

Searching for Value



Datasonic's RM7.5 Billion Valuation: What Lies Beyond The Headline Number?

DATASONIC'S RM7.5 BILLION VALUATION: WHAT LIES BEYOND THE HEADLINE NUMBER?

The RM7.5 billion internal valuation of Datasonic Technologies Sdn Bhd (DTSB), a wholly owned subsidiary of Datasonic Group Berhad (Datasonic) (formerly known as NexG Berhad), first came into focus following the Government's request for an indicative price for a possible acquisition of DTSB.

In its response to Bursa Malaysia on 21 August 2026, Datasonic said Management arrived at approximately RM7.5 billion using a discounted cash flow (DCF) methodology, taking into consideration DTSB's future earnings-generating capabilities, projected future cash flows, business sustainability and other relevant factors. The Board reviewed the basis, assumptions and methodology used. Datasonic also stressed that the figure was an internal Management assessment, rather than an independent valuation, agreed transaction value or firm offer.

At Datasonic's 18th AGM on 30 September 2026, shareholders gained two additional pieces of information about how the DCF was structured. In response to MSWG's questions on the assumptions underlying the valuation, Management disclosed that the DCF used a 12-year explicit forecast period and incorporated a nominal terminal value.

These disclosures do not allow shareholders to reconstruct the RM7.5 billion valuation, but they do reveal more about the expectations that must sit behind it.

Putting RM7.5 Billion in Perspective

The scale of the RM7.5 billion valuation is notable. DTSB's two major contracts have a combined headline value of approximately RM2.46 billion, while the valuation was about 6.7 times Datasonic's RM1.12 billion market capitalisation when the figure became public.

However, neither provides a like-for-like benchmark for the valuation: contract value represents potential business rather than the cash ultimately generated, while market capitalisation reflects the equity value of the listed Group rather than the DCF value of DTSB.

Understanding the RM7.5 billion valuation therefore requires looking beyond these headline figures to the assumptions embedded in Management's DCF.

Why 12 Years Matters

At its simplest, a DCF values a business by estimating its future free cash flows and discounting them back to their present value:

$$\text{DCF Value} = \sum_{t=1}^{12} \frac{FCF_t}{(1 + WACC)^t} + \frac{TV}{(1 + WACC)^{12}}$$

where FCF represents free cash flow, WACC is the discount rate and TV is the terminal value.

The 12-year forecast is particularly significant when compared with DTSB's existing major contracts. Its passport and national identity card contracts currently run for six years to May 2032 — only half of the explicit forecast period. While DTSB has an established track record in Malaysia's identity infrastructure, Years 7 to 12 would increasingly depend on the future economics of renewed or new business, including volumes, pricing and margins.

What Cash Flows Would Support the Valuation?

For Datasonic's RM7.5 billion valuation, the projected cash flows over those 12 years would depend on the starting cash-flow base, the growth path and the investment required to support them. Their present value would then depend on the discount rate applied, alongside the contribution from terminal value.

The cash-flow assumptions are particularly important over a 12-year forecast. Datasonic generated approximately RM80.79 million in Group-level cash flow after capital expenditure in FY2026, providing a useful reference point for illustrating how differences in the starting base and growth can compound over time. At a constant annual growth rate of 10%, RM80.79 million would reach approximately RM254 million after 12 years, compared with RM432 million at 15% (*this illustration uses Group-level cash flow after capital expenditure and does not represent DTSB's standalone free cash flow or Management's forecast*).

Historical cash generation, however, has not followed a constant annual growth trajectory. Based on the same Group-level measure, year-on-year growth was 9.0% in FY2017 and 91.6% in FY2018, followed by declines of 29.7% in FY2019 and 34.7% in FY2021. This highlights why both the starting cash-flow base and year-by-year growth assumptions are important in assessing a 12-year forecast.

Generating those cash flows also requires investment. Datasonic has outlined a proposed RM250 million secure ID production facility, with Phase 1 involving RM85 million in machinery and facility upgrades, followed by a new advanced facility under Phase 2. The expansion therefore adds another dimension to the 12-year forecast: how much capital is deployed and how quickly it translates into additional cash generation.

Then Comes the Terminal Value

Management also disclosed that the DCF incorporates a nominal terminal value, meaning part of the RM7.5 billion valuation relates to DTSB beyond the 12-year explicit forecast.

