

## Dataprep Holdings

Recommendation: **STRONG SELL**

Stock Code: 8338

Bloomberg: DATA MK

Price: MYR0.64

12-Month Target Price: MYR0.55

Date: September 15, 2005

Board: Second

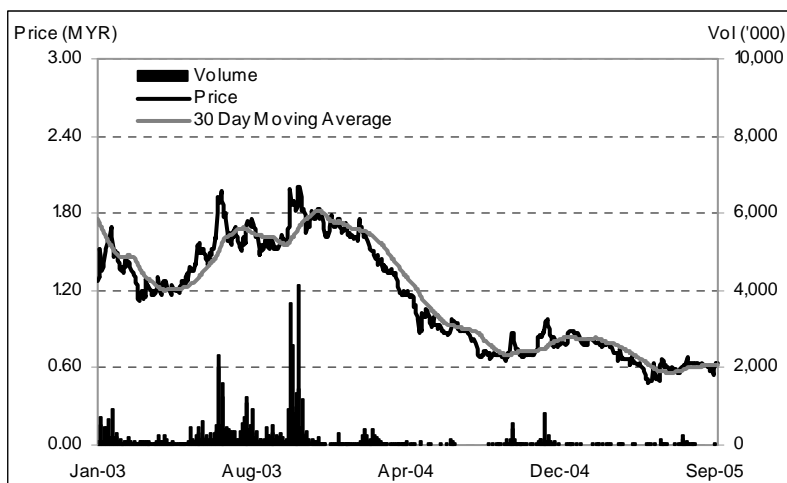
Sector: Technology

GICS: Information Technology / Application Software

Market Capitalization: MYR48.7 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 in Malaysia.

Analyst: Joy Lee



## Highlights

- Dataprep's fundamentals are improving, with contract flows underpinned by growing IT outsourcing trends in Malaysia. However, keen competition will keep profit margins under pressure. The company plans to venture into new businesses such as e-payment and to expand overseas to strengthen its recurring revenue profile, but execution risk should be taken into consideration.
- Valuations look stretched at 15.5x PER and 2.9x P/B for our estimated FY06 (Mar.), compared with industry averages of around 10.0x PER and 2.0x P/B for computer services companies.

## Investment Risks

- Risks to our recommendation and target price include better than expected IT contract flows from Malaysia as well as nearby countries and better control of internal costs.
- Other concerns include delays in revenue recognition from on-going projects, slower than expected IT spending amidst broader economic slowdown and execution risks from expansion into overseas markets.

## Recommendation

- We initiate coverage on Dataprep with a Strong Sell recommendation given our 12-month target price of MYR0.55 per share, which implies a 14% downside.
- Our target price of MYR0.55 is based on historical average of 2.5x P/B and 4.6x EV/EBITDA FY06. The slightly higher than industry average P/B is justified by the company's improving ROE over the past two calendar years.
- While we expect FY06 (Mar.) net profit to surge 22% YoY to MYR2.9 mln on revenue of MYR90.1 mln from stronger contract flows and absence of further significant bad debt provisions, we believe this is already more than adequately reflected in Dataprep's share price. FY06 EPS is expected to rise 11.6% YoY to 4.1 sen. The slower growth in EPS is due to the conversion of 12.06 mln ordinary shares from the exercise of ICULS-3 (3-year Irredeemable Convertible Unsecured Loan Stocks) in Aug. 2005.
- The market will need to see the extension of on-going projects such as e-Court, as well as ventures into new businesses such as e-payment deliver, with improved profit margins before re-rating Dataprep's share price higher.

## Key Stock Statistics

FY Mar.	2005	2006F
EPS (sen)	3.7	4.1
PER (x)	17.3	15.5
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.17	0.18
Book Value/Share (MYR)	0.22	0.22
Issued Capital (mln shares)	76.1	
52-week Share Price Range (MYR)	1.06 – 0.43	
Major Shareholders:	%	
VXL Holdings Sdn Bhd	32.0	
Sabit Sdn Bhd	11.3	

## Per Share Data

FY Mar.	2003	2004	2005	2006F
Book Value (MYR)	0.83	0.18	0.22	0.22
Cash Flow (sen)	-0.6	-0.5	0.1	0.1
Earnings (sen)	-64.6	-62.2	3.7	4.1
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	NM	NM	17.3	15.5
P/Cash Flow (x)	-1.2	-1.2	8.8	7.8
P/Book Value (x)	0.8	3.5	2.9	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-282.6	-125.3	18.3	18.6
Net Gearing (%)	0.0	0.0	0.0	0.0

