit	7.6	15.9	34.9	44.9
EPS (sen)	8.4	17.6	38.8	49.9
DPS (sen)	--	--	--	--
PER (x)	25.8	19.0	5.6	4.3
Dividend Yield (%)	--	--	--	--

OTHER KEY DATA

Listing	Main Market
Issued Cap. (mil, RM0.5 par)	90
Market Cap. (RM mil)	195.3
52 Week Low/High (RM)	
Net Gearing (%)	Net Cash
ROE (%)	18.4
P/BV (x)	2.3
BV/share (RM)	0.96
Major Shareholders (%)	
Dibena Enterprise	53.1
Dato' Abu Hanifah bin Noordin	15.5

Source: Company, Bloomberg & PCM estimates

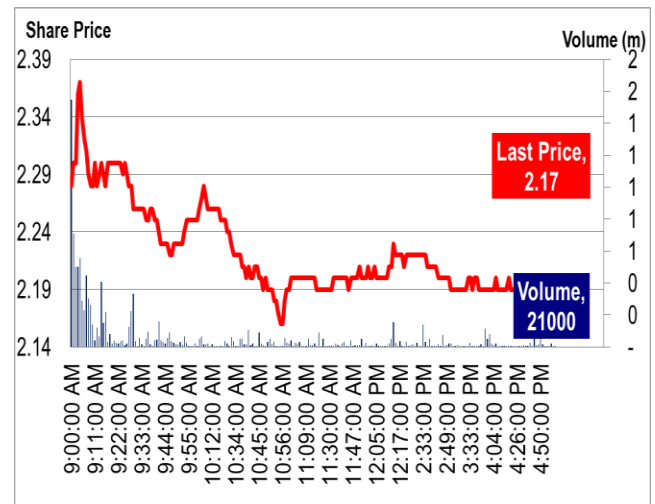
It will be a new ballgame for DATASONIC after it was awarded the New MyKad and Passport Datapage contracts. We are excited to see the strong secured earnings over the next 3 years.

We expect a steady flow of contracts into the company particularly from the new MyKad due to overwhelming request from the public, which could possibly reach 15m cards in 2 years instead of only 4m.

On top of the expected strong growth, the earnings visibility is good due to the sizeable orderbook of RM531m as at June 2012 for MyKad and the 5-year Passport Datapage contracts awarded. There will also be a steady flow of income from the recurring consumable and maintenance segment.

The valuation of PE 4.3x FY2013 EPS based on first day closing price of RM2.20 (IPO price RM2.00) is about 50% discount to the industry average. Therefore, we recommend “Buy”.

Price Chart of DATASONIC (1 Day)



Source: Bloomberg

Highlights:

Background – DATASONIC’s core business is the provision of ICT solutions which comprises smart card personalisation (such as secure ID or chip-based credit/ debit/ bank cards) and customisation of software & hardware solutions. It is one of the leading personalisation centres for financial institutions in Malaysia and exclusive distributor in Malaysia of the Datacard central Issuance Systems and Solutions. We are impressed that it has committed in research and development (R&D) seriously in the past and we believe that R&D will be a continuum.

MyKad – In 2011, DATASONIC was awarded the 2-year contract by the National Registration Department of Malaysia (NRD) for the supply of 4 m new raw MyKad with 100% polycarbonate material, new security, operating system (OS) and chips effectively from 1 Jan 2012. It breaks new ground in developing a smart card OS for the national ID card which is 10 times faster than the current old MyKad’s OS. The new Mykad is claimed to be more durable and it makes Malaysia a first country in the world to use an identification card that incorporates both photo identification and fingerprint biometric data on a computer chip. According to the Star,

The NRD received about 21,000 applications daily for the new MyKad in April alone. That said, the NRD will need to issue about 15m MyKad in 2 years and it will rake in RM270m revenue as compared to only RM72m based on the original contract of 4m cards. We think the required 15m MyKad over 2 years is not far-fetched. (see Figure 1) Furthermore, DATASONIC has already recognized 2m Mykad sales in the 1H2012 results, or half of the 4m MyKad which is supposed to be delivered in 2 years. It achieved about 23 sen EPS (based on weighted no of share) for 1H2012 which is mainly attributed by the Mykad contract.