This makes the split between the 12-year explicit forecast and terminal value particularly relevant. While the former covers a defined period against which future performance can eventually be observed, the latter reflects DTSB's economics beyond Year 12 — well beyond the terms of its current major contracts.

The greater the contribution from terminal value, the greater the reliance on DTSB's ability to sustain cash generation beyond the explicit forecast period. However, Management did not disclose how the terminal value was calculated or its underlying assumptions, making it inappropriate to infer a particular methodology or growth rate.

What Should Shareholders Watch from Here?

While the assumptions underlying Management's 12-year cash-flow projections were not fully disclosed, shareholders can assess over time how the business performs against the expectations implied by the RM7.5 billion valuation over time.

Contract visibility will be key. DTSB's current major contracts cover only around half of the 12-year forecast period. Renewals and new contract wins will therefore be important in supporting Years 7 to 12 of Management's forecast.

Capacity utilisation is another area to monitor. Phase 1 is aimed at doubling current passport output, while Phase 2 is expected to triple Phase 1's annual output. Production volumes and utilisation rates will indicate whether the expanded capacity is being absorbed.

Overseas growth could provide another source of future business. Private-sector and overseas projects currently contribute around 15% of Group revenue. With Management targeting ASEAN and Africa, growth in this contribution would indicate progress in broadening the business beyond its existing core markets.

Together, these developments provide tangible markers against which the RM7.5 billion valuation can be tested over time. Contracts, capacity and overseas growth are only part of the story; the ultimate test is the cash flows they generate.

[END]

MSWG AGM/EGM WEEKLY WATCH

The following are the AGMs/EGMs of companies on the Minority Shareholders Watch Group's (MSWG) watch list for this week.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

QUICK-TAKE

Date & Time	Company	Quick-take	Voting Position
15.10.26 (Thur) 9.00 am	XL Holdings Berhad (EGM)	XL Holdings Berhad proposes to establish a Long-Term Incentive Plan (LTIP), comprising an Employees' Share Option Scheme (ESOS) and a Share Grant Plan (SGP), involving up to 15% of the Company's total issued shares. The Company also proposes to allocate LTIP awards to all 7 of its directors, comprising 3 Executive Directors, 1 Non-Independent Non-Executive Director and 3 Independent Non-Executive Directors.	In line with MSWG's position that Non-Executive Directors should not participate in any form of share options or share grants, MSWG will vote AGAINST Resolutions 5 to 8.
15.10.26 (Thur) 10.00 am	Kein Hing International Berhad (AGM)	KHIB delivered improved profitability in FY2026 despite a 7% decline in revenue to RM304.2 million, with net profit attributable to owners rising 33% to RM16.1 million on better margins. Operating cash flow was strong at RM30.1 million, lifting net cash to RM43.9 million. Malaysia operation performed strongly, although Vietnam operation recorded weaker revenue and PBT. The dividend remained unchanged at 2.5 sen.	MSWG will vote FOR Resolutions 1 to 10 and AGAINST for Resolution 11 as the Independent Non-Executive Director tenure has exceeded the tenure guideline under MCCG.
15.10.26 (Thur) 2.30 pm	SD Guthrie Berhad (EGM)	SD Guthrie proposes to dispose of 556.96 acres of land in Kulai for RM418.51 million cash, or RM17.25 psf, an 8.35% premium to the independent appraised value of RM15.92 psf. Most proceeds will be used to reduce borrowings, generating estimated annual after-tax	MSWG will vote FOR the said resolution.

Date & Time	Company	Quick-take	Voting Position
		interest savings of RM9.51 million, significantly above the land's FY2025 net profit contribution of RM0.67 million. The land represents less than 1% of SD Guthrie's Malaysian landbank, limiting the impact on its plantation operations.	

POINTS OF INTEREST

Company	Points/Issues to Be Raised
Kein Hing International Berhad (AGM)	Vietnam operations generated 55.3% (RM167.8 million) of the Group revenue (2026 AR, Note 21 - Operating Segments, page 121) but received internal audit coverage only once per year versus Malaysia's (RM106.9 million) quarterly coverage (2026 AR, Audit and Risk Management - Internal Audit, page 64). (a) Why is internal audit frequency declining as revenue and FX/cross border risks rise for Vietnam operations? (b) What audit methodology is used to determine the fieldwork? (c) Will the existing approach be revisited, given the Vietnam operation has increased?



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BEYOND THE FIRST REPORT**

Implementation pitfalls to avoid, top questions from investors
and preparing for impending assurance requirements

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