

Dataprep reinvents its business model

BY Jennifer Jacobs

Dataprep Holdings Bhd is one of the few IT companies that have been around since the 1970s. That it has survived this long despite the "feast or famine" nature of the contract-dependent technology industry is testimony to its resilience.

But there have been tough times. In May 2006, it was designated a PN17 entity when its shareholders' equity fell to less than 25% of its paid-up capital. Its net loss has widened over the past three years from RM2.74 million in 2008 to RM5.69 million last year. And its CEO Cheam Tat Inn, who was supposed to have turned around the company and had, in fact, said that it is expected to be back in the black this year, left to become managing director of the multinational provider of storage hardware solutions EMC Malaysia.

Like his predecessor, newly appointed CEO Ahmad Rizan Ibrahim fully expects the company to be back in the black this year. His expectation is premised on the company's healthy order book of over RM100 million in projects from government-linked entities such as the Employees Provident Fund, Tenaga Nasional Bhd, Telekom Malaysia Bhd and Celcom Axiata Bhd. And the fact that it has paid off most of its debts and has some RM31 million in cash.

"Our order book is pretty healthy based on our size. And we are bidding for projects with a few other government agencies as well," says Rizan.

Formerly the CEO of the group's 55%-owned subsidiary Solisis (M) Sdn Bhd, he was promoted from within two months ago. "Dataprep was looking for a single head who manages both from a listed company perspective and a business company perspective. And we will be going after more government projects."

But the past decade has been about austerity. In fact, the company cut its costs to the bone to deal with the increasingly thin margins, sporadic nature and long gestation period of projects. "We closed down our office in Menara Luxor and moved everyone to Wisma Academy. We had a voluntary separation scheme and trimmed our staff numbers substantially. As of now, I think we're as lean as we're going to get," Rizan remarks.

Dataprep announced a couple of years ago that it was looking to take over rivals or find partners to grow regionally after raising some RM47 million in a rights issue. But Rizan says although the company had serious discussions with two potential partners, nothing has worked out yet. "We wanted to make sure that our shareholders' interest was being taken care of and after due process, we just said, 'let's part as friends.'"

Dataprep is 53.09%-owned by VXL Holdings Sdn Bhd, which is in turn controlled by the late Tan Sri Lim Goh Tong's youngest son, Datuk Lim Chee Wah. He bought into the company in the 1990s and used to be its most visible face. But he has been relatively quiet in relation to Dataprep for the past nine years.

Now the company is talking to a third company, but it is not ready to disclose which. "Better not announce until we know for sure. You tend to get a little publicity-shy after two failed engagements," says Rizan.

Dataprep's potential partners have two things in common — they are regional and they are not just into IT. "Going forward, ICT is just one of the components we are looking into," says Rizan.

He characterised the industry as "cut-throat" with paper-thin margins and rampant undercutting to secure projects. "When you tender for government projects, you can see all the prices there. And even after scaling back our margins to 1% or 2%, we are still No 7 or 8 on the list. The thing is, we all have the exact same specifications and have to comply with the service level agreement, support structure,

replacements and all that. Even with all that, some of them still come up with much lower costs, sometimes by up to RM1 million. I don't know if they are using second-rate hardware or not telling the truth about the costs. What this means is that even if you win a very large project, if it is very much hardware-based without the value-added service component, the margins are very, very thin. And that is a major issue in this industry."

This is why the company did not manage to get back into the black this year. "We did do a lot of high-margin projects, that's true. But we had low-margin projects as well. And net net, it was not enough for us to cover our costs as a group. You cannot go high margin if you are competing in this manner," comments Rizan.

The effect of the company's low margins can be seen from its balance sheet. While revenues doubled to RM89.43 million for FY2011, ended

March 31 from RM44.59 million in the previous year, the group still registered a loss of RM1.81 million — an improvement over the loss of RM5.71 million the year before. Trade receivables more than doubled to RM45.35 million from RM18.07 million before.

What does Dataprep intend to do about this? "This is an unregulated industry and now we are pushing for something similar to the Board of Engineers for engineering companies. We don't want to stifle entrepreneurship but we do think there should be some basic guidelines at least. Right now, anyone can set up an IT company. But in the same way you cannot start an engineering company without qualified engineers, you shouldn't be able to start an IT company without qualified IT professionals," says Rizan.

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LEE LAY KIM/THE EDGE

to redevelop several parcels of government land in Kuala Lumpur as per the 1973 plan.

"But we were told to narrow down our ambition [from the 1973 plan] and the available plot was the 58-acre piece of land housing the Pekeliling flats," Khalil says.

In 1997, Asie finally won the Pekeliling land concession, which required the company to develop 3,500 homes and public infrastructure in the outskirts of Kuala Lumpur for the relocation of the Pekeliling flats residents. The

enough for it to turn into a gold mine

what it would cost today. It is worth noting that in its deal Sing, Asie would sell the 4.08-acre RM106.6 million (40% of which would be in form of equity) or about RM600 million net worth RM1.52 billion. According to statement, the gross development value of the whole site is about RM9 billion.

When asked if Asie had sat on the

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He says these guidelines will not be made mandatory to begin with unless one is bidding for a government project. However, he adds, it is important to set some ground rules because clients who have been burnt by fly-by-night companies tend to be very wary the second time round and make stringent and unreasonable demands for new projects, like insisting on having the source code.

Basically, it all boils down to IT being one of the toughest markets in Malaysia. "Smaller companies do not have the staying power. We have been around for the last 40 years and survived two recessions. God willing, we'll survive the next one," says Rizan.

But to do this, Dataprep will have to change the way it does business. Other than diversifying from IT and going regional, it will also change its approach to projects.

Says Rizan: "Before, we took on the vendor role where if someone needed a solution, we provided it, got paid for it and moved on. Now, we want a stake in the project as a concessionaire where we can own the business jointly for an extended duration. In that way, we could have recurring revenue for 15 to 20 years instead of the 'feast and famine' where sometimes you have huge projects with big margins and other times you can't get anything."

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Lipper Asia Limited

Email: lipper.asia@readers.com

Tel: +852 2973 6600

Website: www.lipperweb.com