DATASONIC was the supplier of consumables for the old MyKad contract through Dibena Enterprise whereby Iris was the supplier of raw cards, chip with OS and readers. Now DATASONIC is taking the leading role in the new MyKad contract which aims to replace all the old MyKad which are relatively inferior in quality.

Passport Datapage – After such a goodly amount of MyKad contract awarded, one may have thought that it cannot have its cake and eat it by winning another considerable contract of about RM285m for the supply of 10m new passport datapage but DATASONIC proves that out that it can have both from its continuous conduct in in-depth R&D. It is a 5-year contract (Feb 2013 – Jan 2018) awarded by the Immigration Department of Malaysia to supply new passport polycarbonate datapage and laser engraving personalisation equipment. Besides Datapage, DATASONIC is eyeing on the upcoming contracts available for bidding such as the passport booklet.

Consumables – With the strong order book, DATASONIC’s earnings will be strong and secured within next 3 years. There are also consumables and maintenance requirements for MYKad contract. This recurring income commands high EBITDA margin. As at June 2012, this segment contributes about 27% of total orderbook. (see Figure 2)

Risk? – As almost 90% of DATASONIC’s revenue is generated from Government contracts and it is subject to the Government’s initiatives and budget allocations. We do not see much risk here, as the contracts have been awarded and it is in progress now. We don’t think it is that easy to hold it back because it involves high level of national security issues. Furthermore, DATASONIC also supplied centralised and decentralised MyKad Issuance system for NRD headquarters and 14 NRD branches nationwide. We were told that it has deployed its own staff in NRD’s branches to support the central issuance machine. Therefore, we reckon that the extension of MyKad contracts in 2014 is highly possible.

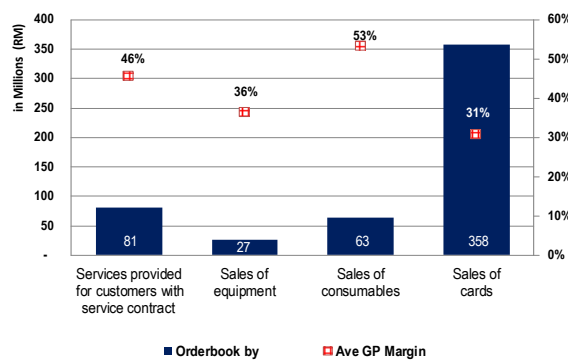
Recommendation:-

We like DATASONIC for its medium-term secured contracts that will provide strong earnings visibility for the next 3 years. Prospect after that will depend on several other projects like CCTV and e-hospital management systems which the company is working on. Possible overseas contracts in identification card cannot be ruled out. The company is also eyeing the supply of passport chip when the contract expires on Aug 2012. The valuation of PE 4.3x FY2013 EPS is about 50% discount to the industry average. Therefore, we recommend “Buy”.

Figure 1: Illustration of no. of MyKad required:

Malaysia Statistics	
Population:	28m
Birth rate:	20.74 birth per 1000 (2011 estimate)
Population > 15 year old:	70%
Report average lost card :	26k per month
The following illustration is based on the Malaysia statistics highlighted above and certain assumptions:-	
	Estimated no. of MyKad Required every year ('000)
New registration for Mykad at 12 year old every year	581
Mykad renewal at 18 year old every year	581
Replacement for lost cards	312
Replacement of old Mykad	
Assumption: existing Mykad holders take 3 years to renew (we believe it will be made compulsory soon)	5,880
Estimated no. of MyKad Required every year	7,353
Estimated no. of MyKad Required in 2 years	14,707

Figure 2: Orderbook & Ave GP Margin By Main Products



Source: Co’s Prospectus & PCM

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For Phillip Capital Management Sdn Bhd

