

DYNAQUEST SDN BHD

2Q2006 RESULTS

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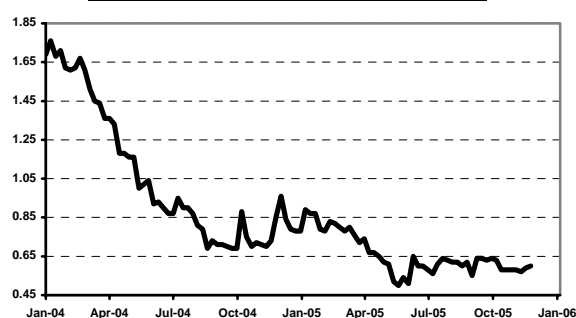
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29 October 2005

DATAPREP HOLDINGS BHD (DATAPRP)		Price:	RM0.62
		Market Capitalisation:	RM47.19 m
		Board:	Second Board
		Sector:	Technology
Stock Code:	8338	Recommendation:	SELL

<u>Key Stock Statistics</u>	<u>2005</u>	<u>2006F</u>
EPS (sen)	3.69	0.00
P/E (x)	16.80	NM
Dividend/Share (RM)	0.00	
NTA/Share (RM)	0.12	
Book Value/Share (RM)	0.16	
Issued Capital (m shares)	76.12	
52-weeks Share Price Range	RM0.425 - RM1.06	
<u>Major Shareholders:</u>	<u>% Held</u>	
VXL Holdings Sdn Bhd	53.19%	
Sabit Sdn Bhd	9.53%	

Weekly Share Price Chart of DATAPRP.



<u>Per Share Data</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006F</u>
Book Value (RM)	0.83	0.18	0.22	0.16
Cash Flow (sen)	-19.60	-27.25	3.32	1.50
Earnings (sen)	-31.92	-51.34	3.69	0.00
Net Dividend (sen)	0.00	0.00	0.00	0.00
Payout Ratio (x)	0.00	0.00	0.00	0.00
PER (x)	NM	NM	16.80	NM
P/Cash Flow (x)	-3.16	-2.28	18.65	41.33
P/Book Value (x)	0.75	3.37	2.81	3.88
Dividend Yield (%)	0.00	0.00	0.00	0.00
ROE (%)	-60.51	-334.02	16.76	0.00
Net Gearing (%)	-38.28	-56.51	-41.63	58.00

1. 2Q2006 Result Highlights:

<u>(RM m)</u>	<u>2Q05</u>	<u>1Q06</u>	<u>2Q06</u>	<u>% Change</u>	
				<u>Y-o-Y</u>	<u>Q-o-Q</u>
Revenue	11.39	18.11	12.14	6.6%	-33.0%
Operating Profit	0.95	1.12	-1.48	NM	NM
Depreciation	0.55	0.50	0.48	-13.6%	-5.0%
Interest Expenses	0.29	0.18	0.24	-15.6%	35.8%
Pre-tax Profit	0.67	0.94	-1.72	NM	NM
Net Profit	1.55	0.03	-2.19	NM	NM
Operat Margin (%)	8.37	6.19	-12.15	NM	NM
PBT Margin (%)	5.84	5.21	-14.16	NM	NM
Net-Margin (%)	13.61	0.15	-18.06	NM	NM

<u>P&L Analysis (RM m)</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006F</u>
Year-end: Mar				
Revenue	97.09	85.55	71.28	80.00
Operating Profit	-33.37	-37.52	3.46	1.85
Depreciation	4.53	5.60	2.29	2.00
Interest Expenses	0.75	0.99	1.76	1.01
Pre-tax Profit	-33.73	-38.17	2.05	1.00
Effective Tax Rate (%)	1.32	-1.01	-12.65	NM
Net Profit	-30.84	-39.28	2.37	0.00
Operating Margin (%)	-34.37	-43.85	4.86	2.31
Pre-tax Margin (%)	-34.74	-44.62	2.87	1.25
Net-Margin (%)	-31.76	-45.91	3.32	0.00

After five consecutive profitable quarters, Dataprep fell into the red with a pre-tax loss of RM1.7 m in 2Q06 ended 30.9.05. The group had registered a PBT of RM0.9 m in 1Q06 and RM0.7 m in 2Q05. The losses were mainly due to lower gross margins coupled with additional expense for knowledge management portal and the setting up of a solutions innovation centre for the group. Dataprep's revenue of RM12.1 m in 2Q06 was 6.6% higher y-o-y but 33.0% lower q-o-q.

For 1H06, Dataprep registered a pre-tax loss of RM0.8 m compared to a PBT of RM1.1 m in 1H05. The 5.5% y-o-y fall in revenue to RM30.2 m was attributed mainly to the deferment and delay of some projects. Unlike 1H05 when there was a RM0.4 m taxation credit, the group incurred a high taxation of RM1.4 m as certain expenses were not deductible for tax purpose and the under-provision of deferred tax for FY02 amounting to RM1.2 m.

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Dataprep reported an unexpected net loss of RM2.2 m in 1H06 compared to a net profit of RM1.7 m. Nevertheless, Dataprep is expected to return to the black in 2H06 thanks mainly to favourable seasonal factor (settlement of its governmental contracts prior to book closure), higher progress billings from its e-court pilot project, and the absence of additional prior deferred tax expenses.

Based on Dataprep's 2Q06 financial results coupled with the slowdown of the IT industry amidst a competitive environment, our initial optimism for a strong recovery in its earnings with effect from FY06 seemed premature. For the whole of FY06, we have revised our net earnings projection from a tentative RM3.1 m to break-even.

In regards to its pilot e-court business, Dataprep's court recording and transcription (CRT) system is now being used at the Commercial High Courts at Jalan Abdul Samad Building and the Civil High Courts at Wisma Denmark in Kuala Lumpur while its case management system (CMS) is in the process of being put on trial at 11 courts in the Klang Valley. Furthermore, the group is currently in negotiations to secure e-court businesses from some countries in West Asia. As for Dataprep's e-payment business, given that the operations had kicked off in recent weeks, its contribution is not expected to be meaningful in the current financial year.

2. Recommendation

Considering the revision of its earnings (resulting in a non-meaningful prospective PE multiple based on the current share price of RM0.62) coupled with the 5% price appreciation of its shares since our last write-up in early September inspite of the current poor investors' sentiment for the technology sector, we are downgrading our recommendation on Dataprep's shares from "HOLD" to "SELL".

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