

Dataprep Holdings

Recommendation: **SELL**

Stock Code: 8338

Bloomberg: DATA MK

Price: MYR0.46

12-Month Target Price: MYR0.42

Date: December 6, 2006

Board: Second

Sector: Technology

GICS: Information Technology/Technology Distributors

Market Value - Total: MYR35.0 mln

Summary: Listed in 1991, Dataprep Holdings (Dataprep) provides IT services including development and maintenance of computer equipment, computer systems, application software as well as IT consulting mainly in Malaysia.

Analyst: Joy Lee, CFA



Results Review & Earnings Outlook

- Dataprep reported a better-than-expected 2QFY07 (Mar.) net profit of MYR0.6 mln on revenues of MYR26.7 mln, compared with a net loss of MYR2.2 mln in 2QFY06. 1HFY07 net profit of MYR0.9 mln exceeded our estimates, making up 90% of our FY07 forecast, thanks to lower-than-expected provision for deferred tax assets.
- The key earnings driver was the outsourcing & managed services segment, which generated operating profit of MYR2.0 mln (up 498% YoY) on revenues of MYR24.3 mln (up 73% YoY) in 2QFY07. The consulting, technology & integration segment also turned profitable with an operating profit of MYR0.2 mln in 2QFY07 (vs. an operating loss of MYR0.1 mln in the preceding quarter). A MYR3.3 mln drop in management expenses to MYR1.9 mln also boosted profits.
- We believe Dataprep should be able to maintain its earnings momentum in 2HFY07, underpinned by around MYR80 mln of contracts on hand (mostly from IT support and maintenance services in Malaysia). In addition, it may benefit from the increasing demand for outsourcing services and an improvement in IT spending as a result of under-investment in the past two years.
- We have revised up our FY07 earnings forecast by 57% to MYR1.5 mln after factoring in lower taxes. Meanwhile, we have raised our FY08 earnings forecast by 9% to MYR2.5 mln as a result of lower effective tax rate and interest expense assumptions.

Key Stock Statistics

FY Mar.	2006	2007E
Reported EPS (sen)	-2.5	2.0
PER (x)	NM	23.4
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.12	0.12
Book Value/Share (MYR)	0.16	0.18
No. of Outstanding Shares (mln)	76.1	
52-week Share Price Range (MYR)	0.25 - 0.70	
Major Shareholders:	%	
VXL Holdings Sdn Bhd	53.2	
Seberang Jati Sdn Bhd	10.8	

Recommendation & Investment Risks

- We downgrade Dataprep shares to Sell from Hold, despite better-than-expected quarterly results, due to the recent share price strength, which had been triggered by news that the company's capital restructuring plan had been approved by regulators. While we believe the successful completion of the capital restructuring should improve Dataprep's financial soundness, we feel the recent share price rise is too steep and provides higher downside risk in the near term.
- We have raised our 12-month target price to MYR0.42 from MYR0.31 following the change in our valuation methodology to P/B from P/NTA.
- The new target price is based on a blend of 12.0x PER on our estimated FY08 EPS (rolled over from FY07) and 2.0x P/B on our estimated FY08 BVPS. The target multiples are broadly in line with those of local IT peers. With the improvement in ROE and earnings prospects, we believe P/B (vs. P/NTA) will better reflect the stock's valuation.
- Risks to our recommendation and target price include stronger-than-expected IT contract flows from the government and private sectors in Malaysia. The company's project-based nature of system integration business as well as the higher accounts receivables days (more than 150 days in 1HFY07, vs. around 120 days in FY06) may also imply a higher risk in our earnings forecasts, in our view.

Per Share Data

FY Mar.	2004	2005	2006	2007E
Book Value (MYR)	0.18	0.22	0.16	0.18
Cash Flow (sen)	-53.3	7.3	-0.4	3.5
Reported Earnings (sen)	-62.2	3.7	-2.5	2.0
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	NM	12.4	NM	23.4
P/Cash Flow (x)	NM	6.3	NM	13.0
P/Book Value (x)	2.5	2.1	2.8	2.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-125.3	18.3	-13.7	11.5
Net Gearing (%)	0.0	0.0	0.0	42.0

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Quarterly Performance

FY Mar. / MYR mln	2007	2006	% Change
Reported Revenue	26.7	12.1	>100
Reported Operating Profit	0.6	-1.5	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.2	-0.2	-26.7
Reported Pre-tax Profit	0.5	-1.7	NM
Reported Net Profit	0.6	-2.2	NM
Reported Operating Margin (%)	2.4	-12.2	-
Reported Pre-tax Margin (%)	1.7	-14.2	-
Reported Net Margin (%)	2.1	-18.1	-

Source: Company data

Profit & Loss

FY Mar. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	71.3	74.7	81.2	86.2
Reported Operating Profit	3.5	1.2	3.2	4.2
Depreciation & Amortization	-2.3	-1.5	-1.2	-1.3
Net Interest Income / (Expense)	-1.4	-0.8	-1.0	-0.8
Reported Pre-tax Profit	2.0	0.4	2.2	3.4
Effective Tax Rate (%)	NM	484.0	32.1	26.0
Reported Net Profit	2.4	-1.8	1.5	2.5
Reported Operating Margin (%)	4.9	1.6	4.0	4.9
Reported Pre-tax Margin (%)	2.9	0.5	2.7	4.0
Reported Net Margin (%)	3.3	-2.4	1.8	2.9

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Sell	0.42
18-Oct-06	Hold	0.31
13-Sep-06	Sell	0.31
8-Jun-06	Sell	0.28
11-May-06	Sell	0.40
3-Mar-06	Strong Sell	0.40
5-Dec-05	Strong Sell	0.42
15-Sep-05	Strong Sell	0.55

