

Dataprep Holdings

Recommendation: **HOLD**

Stock Code: **8338**

Bloomberg: **DATA MK**

Price: **MYR0.45**

12-Month Target Price: **MYR0.47**

Date: **February 28, 2007**

Board: Second

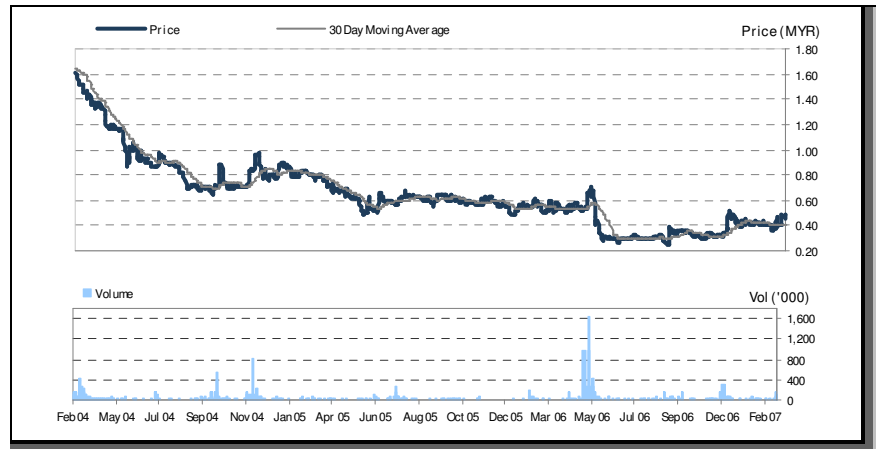
Sector: Technology

GICS: Information Technology/Technology Distributors

Market Value - Total: MYR34.3 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 net profit of MYR0.6 mln on revenue of MYR39.6 mln for 3QFY07 (Mar.), up 185.6% and 75.6% YoY, respectively. For the first nine months, net profit came in at MYR1.5 mln on revenue of MYR83.9 mln, better than expected, due to higher outsourcing & managed services segment performance as well as lower-than-estimated tax expense.
- By segment, the company's outsourcing & managed services division generated an operating profit of MYR7.4 mln (up 148.0% YoY) on sales of MYR74.0 mln (up 80.9% YoY) for 9MFY07, which more than compensated the disappointing performance of the consulting, technology & integration division. The latter recorded an operating loss of MYR0.3 mln (vs. an operating profit of MYR1.8 mln a year earlier) in 9MFY07.
- Following the results, we raise our FY07 and FY08 earnings forecasts by 20.4% and 17.9% to MYR1.8 mln and MYR3.0 mln, respectively, mainly to reflect higher revenue growth driven by the outsourcing & managed services segment, as well as lower effective tax rate assumptions. We expect a sequentially weaker 4QFY07 due to seasonal factors, which is in line with management guidance. Longer term, we expect Dataprep to benefit from increasing demand for outsourcing services and an improvement in Malaysian IT spending as a result of under-investment in the past two years.

Recommendation & Investment Risks

- We upgrade our recommendation to Hold from Sell with a revised 12-month target price of MYR0.47 (from MYR0.42 previously) as a result of our earnings forecasts revisions.
- Our new target price is based on a blend of 12.0x (unchanged) PER on our estimated FY08 EPS and 2.0x (unchanged) P/B on our estimated FY08 BVPS. The target multiples are broadly in line with those of local IT peers.
- We believe improving ROE as well as earnings outlook should lend support to the share price. Meanwhile, the company is in the midst of implementing its capital-restructuring plan. We believe the successful completion of the plan should improve Dataprep's financial soundness in the longer term.
- Nevertheless, we are concerned about the project-based nature of Dataprep's system integration business, which has limited earnings visibility.
- Risks to our recommendation and target price include weaker-than-expected IT contract flows from the government and private sectors in Malaysia. Meanwhile, we note that the company's relatively high accounts receivables days (more than 150 days in 9MFY07, vs. around 120 days in FY06) may also imply a higher risk in our earnings forecasts, in our view.

Key Stock Statistics

FY Mar.	2006	2007E
Reported EPS (sen)	-2.5	2.4
PER (x)	NM	19.0
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.10	0.13
Book Value/Share (MYR)	0.16	0.19
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	

Per Share Data

FY Mar.	2004	2005	2006	2007E
Book Value (MYR)	0.18	0.22	0.16	0.19
Cash Flow (sen)	-53.3	7.3	-0.4	3.9
Reported Earnings (sen)	-62.2	3.7	-2.5	2.4
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	NM	12.2	NM	19.0
P/Cash Flow (x)	NM	6.2	NM	11.4
P/Book Value (x)	2.4	2.0	2.8	2.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-125.3	18.3	-13.7	13.6
Net Gearing (%)	0.0	0.0	0.0	21.1

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FY Mar. / MYR mln	3Q07	3Q06	% Change
Reported Revenue	39.6	22.6	75.6
Reported Operating Profit	0.8	0.9	-9.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.5	-0.2	>100
Reported Pre-tax Profit	0.5	0.7	-32.0
Reported Net Profit	0.9	0.2	>100
Reported Operating Margin (%)	2.1	4.0	-
Reported Pre-tax Margin (%)	1.3	3.2	-
Reported Net Margin (%)	2.3	0.9	-

Source: Company data

Profit & Loss

FY Mar. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	71.3	74.7	99.2	104.4
Reported Operating Profit	3.5	1.2	3.1	4.3
Depreciation & Amortization	-2.3	-1.5	-1.2	-1.3
Net Interest Income / (Expense)	-1.4	-0.8	-1.0	-0.9
Reported Pre-tax Profit	2.0	0.4	2.1	3.4
Effective Tax Rate (%)	NM	484.0	21.0	21.0
Reported Net Profit	2.4	-1.8	1.8	3.0
Reported Operating Margin (%)	4.9	1.6	3.1	4.1
Reported Pre-tax Margin (%)	2.9	0.5	2.1	3.2
Reported Net Margin (%)	3.3	-2.4	1.8	2.8

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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Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.47
6-Dec-06	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

