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## I-Power Bhd

**RM1.03**

**Local brand on par with international brands**

**BUY**  
**Fair Value: RM1.38**

### Background

I-Power is an MSC status company which is mainly involved in the provision of system integration services, E-Solution for various business transactions and software turnkey services. The E-Solutions are Internet based software, enabling the companies that deploy I-Power's product to leverage upon existing internet infrastructure. I-Power is also an IBM Premier Business Partner.

### Activities

All I-Power's software solutions are internet based and built upon open standards Java Technologies. It provides users with the flexibility to access the system anywhere and consequently reduces IT costs and improve efficiency. System support and maintenance is also enhanced and simplified due to its server-centric concept. These solutions are also able to run on various operating systems such as IBM, Oracle, Hewlett Packard, Sun Microsystems and Microsoft. Its six flagship E-Business solutions are:

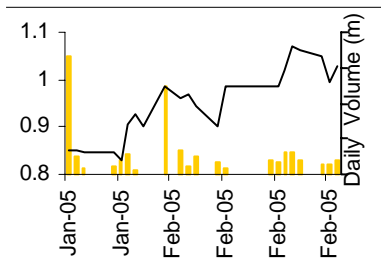
eCRM	An integrated e Customer Relationship Management System
eHR	A web-based human resources, appraisal and payroll system
ePortal	Enable to share knowledge and experiences online
eProcure	An electronic online procurement system
eAuction	An electronic online auction system
eStore	An e-store front with MEPS payment facilities

The provision of a comprehensive range of E-Solution means that the traditional ways of business transactions and operations can be completely replaced with E-Solution. I-Power's E-Solution modules are widely used in various industries: banking, manufacturing, Food and Beverages and retail industries.

**IBM's Premier Partner.** I-Power is an IBM's Premier Business Partner, one of only two local companies to have attained the highest level of Premier Membership in Malaysia. The company also has the distinction of being the only IBM Premier Business Partner in Malaysia to be accredited the IBM E-

Enlarged share capital (m)	63.0
Market Capitalisation (RM m)	66.2
NTA/share (RM)	1.31
2004 ROE (%)	15.3
Net gearing (%)	Net cash
Estimated free float (%)	28.6
<b>Major Shareholders</b>	<b>%</b>
Jason Chia	52.8
Ha Mun Keet	10.7

### Price Chart (RM1.03)



### Price Performance

52-week High/Low: RM1.08/RM0.43

1-mth	3-mth	6-mth	1-yr	YTD
23.1	-	-	-	-

### Table 1: Earnings Forecast

Year End June	2003A	2004A	2005F	2006F
Turnover (RM m)	2.3	8.9	18.0	24.5
Net Profit (RM m)	0.8	2.1	5.5	6.9
EPS (sen)*	1.3	3.3	8.7	11.0
DPS (sen)*	-	-	-	-
P/E Ratio (x)	79.2	31.2	11.8	9.4
Div. Yield (%)	-	-	-	-

\* adjusted to reflect enlarged share base of 63.0m units.

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Business Adviser status. In September 2004, the company became the latest Independent Software Vendor (ISV) to be introduced into the IBM's ISV Advantage Programme. IBM today has more than 50,000 business partners worldwide, and more than 200 of them are in this coveted program. With this alliance with IBM, it is possible for I-Power to tap on the IBM's knowledge and expertise in E-Business application framework and technology.

**Emphasis on R&D activities.** I-Power has been awarded a grant by MDC for its R&D undertaking for a sum of RM2.5m. This grant will be used over the next two years to develop a data mining solution embedded with Artificial Intelligence (AI). For FY04, the group spent approximately RM0.9m on R&D and plans to increase the spending to an average RM1.3m per year for the next 5 years.

**Adding to its already impressive clientele.** The group's customers for the E-Solution software include Maybank, Amway, CIMB, Sony, Fujitsu, Cosway, Deutsche Bank, Genting and TeleDynamics. I-Powers clients are also evenly spread with its top 10 clients accounting for less than 40% of revenue. And none of its clients contribute more than 10% of total revenue.

**Company prospects.** I-Power's prospects are promising, driven by:

- Intellectual Property (IP) Rights for its e-solutions.
- Use of open standards which facilitates ease of integration and upgrading for customers; accreditation by IBM enhances the product's brandname and quality.
- Able to generate recurring revenue through the provision of maintenance support services for installed e-business solutions.

## Outlook

The government of Malaysia has embarked on a project to develop a K-economy Master Plan in a drive to turn Malaysia from a production-driven economy into a knowledge based economy. Thus spending in IT and ICT is expected to increase in the coming years due to the government's initiatives such as the PC ownership campaign, digitalization of rural community projects, increased spending for IT education and rapid increase in the number of internet users. Also, IDC forecasted Malaysian business-to-business e-commerce market to be in the region of USD7.8b in 2005.

The macro environment augers well for companies involved in the implementation of integrated e-solutions like I-Power.

