

I-Power Berhad

18 January 2005

An E-Solution Specialist

Offer Price - RM0.43
Fair Valuation - RM0.58

Highlights

◆ **I-Power Berhad (I-Power) is an e-business solution specialist, which commenced business two years ago.** It was incorporated in October 2002 and commenced its operations in January 2003. The company's initial business focus was in the provision of system integration and turnkey e-Solution development services. To-date, I-Power has expanded into a comprehensive one-stop solution provider with expertise in system integration, turnkey project management and professional consultancy.

◆ **A business partner of IBM.** The company owns all the intellectual property rights to its e-solutions, which are packaged under the brand name of "I-Power". All its e-solutions are built and based on open standards Java technologies running on IBM powerful middleware platforms. I-Power was awarded the first IBM certified e-business advisor status in Malaysia and is one of the only two IBM Premier Business Partners in Malaysia.

◆ The company's **revenue stream** includes :

- 1) I-Power branded **e-solutions** such as eHR, eCRM, eStore, eProcure, eAuction, ePortal, ePos, eFinancials and eAgency Management;
- 2) **Turnkey application frameworks** (include customised developments);
- 3) **Professional deployment services** such as project management, technical consultancy, software outsourcing, network design, eBiz consultancy, data warehousing consultancy, IBM MQ series workflow, Lotus Domino, intelligent miners, DB2 services; and
- 4) **System integration projects** inclusive of IT infrastructure design and consultancy, LAN, WAN, PABX, CCTV, fire protection, hardware installation and maintenance.

| LISTING DETAILS | |
|---|-------------------|
| Listing | : MESDAQ |
| Listing Date | : 18 January 2005 |
| Tax Resident | : Malaysia |
| Public issue(m) | : 18.0 |
| Malaysian Public | : 15.4 |
| Directors, Employees, Customers & Suppliers: | 2.6 |

| MAJOR SHAREHOLDERS | |
|--------------------------------|---------|
| Chia Kok Chin(Jason Chia)..... | 63.47%* |
| Hoh Chee Kuan..... | 4.37% |
| Tan Chuek Hooi..... | 3.33% |

**Includes the indirect shareholding of 10.71% held via his spouse, Madam Ha Mun Keet.*

| INVESTMENT STATISTICS | | | | | | | Bloomberg Page : IPOW MK | | | |
|-----------------------|-------------------|----------------------------|----------------------------|------------------|---------------|----------------|--------------------------|--------------|---------------|------------|
| FYE 30 June | Turnover (RMm) | Pre-tax profit (RMm) | Adj net profit (RMm) | Adj EPS (sen) | Growth (%) | Net PER (x) | NTA (RM) | P/NTA (x) | GDPS (sen) | GDY (%) |
| 2004a | 8.9 | 2.1 | 2.1 | 3.3 | +>100 | 17.5 | - | - | - | - |
| 2005f | 13.8 | 3.7 | 3.7 | 5.8 | +76.5 | 9.9 | 0.16 | 3.7 | - | - |
| 2006f | 16.9 | 4.6 | 4.6 | 7.3 | +25.8 | 7.9 | 0.22 | 2.6 | 1.0 | 1.7 |
| 2007f | 20.5 | 5.8 | 5.8 | 9.3 | +26.0 | 6.3 | 0.30 | 1.9 | 1.0 | 1.7 |

| | | | | | |
|---------------------------------------|---|------|---------------------------------|---|------|
| Issued shares (m) (RM0.10 par) | : | 63.0 | Mkt capitalisation (RMm) | : | 36.5 |
| Issued capital (RMm) | : | 6.3 | Price/NTA post IPO (x) | : | 5.8 |
| NTA/share post IPO (RM) | : | 0.10 | Net cash post IPO (RMm) | : | 8.7 |

Note : Valuations are based on RHBRI's fair value estimate of RM0.58

◆ **Revenue mix.** The company's business nature is on project basis and it has not built a sizeable recurring revenue base (i.e. from maintenance works for projects completed) due to its short operating history. In FY06/04, revenue contributed by e-business application development and software integration services accounted for 94% of total revenue with the balance 6% coming from maintenance contracts.

◆ **I-Power's principal market is in Malaysia and customer mix is well distributed.** For FY06/04, the top ten customers collectively accounted for about 40% of total sales revenue and none of the individual clients contributed 10% or more to the total sales revenue. The largest customer in FY06/04 was MOI Foods Malaysia Sdn Bhd, which contributed 7% to total revenue, followed by EDS (M) Sdn Bhd at 5% of total revenue.

◆ **The company has been profitable since the first year of operation.** It recorded a net profit of RM0.8m in FY06/03 and earnings rose 157% yoy to RM2.1m in FY06/04 on the back of an increase in revenue from RM2.3m to RM8.9m over the same period. Revenue growth in FY06/04 was attributed to 1) rising demand for I-Power's e-business software solutions and software integration services in tandem with economic growth; 2) aggressive sales and marketing efforts; and 3) growth in product demand due to rising Internet usage. However, EBITDA margin softened from 41.1% in FY06/03 to 26.1% in FY06/04, reflected the company's aggressive marketing efforts.

