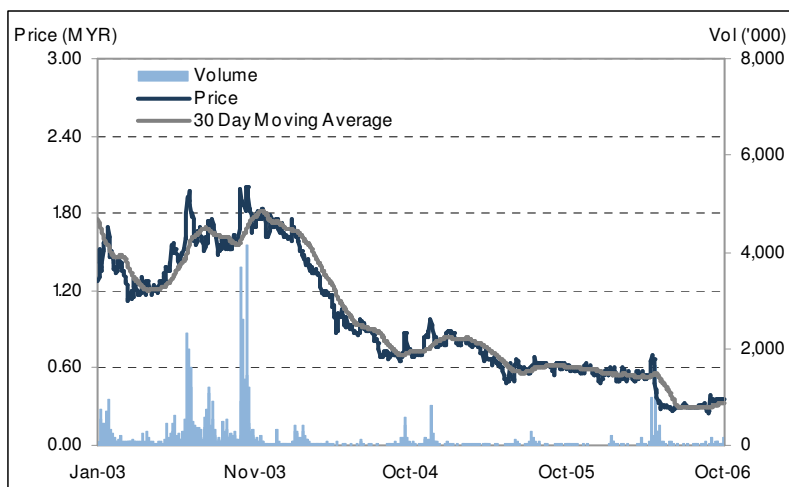


Dataprep Holdings

Recommendation: **HOLD**Stock Code: **8338**Bloomberg: **DATA MK**Price: **MYR0.31**12-Month Target Price: **MYR0.31**Date: **October 18, 2006****Board:** Second**Sector:** Technology**GICS:** Information Technology / Application Software**Market Capitalization:** MYR23.6 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**Recent Developments**

- Our update with management indicates that the company is expecting to obtain approval from the Securities Commission (SC) on its proposed capital restructure in Nov. 2006. Successful implementation of the restructure will remove Dataprep from the SC's watch list.
- In Jul. 2006, the company proposed to make modifications to the restructuring plan (initially proposed in May), which include a marginal cut in the share premium reduction amount, slight increment in its ICULS issuance value, and the addition of one free warrant for every four rights shares.
- We believe the inclusion of the warrants issuance should increase the attractiveness of the proposed fund-raising scheme, and the successful completion of the restructuring plan will improve the overall financial soundness of Dataprep.
- On the other hand, management indicates that the company currently has more than MYR80 mln of contracts on hand, which mainly comes from IT support and maintenance services in Malaysia. The order book size is largely in line with our expectations, and we believe it could support revenue momentum in the current financial year.

Recommendation & Investment Risks

- Following the recent share price decline, we upgrade the stock to Hold from Sell with an unchanged 12-month target price of MYR0.31. Nevertheless, trading at a forward PER of 24.8x, we believe the stock's upside may be limited. On the bright side, the successful completion of its capital restructure should help remove the overhang on the share price.
- Our target price is based on a blend of an unchanged 12.0x PER on our estimated FY07 (Mar.) EPS and 2.1x P/NTA. The target multiples are broadly in line with local IT peers.
- Risks to our recommendation and target price include slower-than-expected profit recognition from on-going contracts, and an unexpected slowdown in government and private sectors IT spending.

Earnings Outlook

- Our FY07 (Mar.) and FY08 earnings forecasts at MYR1.0 mln and MYR2.3 mln, respectively, are driven by an improvement in IT spending from the public and private sectors, which we believe in part due to under investment in the past two years. Longer term, however, sustainable order flows, improving profit margins and better control of operating costs are the key issues.

Key Stock Statistics

	2006	2007F
FY Mar.		
EPS (sen)	-2.5	1.3
PER (x)	NM	24.8
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.12	0.12
Book Value/Share (MYR)	0.16	0.17
Issued Capital (mln shares)	76.1	
52-week Share Price Range (MYR)	0.20 – 0.75	
Major Shareholders:	%	
VXL Holdings	53.2	
Seberang Jati Sdn Bhd	10.8	

Per Share Data

	2004	2005	2006	2007F
FY Mar.				
Book Value (MYR)	0.18	0.22	0.16	0.17
Cash Flow (sen)	-53.3	7.3	-0.4	2.8
Earnings (sen)	-62.2	3.7	-2.5	1.3
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	NM	8.4	NM	24.8
P/Cash Flow (x)	NM	0.0	NM	0.1
P/Book Value (x)	1.7	1.4	1.9	1.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-125.3	18.3	-13.7	7.4
Net Gearing (%)	0.0	0.0	0.0	0.0

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Date: October 18, 2006

Profit & Loss

FY Mar. / MYR mln	2005	2006	2007F	2008F
Revenue	71.3	74.7	81.2	86.2
Operating Profit (EBIT)	3.5	1.2	3.6	4.1
Depreciation	-2.1	-1.5	-1.2	-1.3
Net Interest Income / (Expense)	-1.4	-0.8	-1.1	-0.9
Pre-tax Profit	2.0	0.4	2.5	3.2
Effective Tax Rate (%)	NM	NM	62.4	28.0
Net Profit	2.4	-1.8	1.0	2.3
Operating Margin (%)	4.9	1.6	4.5	4.8
Pre-tax Margin (%)	2.9	0.5	3.1	3.7
Net Margin (%)	3.3	NM	1.2	2.7

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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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