Nona Salleh
Executive Chairperson

**APPENDIX
LIST OF STOCKS RECOMMENDED SINCE 2010**

Our Picks – 2010/11/12						
No	Stock	Date	Price*	Price @ 3/9/12	% Change	Comments
1	MBSB	30 Nov 09	RM0.655	RM2.33	255.7	Buy. 2Q loan growth was strong and margin improved.
2	Dayang	29 April 10	RM1.30	RM2.05	57.7	Buy. Will bid for RM10b umbrella contract and expect to secure RM1.5bn
3	KSL	30 June 10	RM 1.30	RM1.48	13.8	Buy/Hold. Price started to move out of RM1.40 consolidation.
4	Kian Joo	28 Aug 10	RM1.287	RM2.63	104.4	Hold. No excitement from 2Q results, div increased marginally.
5	TSH	17 Sep 10	RM1.055	RM2.44	131.3	Hold. It Sabah plantation output affected by "stress".
6	Public Bank	18 Oct 10	RM12.12	RM14.34	18.3	LT Buy/Hold. Earnings have been depressed by lower margin.
7	Padini	25 Oct 10	RM0.896	RM2.20	145.5	Buy/Hold. To sell Vincci products via FJ Benjamin in Indonesia.
8	AirAsia	17 Dec 10	RM 2.64	RM3.47	31.4	Buy/Hold. Start-up losses in Japan and Philippines affect bottom line.
9	Benalec	18 Jan 11	RM 1.32	RM1.18	-10.6	Buy/Hold. 2Q results affected by lower reclamation activities.
10	CIMB	9 Mar 11	RM 7.71	RM7.87	2.1	Hold. Intend to expand to South Korea and India.
11	Sarawak Oil Palm	30 Mar 11	RM 3.46	RM6.82	97.1	Hold. Can't cross RM7 & px drifted downward gradually.
12	TRC	20 Apr 11	RM0.586	RM0.61	4.1	Medium Term Buy. Losses in 2Q mainly due to lower construction margin.
13	AMedia	6 June 11	RM0.285	RM1.02	257.9	Hold. Profit was fairly flat in 2Q.
14	Bstead	4 Aug 11	RM4.37	RM5.36	22.7	Buy/Hold. Like most plantation co, 2Q bottom line dragged down by lower output and lower prices.
15	Dialog	19 Aug 11	RM2.374	RM2.36	-0.6	Buy/Hold. Deferred Tanjong Langsat 3 project was a surprised.
16	Yinson	13 Sep 11	RM1.129	RM2.00	77.1	Buy. Selling by a local fund depressed price.
17	Tenaga	27 Sep 11	RM 4.94	RM6.84	38.5	Buy. Price has retraced to support of RM6.80
18	Eng Kah	18 Nov 11	RM 3.14	RM3.75	19.4	Hold. Bonus and warrant issues will improve liquidity.
19	Prestariang	14 Dec 11	RM0.625	RM1.27	103.2	Still a Buy. Strong cashflow and high div yield make PresBhd attractive.
20	Padini	21 Mar 12	RM1.43	RM2.20	53.8	Buy. As above.
21	MPHB	27 April 12	RM2.64	RM3.77	42.8	Buy. Proposed demerger will offer 1:2 free share @RM1.00 each
22	Top Glove	17 May 12	RM4.20	RM5.40	28.6	Hold. 15-yr Reinvestment Allowance unlikely to be extended for their expansion.
23	Genting	30 May 12	RM10.00	RM9.02	-9.8	Medium Term Buy. GenMsia's 2Q results were above expectation.
24	Airport	8 June 12	RM5.62	RM5.46	-2.8	Buy. Higher operating cost affect 2Q results.
25	RHB Cap	31 July 12	RM7.37	RM7.22	-2.0	Buy. 2Q results were higher, backed by higher loan growth.

26	OCK	6 Aug 12	RM0.435	RM0.460	5.7	Buy. 2Q results were better than expected.
27	Pantech	18 Aug 12	RM0.662	RM0.660	-0.3	Buy. Newly acquired Nautic contributed to 2Q earnings.

**Price adjusted for dividend, bonus and rights*