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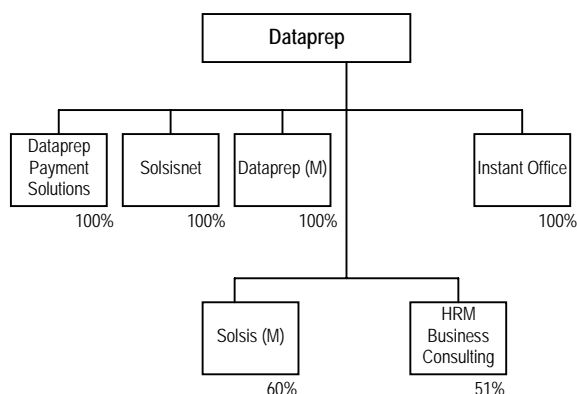
## Background

### Corporate Profile

Dataprep provides information, communications and technology services via its national service centers. It started operations in 1971 as a private hardware company and listed on the Second Board of Bursa Malaysia in Nov. 1991. In 1993, Dataprep acquired a majority stake in Solsis (M) Sdn Bhd to develop its capability in software related services. Five years later, it bought Solsisnet Sdn Bhd for its network capability. In Jul. 2002, the company acquired HRM Business Consulting Sdn Bhd, which provides IT related consulting services.

The company's restructuring, between 2002-2003, included a reduction in the paid-up share capital and issuance of new shares. Under the restructuring scheme, VXL Holdings Sdn Bhd, led by Datuk Lim Chee Wah became the largest shareholder by subscribing for 40 mln new shares at MYR1.25 each and 15.15 mln warrants at MYR0.20 each for a total cash consideration of MYR53.03 mln. Datuk Lim is the youngest son of Genting's (GENT MK, Hold) founder Tan Sri Lim Goh Tong.

### Corporate Structure



Source: Company data

### Business

Dataprep currently generates about 75% of its revenues from the public sector, with private sector projects accounting for the rest. Its business can be divided into three major segments, namely consulting, integration and technology, IT outsourcing and managed services as well as network-managed services. Its major clients include Universiti Teknologi Mara (UiTM), Ministry of Human Resources (MOHR), Malaysia External Trade Development Corporation (MATRADE), Ministry of Education, Telekom (T MK, Not Ranked), Celcom, KLIA, PETRONAS, Citibank Berhad and Siemens. It is also the local partner of some global players such as Cisco Systems (CSCO US, Buy). It has 25 IT support service centers in Malaysia, which offer 24-hours operational and maintenance services.

### Consulting, Integration and Technology

This segment contributes nearly one-fourth of Dataprep's total revenue in FY05, compared with 9% two years ago. It involves providing solutions related to the evaluation, design and implementation of processes and technologies for customer management, supply chain management, enterprise resource planning, systems integrations and software development. Revenue generated from this segment rose to MYR16.3 mln in FY05 from MYR11.1 mln in FY04, indicating a steady growth trend in demand for IT consulting and system integration services and a relatively stable revenue stream for the company.

### IT Outsourcing and Managed Services, Network Managed Services

This segment, together with network managed services, has been the major earnings driver for Dataprep over the past few years, accounting for more than half of total revenue. However, lumpy nature of revenues from these two segments negatively affects earnings visibility, with revenue dropping to MYR55 mln in FY05 from MYR87.9 mln in FY03.

IT outsourcing and managed services provided by the company include integrated call center operations, repair center, integrated web enabled service management system and network monitoring center.

For network-managed services, the company (through its subsidiary Solsis) provides networking solutions such as network planning, design and assessment to its clients. In Feb. 2005, 11 selected High Courts in Klang Valley went online under the e-Court pilot project, which involves equipping courts with computer hardware, relevant software, data retrieval processors and online communications, aiming to facilitate judges, prosecutors and administrators.

Management expects these two segments to remain the major earnings contributors due to the growing outsourcing IT trend in Malaysia. However, hardware and software maintenance will grow at a more moderate pace due to keen competition and the prevalence of the managed services model (change from traditional annual maintenance service model).

## Earnings Outlook

Earnings momentum is gathering pace. The company turned profitable with MYR2.4 mln net profit for FY05 from a net loss of MYR39.3 mln for FY04 due to a more efficient cost structure and smaller bad debt provisions.

According to management, it has signed MYR25.9 mln worth of contracts in the first two months of FY06, thanks to IT outsourcing contracts obtained from Citibank Berhad and the Ministry of Health. Besides, about two-thirds of the pilot e-Court project valued at MYR40 mln will be booked in FY06 while the remaining in FY07. For the full year FY06, we expect revenue to grow 26% YoY to MYR90.1 mln and net profit to rise 22% YoY to MYR2.9 mln from our assumptions that there will be no further significant bad debt provisions, better cost controls and stronger contract flows.

Beyond FY06, we expect steady earnings growth underpinned by the continuous extension of e-Court project on a nationwide scale and expected growing demand for IT outsourcing in Malaysia. The company's plan to launch e-payment system nationwide as well as expansion outside Malaysia may also fuel future earnings.

