STANDARD & POOR'S

Datapulse Technology

Bloomberg: DT SP | Reuters: DATA.SI | Price: SGD0.23 | Date: March 3, 2010

GICS: Information Technology/Computer Storage & Peripherals

Business Summary: Datapulse offers digital storage media solutions to the gaming, PC hardware, publishing and consumer electronics markets in Asia Pacific. Its suites of services include pre-mastering to mastering, replication, printing, customized packaging and distribution for digital storage products such as the CD and DVD.

Country of Incorporation: Singapore

Head Office Location: 15A Tai Seng Drive, Datapulse Industrial Building, Singapore 535225

Place of Operations: Singapore

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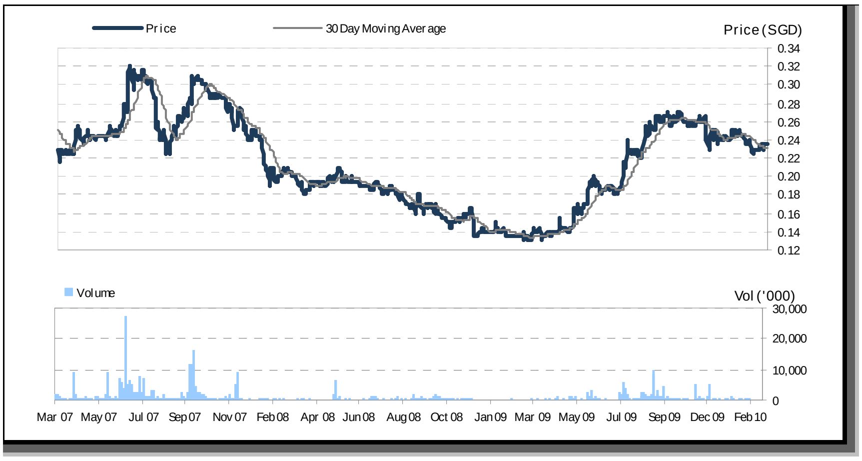
Analyst: Janice Chong



Results Review

- 2QFY10 (Jul.) earnings missed our expectations mainly due to the slower-than-expected recovery in revenue.
- Net profit fell 37.9% YoY (-43.6% QoQ) in 2QFY10 to SGD2.2 mln, bringing cumulative 1HFY10 earnings to SGD6.2 mln (-34.3% YoY) - accounting for 39% of our original FY10 forecast. The earnings contraction was attributed to weaker demand from the software and gaming segments, as well as price pressure amid keen competition. On a cumulative basis, revenue fell 30.2% YoY to SGD31.6 mln in 1HFY10.
- Margin wise, EBITDA margin inched up slightly to 30% in 2QFY10, from 28.9% in the preceding quarter, driven by lower raw material prices, which track oil price movements.
- Meanwhile, Datapulse's balance sheet remains strong with minimal debt, good net cash position and healthy working capital cycle with its business being mainly funded by its suppliers. With no major expansion plans in the horizon, we expect the company to remain free cash flow positive.
- No dividends were declared in 1HFY10.

Earnings Outlook / Estimates Revision

- Management expects earnings in subsequent quarters to stay relatively flat, given the lack of earnings catalysts in the next six months. While the successful launch of Windows 7 should contribute to long-term growth prospects, Datapulse's earnings typically lag by 9-12 months from the software launch date, i.e. when service packs are released and/or with the push for corporate adoption.
- We lower our sales forecast for FY10 by 17%, resulting in a 22% contraction in our earnings projection. We think Datapulse's earnings performance is unlikely to excite in the next 6-8 months until market adoption for Windows 7 gains momentum. Our projections for FY11 remain largely unchanged. We project a 19.9% decline in net profit in FY10 followed by a 41.4% growth in FY11.
- In the long term, we see Datapulse benefiting from the success of the Xbox game console. Nevertheless, rampant software piracy in the region is seen as a limiting factor.

Investment Risks

- Key risks include high customer concentration, software piracy, the growing popularity of online gaming and Internet downloadable software and a prolonged economic downturn which would hurt demand for its products.

Key Stock Statistics

52-week Share Price Range (SGD)		0.13 - 0.27
Avg Vol - 12 months ('000 shares)		202.2
Price Performance (%)	- 1 month	0.0
	- 3 month	2.2
	- 12 month	80.8
No. of Outstanding Shares (mln)		594.7
Free Float (%)		68.6
Market Cap (SGD mln)		139.8
Enterprise Value (SGD mln)		94.2
Major Shareholders (%)		
Uniseraya Holdings Pte Ltd		17.0
Ng Cheow Chye		13.2

Per Share Data

FY Jul.	2008	2009	2010E	2011E
Book Value (SG cents)	12.92	12.45	12.86	13.45
Cash Flow (SG cents)	3.5	3.7	3.2	3.9
Reported Earnings (SG cents)	2.3	2.6	2.1	2.9
Dividend (SG cents)	2.0	2.5	1.7	2.3
Payout Ratio (%)	88.3	96.8	80.0	80.0
PER (x)	10.4	9.1	11.4	8.0
P/Cash Flow (x)	6.7	6.3	7.4	6.0
P/Book Value (x)	1.8	1.9	1.8	1.7
Dividend Yield (%)	8.5	10.6	7.0	10.0
ROE (%)	17.5	20.4	16.3	22.2
Net Gearing (%)	0.0	0.0	0.0	0.0

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Quarterly Performance

FY Jul. / SGD mln	2Q10	2Q09	% Change
Reported Revenue	11.1	16.0	-30.5
Reported Operating Profit	2.1	4.1	-50.1
Depreciation & Amortization	-1.3	-1.6	-21.0
Net Interest Income / (Expense)	0.0	0.1	-52.0
Reported Pre-tax Profit	2.1	4.2	-50.1
Reported Net Profit	2.2	3.6	-37.9
Reported Operating Margin (%)	18.5	25.8	-
Reported Pre-tax Margin (%)	18.9	26.4	-
Reported Net Margin (%)	20.0	22.4	-

Source: Company data

Profit & Loss

FY Jul. / SGD mln	2008	2009	2010E	2011E
Reported Revenue	73.3	71.6	60.0	75.0
Reported Operating Profit	14.4	16.5	13.2	18.8
Depreciation & Amortization	-7.7	-6.9	-6.6	-5.8
Net Interest Income / (Expense)	0.7	0.3	0.4	0.5
Reported Pre-tax Profit	15.0	16.8	13.6	19.3
Effective Tax Rate (%)	11.3	9.1	10.0	10.0
Reported Net Profit	13.5	15.4	12.3	17.4
Reported Operating Margin (%)	19.6	23.0	22.0	25.0
Reported Pre-tax Margin (%)	20.5	23.5	22.7	25.7
Reported Net Margin (%)	18.4	21.5	20.5	23.2

Source: Company data, S&P Equity Research

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