STANDARD & POOR'S

Dataprep Holdings

Recommendation: **HOLD**

Stock Code: 8338 | Bloomberg: DATA MK | Price: MYR0.37 | 12-Month Target Price: MYR0.45 | Date: June 6, 2007

Board: Second

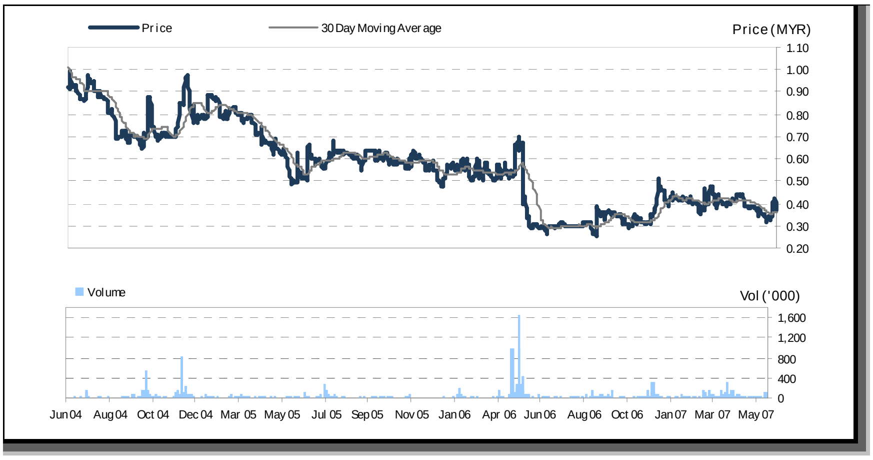
Sector: Technology

GICS: Information Technology/Technology Distributors

Market Value - Total: MYR28.2 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's FY07 (Mar.) results were largely in line with our expectations. Net profit came in at MYR1.9 mln (vs. a net loss of MYR1.8 mln for FY06) on revenue of MYR112.2 mln (up 50.2% YoY), compared with our original forecasts of MYR1.8 mln and MYR99 mln, respectively. Although operating costs and finance expense were higher than expected, deferred tax reversal made up for the shortfall.

- As expected, 4QFY07 was sequentially weaker mainly due to seasonal factors. The company reported a net profit of MYR0.5 mln for 4QFY07 (vs. MYR0.9 mln in 3QFY07) on revenue of MYR28.3 mln (down 28.6% QoQ) for the quarter.

- By segment, the outsourcing managed services activity remained the key earnings contributor, generating an operating profit of MYR8.6 mln (up 65.8% YoY) for the full year, more than offsetting the weak performance of the consulting & integration division.

- Following the results, we marginally revise down our FY08 earnings forecast by 4.3% to MYR2.8 mln, as our higher operating costs and finance expense estimates offset higher revenue assumptions and a lower effective tax rate. We also introduce our FY09 earnings forecast of MYR3.7mln. We expect Dataprep to benefit from increasing demand for outsourcing services and an improvement in Malaysian IT spending as a result of relative under-investment in both public and private sectors in the past two years.

Recommendation & Investment Risks

- We maintain our Hold recommendation on the stock with a revised 12-month target price of MYR0.45 (from MYR0.47 previously) given the moderate earnings revisions. Although the stock offers a potential upside of 21% to our target price, we have refrained from a more aggressive recommendation because the absolute low share price will exaggerate any change in percentage terms.

- Our 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 the improving ROE and earnings outlook should lend support to the share price. But given the project-based nature of the company's system integration business and hence the limited earnings visibility, forecasting with certainty remains a challenge.

- The company is in the midst of implementing its capital-restructuring plan, which is expected to obtain all necessary approvals in the near term. We believe the successful completion of the plan should enhance Dataprep's financial soundness in the longer term.

- Risks to our recommendation and target price include weaker-than-expected IT contract flows from the government and private sectors in Malaysia.

Key Stock Statistics

FY Mar.	2007	2008E
Reported EPS (sen)	2.5	3.7
PER (x)	14.5	9.9
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.13	0.17
Book Value/Share (MYR)	0.19	0.22
No. of Outstanding Shares (mln)	76.1	
52-week Share Price Range (MYR)	0.25 - 0.51	
Major Shareholders:	%	
VXL Holdings Sdn Bhd	53.2	
Seberang Jati Sdn Bhd	10.8	

Per Share Data

FY Mar.	2005	2006	2007	2008E
Book Value (MYR)	0.22	0.16	0.19	0.22
Cash Flow (sen)	7.3	-0.4	4.7	6.1
Reported Earnings (sen)	3.7	-2.5	2.5	3.7
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	10.0	NM	14.5	9.9
P/Cash Flow (x)	5.1	NM	7.9	6.1
P/Book Value (x)	1.7	2.3	2.0	1.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	18.3	-13.7	14.6	18.1
Net Gearing (%)	0.0	0.0	35.1	16.8

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Quarterly Performance

FY Mar. / MYR mln	4Q07	4Q06	% Change
Reported Revenue	28.3	21.9	29.5
Reported Operating Profit	0.3	0.6	-52.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.3	-0.2	76.3
Reported Pre-tax Profit	0.0	0.4	NM
Reported Net Profit	0.5	0.1	>100
Reported Operating Margin (%)	1.1	2.9	-
Reported Pre-tax Margin (%)	-0.2	2.0	-
Reported Net Margin (%)	1.7	0.6	-

Source: Company data

Profit & Loss

FY Mar. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	74.7	112.2	128.3	141.4
Reported Operating Profit	1.2	2.5	4.6	6.2
Depreciation & Amortization	-1.5	-1.6	-1.8	-1.9
Net Interest Income / (Expense)	-0.8	-1.1	-1.1	-1.0
Reported Pre-tax Profit	0.4	1.4	3.6	5.2
Effective Tax Rate (%)	484.0	NM	15.0	25.0
Reported Net Profit	-1.8	1.9	2.8	3.7
Reported Operating Margin (%)	1.6	2.2	3.6	4.4
Reported Pre-tax Margin (%)	0.5	1.3	2.8	3.6
Reported Net Margin (%)	-2.4	1.7	2.2	2.6

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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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.45
28-Feb-07	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