

DYNAQUEST SDN BHD

INITIATING COVERAGE

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DATAPREP HOLDINGS BHD (DATAPRP)	Price:	RM0.67	
	Market Capitalisation:	RM42.92m	
	Board:	Second Board	
	Sector:	Technology	
Stock Code:	8338	Recommendation:	HOLD

<u>Key Stock Statistics</u>	<u>2004</u>	<u>2005F</u>
EPS (sen)	-36.01	4.50
P/E (x)	NM	14.89
Dividend/Share (sen)		0.00
NTA/Share (RM)		0.17
Book Value/Share (x)		0.22
Issued Capital (m shares)		64.06
52-weeks Share Price Range	RM0.65 - RM1.20	
<u>Major Shareholders:</u>	<u>% Held</u>	
VXL Holdings Sdn Bhd	45.40%	
Sabit Sdn Bhd	11.33%	

1. Investment Highlights/Summary:

Following the restructuring exercise carried out in FY02, shareholders' equity of Dataprep have turned positive and its relatively high interest bearing borrowings has been cleared. With the substantial improvement of its borrowing cost structure, the series of cost control measures undertaken over the past two years, the entry of a well-connected major shareholder (who have also assumed stewardship of the group's operations), and the commencement of certain new projects, we think Dataprep is set to become a profitable entity with effect from FY05.

2. Background:

• Corporate Profile

Listed in 1991, Dataprep enjoys the distinction of being the country's first information technology company to be listed on the local bourse. Following its huge investment in R&D (prior to 1997) which failed to boost its sales accordingly, its financial position weakened substantially as a result of the outbreak of regional financial crisis in mid-1997.

As at 31.3.02, Dataprep had a deficit of RM29.1 m in shareholders' funds. To address its poor financial position, Dataprep implemented a restructuring scheme in FY02 which involved:- (a) a reduction of the issued and paid-up capital of its shares from RM1 to RM0.50 each and subsequent 2 for 1 share consolidation; (b) debt restructuring; (c) subscription by a private company - VXL Holdings - of 40 m new Dataprep shares (post-consolidation) at RM1.25 per share and 15.15 m warrants at RM0.20 each for a total of RM53.03 m cash; (d) offer for sale by VXL of 10.9 m shares at RM1.25 per share to bumiputera parties and 13.1 m warrants to Dataprep's shareholders at RM0.20 per warrant (on the basis of 1 warrant for every 1 post-consolidation share held).

• Corporate Structure

SUBS/ASSOC	ACTIVITIES	% HELD
Dataprep (M)	Support & maintenance of computer equip & systems	100.0
Solsis (M)	Marketing of computer systems, equipment & software	70.0
Solsisnet	Development software, consulting & training	100.0
Instant Office	Internet application service provider	100.0
HRM Business Consulting	Consultancy & integration	51.0

<u>Per Share Data</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005F</u>
Book Value (RM)	-1.82	0.83	0.18	0.22
Cash Flow (sen)	49.80	-19.60	-27.25	11.00
Earnings (sen)	5.93	-26.00	-36.01	4.50
Dividend (sen)	0.00	0.00	0.00	0.00
Payout Ratio	0.00	0.00	0.00	0.00
PER (x)	11.31	NM	NM	14.89
P/Cash Flow (x)	1.35	NM	NM	6.09
P/Book Value (x)	-0.37	0.81	3.65	3.07
Dividend Yield (%)	0.00	0.00	0.00	0.00
ROE (%)	-43.36	-60.51	-334.02	19.80
Net Gearing (%)	-211.04	-38.28	-56.51	43.50

<u>P&L Analysis (RM m)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005F</u>
Year-end: Mar				
Revenue	133.41	97.09	85.55	68.50
Operating Profit	3.67	-33.37	-37.52	31.70
Depreciation	4.14	4.53	5.60	4.00
Interest Expenses	-11.68	0.75	0.99	1.73
Pre-tax Profit	15.35	-33.73	-38.17	1.75
Effective Tax Rate	4.74	1.32	-1.01	-40.00
Net Profit	12.63	-30.84	-39.28	2.90
Operating Margin	2.75	-34.37	-43.85	46.28
Pre-tax Margin	11.50	-34.74	-44.62	2.55
Net-Margin	9.47	-31.76	-45.91	4.23

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• Business

Dataprep is an Information, Communications and Technology (ICT) service provider. The group's core competencies are in consulting, integration and outsourcing.