## Concerns

**Competitive industry.** The ICT industry is highly competitive and has several major players offering almost similar E-Solution products. However, to counter this risks, I-Power has adopted several strategies such as using an open platforms solution, which is flexible and can run on multiple platforms, be it Oracle, Unix, Sun or Linux. The company intends to continually focus on R&D activities to develop new products and services in order to stay ahead of its competitors.

**Rapid technological changes.** The ICT industry is normally associated with rapid technology revolution, where threat of product obsolescence may occur in a matter of week or months. To counter this risk, I-Power emphasises on R&D to continuously develop and improve its product range, technology platform and introduce new solutions. Also, in-house R&D would also reduce dependency on third party core technologies.

## Financials

Turnover registered a stellar growth of 286% from RM2.3m in FY03 to RM8.9 in FY04, resulting in an impressive net profit growth of 163%. Going forward, we forecast turnover to grow to RM18.0m and RM24.5m in FY05 and FY06. We expect margin to edge higher to slightly over 33%, benefiting from quality backing from IBM, one of world's leading technology related companies. Our EPS forecasts is 8.8 sen in FY04 and 11.0 sen in FY05.

## Valuation

We have benchmarked I-Power against several listed players in the software industry. The average sector PER is 21.9X but this is due to Infortech's excessive PERs. Instead, we have pegged I-Power's EPS06 forecast of 11.0 sen against PER of 12.7X (by applying a 20% discount to the Mesdaq market PER of 15.2X for its small market capitalisation), we value the stock at RM1.38, representing 34% upside from the current price.

## Peer Comparison

	Price (RM)	Mkt Cap (RM m)	PER05 (X)	P/NTA
IFCA	0.30	82.9	14.8	2.3
Infortech	0.22	13.2	42.1	2.0
UBS	0.42	42.0	13.4	2.6
Globalsoft	0.55	85.6	9.8	3.9
Ingenuity	0.35	46.3	7.6	2.2
<b>Average</b>			<b>21.9</b>	<b>2.6</b>
I-Power	1.05	66.2	11.8	0.8

Source: Bloomberg, Mayban Securities

**Income Statement (RM m)**

<b>FYE June</b>	<b>2003A</b>	<b>2004F</b>	<b>2005F</b>	<b>2006F</b>
Total Turnover	2.3	8.9	18.0	24.5
Growth (%)	-	287.0	102.2	36.1
EBITDA	1.1	2.7	6.1	7.8
EBITDA Margin (%)	47.8	30.3	33.9	31.8
Pretax Profit	0.8	2.1	5.5	6.9
Pretax Margin (%)	34.8	23.6	30.6	28.2
Taxation	-	-	-	-
Minority Interests	-	-	-	-
Extraordinary Items	-	-	-	-
Net Profit	0.8	2.1	5.5	6.9
Net profit growth (%)	-	162.5	161.9	25.5
Net Margin (%)	34.8	23.6	30.6	28.2
Enlarged share capital				
EPS (sen)	1.3	3.3	8.7	11.0
<i>based on enlarged share cap</i>				
PER (X) @ RM1.03	79.2	31.2	11.8	9.4

**Balance Sheet (RM m)**

<b>FYE June</b>	<b>2004</b>	<b>2003</b>
<b>Non-current assets</b>		
Property, Plant & Equipment	0.2	0.2
Intellectual property rights	3.7	3.9
Development expenditure	0.3	-
<b>Current Assets</b>		
Trade receivables	2.3	0.9
Other receivebales	0.5	-
Cash at bank	1.0	0.4
	<u>3.8</u>	<u>1.3</u>
<b>Current Liabilities</b>		
Trade payables	0.2	0.5
Amount due to director	2.5	-
Other payables	0.6	-
<b>NET CURRENT ASSETS</b>	<u>3.1</u>	<u>(1.3)</u>
	<b><u>7.4</u></b>	<b><u>2.8</u></b>
<b>FINANCED BY:</b>		
Share Capital	4.5	2.0
Retained earnings	2.9	0.8
Shareholders' Equity	<u>7.4</u>	<u>2.8</u>

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<b>AVOID</b>	Uncertainty in newsflow.

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### Some common terms abbreviated in this report (where they appear):

P = price	PBT/PAT = Profit before tax/Profit after tax	mom = month-on-month
PE/PER = price earnings/ PE ratio	NTA = net tangible asset	yoy = year-on-year
PEG = PE ratio to growth	NAV = net asset value	qoq = quarter-on-quarter
FV = fair value	EBIT = Earnings before interest, tax	ytd = year-to-date
BV = book value	EBITDA = EBIT, depreciation and amortisation	FY/FYE = financial year/ financial year end
EV = enterprise		value CY = calendar year
DCF = discounted cashflow	ROE = return on equity	capex = capital expenditure
FCF = free cashflow	ROA = return on asset	adex = advertising expenditure
CAGR = compounded annual growth rate	ROS = return on shareholders' funds	p.a = per annum
WACC = weighted average cost of capital	EPS = earnings per share	
	DPS = dividend per share	



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