◆ **I-Power future growth will be underpinned by:-**

1) **Rising Internet penetration rate**, which is expected to boost the popularity of on-line businesses and drive the adoption of I-Power's e-solutions.

2) **Product developments.** MDC (Multimedia Development Corporation) had approved a grant of approximately RM2.5m to the company to conduct R&D into designing and building an Intelligent Business Information Miner and Modeller (IBIMM, a data mining solution), to incorporate extensive data mining capabilities into all the company's e-solutions. IBIMM will deploy powerful and innovative techniques to strengthen the intelligence capabilities of its products. The company intends to leverage on the IBIMM product to secure outsourcing business from large corporate conglomerates;

◆ **Earnings forecasts.** We project I-Power net profit at RM3.7m (EPS of 5.8 sen), RM4.6m (EPS of 7.3 sen) and RM5.8m (EPS of 9.3 sen) for FY6/05-07 respectively, on the back of an average growth of 32.8% p.a. in revenue. Revenue growth will be underpinned by the growth in customer base, the company's efforts in expanding its market position as well as a gradual increase in maintenance income. However, its aggressive marketing efforts and the resulting high operating expenses will limit profit margin expansion. As such, we are projecting its EBITDA margin to range between 28-30% in FY06/05-07, lower than the 41.1% achieved in FY06/03.

◆ **Short operating history and intense industry competition are the earnings risks.** I-Power has been profitable since it commenced business two years ago. However, short operating history amidst the highly competitive industry structure and rapid technology revolution are the key investment risks of the stock.

◆ **Our indicative fair value is at RM0.58/share**, based on approximately 10x of our projected FY06/05 EPS of 5.8 sen. Currently, the Mesdaq counters are trading at an average 1-year forward PER of 13x. The listed enterprise and application software companies like Asdion Berhad, Datascan Berhad, D&O Ventures Berhad, GPRO Technologies Berhad, IFCA MSC Berhad, JSPC I-Solutions Berhad and Ingenuity Solutions Berhad are priced at 1-year prospective PERs of 8-19x or an average ratio of 14.4x. We are valuing I-Power at a discount to its listed peers due to its short operating history and the intense industry competition.

Table 1

UTILISATION OF IPO LISTINGS

| | RM(m) | To be utilised by FYE 30 June |
|---|-------------|-------------------------------|
| Public Issue of 18m shares of RM0.10 each at RM0.43 per share | 7.7m | |
| Total funds raised | 7.7m | |
| Working capital | 2.7m | 2005 |
| R&D Expenditure | 3.5m | 2008 |
| Listing expenses | 1.5m | 2005 |
| Total utilisation | 7.7m | |

Source : IPO Prospectus

Table 2

EARNINGS REVIEW AND FORECAST

| FYE 30 June (RMm) | 2003 | 2004 | 2005f | 2006f | 2007f |
|------------------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 2.3 | 8.9 | 13.8 | 16.9 | 20.5 |
| EBITDA | 0.9 | 2.3 | 4.0 | 5.0 | 6.2 |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation | (0.1) | (0.2) | (0.3) | (0.4) | (0.4) |
| EBIT | 0.8 | 2.1 | 3.7 | 4.6 | 5.8 |
| PBT | 0.8 | 2.1 | 3.7 | 4.6 | 5.8 |
| Tax | - | - | - | - | - |
| MI | - | - | - | - | - |
| Net Profit | 0.8 | 2.1 | 3.7 | 4.6 | 5.8 |
| Issued shares (m) | 0.5 | 4.1 | 63.0 | 63.0 | 63.0 |
| Basic EPS (sen) | 157.4 | 51.0 | 5.8 | 7.3 | 9.3 |
| Enlarged S/cap (m) | 63.0 | 63.0 | 63.0 | 63.0 | 63.0 |
| F. Diluted EPS (sen)* | 1.3 | 3.3 | 5.8 | 7.3 | 9.3 |
| FD PER (x) @ IPO price | 31.1 | 12.1 | 6.9 | 14.0 | 4.3 |
| FD PER (x) @ RHBRI FV | 45.2 | 17.5 | 9.9 | 7.9 | 6.3 |
| Gross div/sh (sen) | - | - | - | 1.0 | 1.0 |
| Div yield (%) @ RHBRI FV | - | - | - | 1.7 | 1.7 |
| NTA (RM/share) | - | - | 0.16 | 0.22 | 0.30 |
| P/NTA (x) | - | - | 3.7 | 2.6 | 1.9 |
| Margins (%) | | | | | |
| EBITDA | 41.1 | 26.1 | 28.8 | 29.4 | 30.3 |
| EBIT | 35.5 | 23.4 | 26.6 | 27.4 | 28.4 |
| PBT | 35.5 | 23.4 | 26.6 | 27.4 | 28.4 |
| Net Profit | 35.5 | 23.4 | 26.6 | 27.4 | 28.4 |
| YoY Chg (%) | | | | | |
| Revenue | - | 291.7 | 55.0 | 22.3 | 21.2 |
| EBITDA | - | 148.8 | 71.0 | 24.9 | 24.8 |
| Net Profit | - | 157.6 | 76.5 | 25.8 | 26.0 |
| EPS* | - | 157.6 | 76.5 | 25.8 | 26.0 |

* based on enlarged issued shares

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