Risks to our earnings forecasts include delay in revenue recognition from on-going projects and slower than expected IT spending amidst a broader economic slowdown. Low earnings visibility, given less than half of Dataprep's revenue is recurring in nature, implies higher risk to our forecasts.

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## Valuation

The stock is already trading at 15.5x PER and 2.9x P/B FY06, higher than industry averages of around 10.0x and 2.0x for computer services companies, respectively.

Although earnings momentum is improving, we have a Strong Sell recommendation on the stock with a 12-month target price of MYR0.55 per share because of expensive valuations and low earnings visibility. Our target price is derived from historical average P/B of 2.5x and EV/EBITDA of 4.6x for FY06, implying a 14% downside. The slightly higher than industry average P/B applied to the stock is justified by the company's improving ROE over the past two calendar years and net cash of MYR5.9 mln at end-FY05.

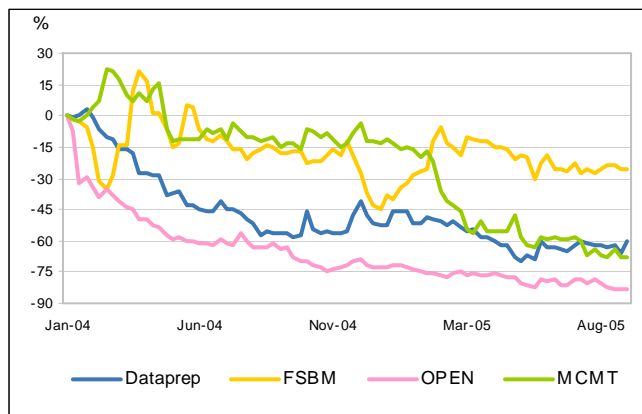
### Comparative Valuation

	Dataprep	*FSBM	*OPEN	*MCMT
Share Price (MYR) @ Sep. 13, 05	0.64	1.00	0.10	0.13
Mkt. Cap (MYR mln)	48.7	51.2	16.9	41.5
Ave. Daily Vol. ('000)	21	23	94	83
PER FY03 (x)	NM	NM	16.7	NM
PER FY04 (x)	NM	16.5	38.5	NM
P/NTA	4.9	1.2	0.9	1.3
Yield (%)	0.0	0.0	0.0	0.0

Source: Bloomberg, Company data

\*Note: FSBM Holdings Berhad (FSBM MK, Not Ranked); Opensys (M) Berhad (OPEN MK, Not Ranked); MCM Technologies Berhad (MCMT MK, Not Ranked)

### Relative Share Price Performance of Comparables



Source: Bloomberg, S&P Equity Research

## Recent Developments

Sep. 2005: Agrees to sell a 10% stake in Solsis to Ahmad Rizan Ibrahim for total consideration of MYR272,900.

Aug. 2005: Reports 80% YoY decline in net profit to MYR28,000 on revenue of MYR18.1 mln (down 12% YoY) for the first quarter of FY06. On quarterly basis, net profit sank 82% QoQ while revenue slid 22% due to lower billings arising from deferment and delay of some projects.

Aug. 2005: An additional 12.06 mln new ordinary shares of MYR1.00 each arising from the conversion of ICULS-3 were granted listing and quotation from Aug. 22, 2005.

Jul. 2005: Dataprep Payment Solutions Sdn Bhd (DPS) was incorporated. It mainly provides information technology services and solutions in relation to secured payments.

Jul. 2005: Teams up with Singapore's ST Electronics Pte Ltd to explore opportunities in the info-communications market in Malaysia and nearby countries.

## Profit & Loss

FY Mar. / MYR mln	2004	2005	2006F	2007F
Revenue	85.6	71.3	90.1	101.4
Operating Profit (EBIT)	-37.5	3.5	4.4	5.3
Depreciation	-2.6	-2.1	-2.9	-3.4
Net Interest Income / (Expense)	-0.7	-1.4	-1.4	-1.4
Pretax Profit	-38.2	2.0	3.0	3.9
Effective Tax Rate (%)	-1.0	-12.6	5.0	15.0
Net Profit	-39.3	2.4	2.9	3.4
Operating Margin (%)	-43.8	4.9	4.9	5.3
Pretax Margin (%)	-44.6	2.9	3.3	3.9
Net Margin (%)	-45.9	3.3	3.2	3.3

Source: Company data, S&P Equity Research

## Balance Sheet

FY Mar. / MYR mln	2003	2004	2005
Total Assets	103.7	64.5	55.3
Fixed Assets	7.2	4.3	4.4
Current Assets	77.9	53.2	44.1
Other LT Assets	18.6	7.0	6.8
Current Liabilities	45.6	43.6	37.7
LT Liabilities	6.6	8.9	2.2
Share Capital	61.5	64.0	64.1
Shareholders' Funds	51.0	11.8	14.1

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.

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