

Dataprep Holdings

Recommendation:

SELL

Stock Code: **8338**

Bloomberg: **DATA MK**

Price: **MYR0.335**

12-Month Target Price: **MYR0.31**

Date: **September 13, 2006**

Board: Second

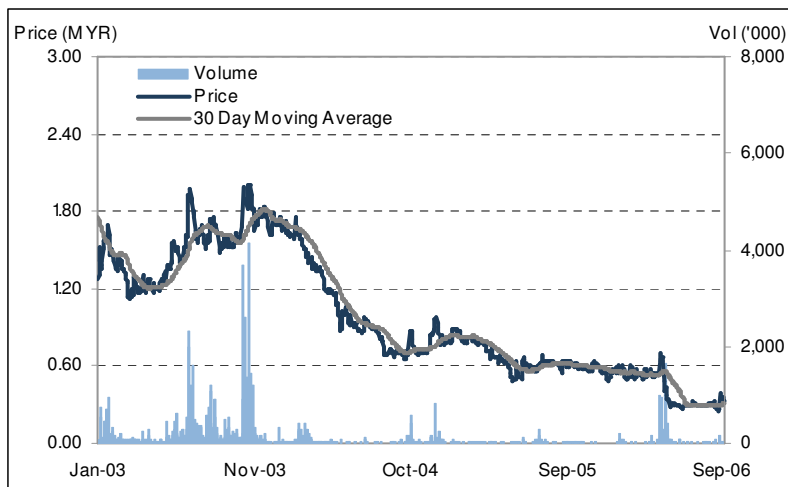
Sector: Technology

GICS: Information Technology / Application Software

Market Capitalization: MYR25.5 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 better-than-expected 1QFY07 (Mar.) results. Net profit came in at MYR0.3 mln, compared with net profit of MYR28,000 in 1QFY06. The adoption of new financial reporting standard that reduced goodwill amortization and depreciation charges and lower effective tax rate contributed to the stronger bottom-line.
- The quarterly revenue of MYR17.5 mln (down 3.4% YoY) was largely in line with our expectation and accounted for 22% of our 2006 full year forecast. Operating margin of 4.6% was also close to our full year estimate of 4.2%.
- By segment, the outsourcing & managed services division was the key earnings contributor. It generated MYR2.5 mln (up 203% YoY) operating profit on revenue of MYR15.3 mln (up 68% YoY), more than compensating the weaker performance in the consulting, technology & integration division. The latter recorded operating loss of MYR0.1 mln on revenue of MYR2.1 mln (down 61% YoY).
- We revise up our FY07 net profit forecast to MYR1.0 mln (vs. MYR0.6 mln net loss previously) in order to factor in lower depreciation charges and tax expense. We also expect the company's efforts in costs control to help improve profit margins. On the top-line, the outsourcing & managed services division should continue to benefit from increasing outsourcing opportunities and remains the main revenue driver.

Recommendation & Investment Risks

- Despite the upbeat set of quarterly results, we believe the stock remains unattractive with a relatively high forward PER of 26.8x. We maintain our Sell recommendation on the stock with a revised 12-month target price of MYR0.31 (vs. MYR0.28 previously).
- In view of potential turnaround in bottom-line going forward, we move on to use a blend of 12.0x PER on our estimated FY07 EPS and an unchanged 2.1x P/NTA in deriving our new target price. The target multiples are broadly in line with local IT peers.
- Longer term, we expect the company to benefit from the Ninth Malaysia Plan (9MP), which has allocated a higher MYR12.9 bln (up 63.5% from 8MP) for development spending in the ICT sector. However, intense competition may limit revenue growth visibility and put pressure on profit margins.
- Risks to our recommendation and target price include stronger-than-expected IT contract flows from both government and private sector in Malaysia. The company's project based nature of system integration business may also imply higher risk in our earnings forecasts, in our opinion.

Key Stock Statistics

	2006	2007F
FY Mar.		
EPS (sen)	-2.5	1.3
PER (x)	NM	26.8
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)	0.25 – 0.75	
Major Shareholders:	%	
VXL Holdings Sdn Bhd	53.2	
Sabit Sdn Bhd	11.3	

Per Share Data

	2004	2005	2006	2007F
FY Mar.				
Book Value (MYR)	0.18	0.22	0.16	0.17
Cash Flow (sen)	-0.5	0.1	0.0	0.0
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	9.1	NM	26.8
P/Cash Flow (x)	NM	4.6	NM	11.9
P/Book Value (x)	1.8	1.5	2.1	1.9
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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Page 1 of 3

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Quarterly Performance

FY Mar. / MYR mln	1Q07	1Q06	% Change
Revenue	17.5	18.1	-3.4
Operating Profit (EBIT)	0.8	1.1	-28.0
Depreciation	NA	NA	NA
Net Interest Income / (Expense)	-0.3	-0.2	67.6
Pre-tax Profit	0.5	0.9	-46.1
Net Profit	0.3	0.0	960.7
Operating Margin (%)	4.6	6.2	-
Pre-tax Margin (%)	2.9	5.2	-
Net Margin (%)	1.7	0.2	-

Source: Company data

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

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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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