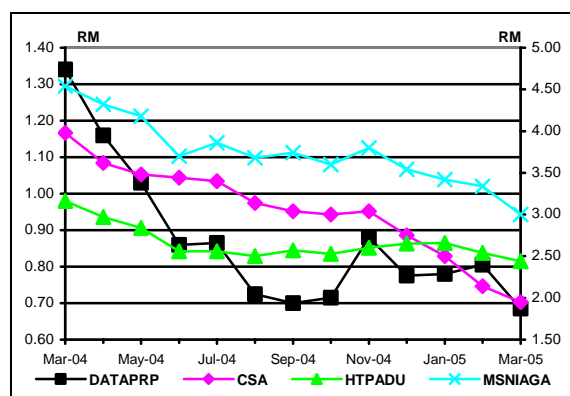
(RM 'm)	TURNOVER		OP. PROFIT	
	2004	2003	2004	2003
Consultancy & integration	11.11	9.16	-19.65	-15.81
Outsourcing & managed services	74.44	87.93	-10.03	-5.82
Management services	-	-	-9.79	-11.74
Unallocated	-	-	-1.11	0.39
Gain on deconsolidation of subsidiary	-	-	3.07	-
Net interest	-	-	-0.66	-0.75
	85.55	97.09	-38.17	-33.73

3. Valuation:

Although there are a few ICT service providers that are listed on Bursa, we have selected three which we think are the strongest to be included in the comparative valuation table. All three, HT Padu, CSA and MSNiaga, have been profitable since their listings on Bursa. Despite their better earnings record and the relative sharper drop in Dataprep's share price, all three are still priced more attractively in terms of P/NTA and Nett Dividend Yield. In terms of forward PE multiple, Dataprep has a lower multiple compared to CSA but Dataprep benefited from tax income in FY05.

<u>Comparative Valuation</u>	<u>Dataprep</u>	<u>CSA</u>	<u>HTPadu</u>	<u>MSNiaga</u>
Share Price (RM) @ 15/4	0.67	1.88	2.39	2.96
Mkt. Cap (RM m)	42.92	190.35	239.02	178.79
Avg. Daily Vol. (m)	0.02	0.04	0.02	0.00
P/E FY04 (x)	-1.86	21.89	19.54	11.12
P/E FY05 (x)	14.89	16.21	11.95	10.57
P/NTA (x)	3.94	0.99	1.39	1.12
Yield (%)	0.00	3.06	3.60	4.18

Share price chart of Dataprep, CSA, HTPadu & MSNiaga.



4. Earnings Outlook:

Through the connections of VXL Holdings, Dataprep is exploring opportunities for projects in the area of Information and Communication Technology (ICT) in China and the Asia-Pacific region. VXL is also involved in construction and financial services. The founder and president of VXL Holdings is Datuk Lim Chee Wah, who is the youngest son of Genting's Tan Sri Lim Goh Tong.

For 9M05 ended 31.12.04, Dataprep registered a 22.6% y-o-y fall in revenue to RM48.2 m due to the delay in the commencement of certain projects, which have since been awarded to the group. Nevertheless, better control of operating costs and higher productivity coupled with tax income resulted in its return to profitability with a net profit of RM1.7 m. The tax income of RM0.6 m was due to the reversal of income tax expenses and deferred tax over-provided in the prior year.

On the expectation that the worse is over for Dataprep, we are tentatively projecting its EPS at 4.5 sen for the whole of FY05. Dataprep expects better earnings performance led by strong growth in the local network managed services, regional expansion, commercialisation of in-house products and cost-cutting measures.

5. Recent Developments:

Dataprep has proposed a private placement of up to 6.4 m shares (representing approximately 10% of its issued and paid-up share capital) at a price to be determined later.

6. Investment Risk:

In the midst of a challenging environment where there is limited spending by the private sector and increased competition in the bids for government projects, Dataprep incurred losses in FY03 and FY04 as its existing projects mature and due to the lack of new ones flowing through. With the reorganisation of its management and operational structure to improve efficiency and productivity being in place, the group has finally turn profitable for 9M05.

While we are cautiously optimistic that the group would remain profitable in FY06, we would still consider Dataprep as a high-risk investment due to the volatility of its past earnings and sector-wide concerns, which are expected to persist into 2006.

7. Balance Sheet:

<u>Balance Sheet and Other Financial Data (RM m)</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>
Total Assets	92.6	99.3	60.7
Fixed Assets	7.4	7.2	4.3
Current Asset	66.2	77.9	53.2
LT Assets	26.4	21.4	7.6
Current Liabilities	55.0	45.6	43.6
LT Liabilities	64.2	2.2	5.1
Share Capital	16.0	61.5	64.0
Shareholders Funds	-29.1	51.0	11.8

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8. Recommendation:

Considering VXL's background, we are optimistic that Dataprep's plans to expand regionally would bear some fruits. We are also mindful that VXL's entry cost into Dataprep was substantially higher than Dataprep's current price. However, Dataprep's share valuation is not attractive relative to the three ICT service providers that were chosen in the comparative valuation table. As such, we rate Dataprep's share a **HOLD**, at best.

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