

<b>DATAPREP HOLDINGS</b>	<b>Price:</b>	RM0.535	
	<b>Market Capitalisation:</b>	RM190.5m	
	<b>Board:</b>	Second Board	
	<b>Sector:</b>	Technology	
<b>Stock Code:</b>	8338	<b>Recommendation:</b>	HOLD

Key Stock Statistics	2008E
EPS (est.)	2.82
P/E (est.)	20.98
Dividend/Share	0.00
NTA/Share	0.17
Book Value/Share	0.22
Issued Capital (mil shares)	
52- weeks share price	0.13-0.86
Major Shareholders:	%
VXL Holdings Sdn Bhd	57.11
Chew Liong Kim	0.40

## BACKGROUND

Dataprep Holdings. is involved in investment holding and provision of management services to its subsidiaries. The company operates in three divisions including Consulting, Technology and Integration (CTI), outsourcing and managed services (OMS) and business process outsourcing services (BPO). Through these divisions, the company provides computer hardware, network services, applications, and contact centre, networking equipment, services, and training, and Internet application services. Besides, it provides information technology services, secured payment solutions and franchise consulting services. The company was incorporated in 1971 and is headquartered in Petaling Jaya, Malaysia. Dataprep is a subsidiary of VXL Holdings Sdn. Bhd.

Per Share Data	2006	2007	2008E	2009F
Book Value (RM)	0.16	0.2	0.22	0.3
Earnings (sen)	(2.50)	2.6	2.82	3.1
Dividend (sen)	0.00	0.0	0.00	0.0
Payout Ratio (%)	0.00	0.0	0.00	0.0
PER (x)	NM	14.5	20.98	17.0
P/Book Value (x)	2.30	2.0	1.60	2.1
Dividend Yield (%)	0.00	0.0	0.0	0.0
ROE (%)	(13.7)	14.6	18.1	12.4
Net Gearing (%)	0.0	35.1	16.8	8.4

The company derives most of its revenue from its outsourcing and managed services segment. This division provides IT support and training, outsourcing, and infrastructure services mainly in Malaysia. The company has been focusing on its core competencies by providing end-to-end products, solutions and services for the ICT industry and had managed to strengthen its position in the market. It is planning to expand its operations to ASEAN countries and the Middle East mainly via acquisition.

P&L Analysis (RM mil)	2006	2007	2008E	2009F
<b>Year end: Mac</b>				
Revenue	74.7	112.2	124.1	139.0
Operating Profit	1.5	2.8	3.1	3.5
Depreciation	(1.6)	(0.8)	(1.0)	(1.1)
Interest Expenses	(1.1)	(1.4)	(0.7)	(0.7)
Pre-tax Profit	0.4	1.4	1.8	2.4
Effective Tax Rate	484.0	NM	15.0	25.0
Net Profit	(1.8)	1.9	2.5	3.3
Operating Margin	1.6	2.2	2.9	3.8
Pre-tax Margin	0.5	1.3	1.7	2.2
Net Margin	(2.4)	1.7	2.2	2.6

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## OUTLOOK

Between 2006 and 2007, Dataprep has been able to grow revenues from 74.7M to 112.2M. Most impressively, the company has been able to reduce the percentage of sales devoted to income tax expense from 2.52% to -0.62%. This was a driver that led to a bottom line growth from a loss of 1.8M to a gain of 1.9M. The outsource managed services, being the key earnings contributor, made up 85.7% to the total revenue in 2007 compared to 80.6% for the year 2006, offsetting the weaker performance from other segments.

Though the operating margin remained low, the higher revenue attributed to a higher net profit for the year 2007. Following the recent performance of the company, a lower earnings forecast is expected due to higher operating costs, finance expense and lower revenue growth estimates, which offsets the lower effective tax rate. The company had been awarded the e-court system project in Sept 2004, comprising Case Management System, Court Recording and Transcription System and the Common IT Infrastructure. This system is completed in May 2007 and being implemented in 11 courts valuing about RM40m. The company experienced higher revenue growth than the industry average which was mainly contributed by the abovementioned project and few more deals from the commercial sectors. It is expected that Dataprep will continue to benefit from the government ICT spending from the 9<sup>th</sup> MP as it was one of the only nine members in the ICT industry which was honoured by PIKOM for its efforts and contributions in development the ICT industry.

Whilst focusing on it's the expansion on OMS, the company also continues to leverage on working closely with the Malaysian government to expand its CTI division by exporting its solution and competency to abroad particularly to West Asia and China.

At the same time, Dataprep has also managed to secure third party merchant acquiring contracts for two reputable banking groups in Malaysia. Though this is still at its preliminary stage, it still has a potential for revenue growth in the near future.

## VALUATION

The company had regularized its financial condition and been uplifted from the PN17 status. With other players in the technology sector such as CSA, HTPADU, CBS Technology, and Mesin Niaga, Dataprep is facing intense competition due to the project-based nature of the company's system integration business and thus affecting earnings growth capability. Recent financial performance suggests risks of lower IT contract flows from the government and private sectors in Malaysia. However, with improving ROE and earnings outlook, we believe that the current share price should sustain. Based on our estimated current earnings multiple of 21x, we value Dataprep at 59sen, after discounting for the abovementioned risks. **HOLD**.

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*Initial Coverage*

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