

# CBS Technology Bhd

Price : RM0.36

Market Capitalisation : RM 84.8mIn

Board : Main Market

Sector : Technology

Recommendation : BUY

Bursa / Bloomberg Code: 0041 / CBS MK  
Stock is Shariah-compliant.

## Key Stock Statistics

FYE DEC	FY09	FY10	FY11E
EPS (sen)	4.73	4.41	4.82
P/E (x)	7.6	8.2	7.5
Dividend/Share (sen)	0.00	0.00	0.00
NTA/Share (sen)	8.5	10.0	14.8
Book Value/Share (Sen)	27.8	22.8	27.6
Issued Capital (m shares)	156.66	238.98	238.98
52-week Hi-Low (RM)	0.30 - 0.45		

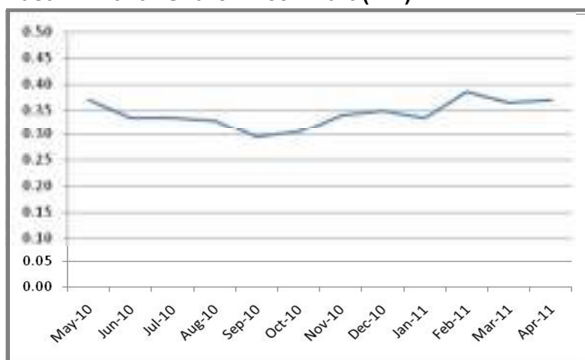
## Major Shareholders (%):

Tan Tian Sin	13.41
Sun Chee Kong	12.40

## Per Share Data

FYE DEC	FY09	FY10	FY11E
Book Value (RM)	0.28	0.23	0.28
Cash Flow (sen)	5.25	5.38	5.94
Earnings (sen)	4.73	4.41	4.82
Dividend (sen)	0	0	0
Payout Ratio	0	0	0
PER (x)	7.6	8.2	7.5
P/Cash Flow (x)	6.9	6.7	6.1
P/Book Value (x)	1.3	1.6	1.3
Dividend Yield	0	0	0
ROE	25.4%	19.3%	17.8%

## Last 12-Month Share Price Chart (RM)



Source: Bloomberg

## Investment Highlights / Summary

- Started as ICT software developer, now a digital ecosystem developer.** CBS has created and managed a successful digital ecosystem. In this ecosystem, CBS is developer and operator for South East Asia's B2B hubs for SMEs and microenterprises to market their products and conduct their business. The ecosystem will serve a large community and connected to world renowned websites for global audience.
- Exciting growth potential ahead.** CBS's value proposition to the SMEs is to accelerate their commercial growth through the use of CBS's web based media expertise and ICT applications in advertisement and supply chain management. According to CBS, there are almost 23 million SMEs in South East Asia. If it succeeds in this new cross-selling initiative, the potential impact on top and bottom line is potentially astounding.
- A steady and respectable financial track record.** Consistent profits over the last 5 years. Currently it remains in net cash position of approximately RM20m with minimal borrowings.
- Better quality earnings.** The proportion of recurrent revenue to total revenue has significantly improved – minimizing the impact of ICT software sales, which tend to be lumpy, on group's profit.
- Risks.** Potential development cost overruns at the B2B portals and the emergences of other online competitors that may impede market penetration and thereby extend the gestation period.
- Recommend a BUY with a target price of RM0.43.** Based on our FY11 forecast, this will value CBS on a PE of 9X, which is within the range of current market consensus of assigning 8-10X to fundamentally sound small cap stocks.

## Background

### Corporate profile

CBS Technology Berhad (CBS Technology) was founded in 2001. It was listed on the MESDAQ market of the Bursa Malaysia Securities Berhad in April 2004 and transferred to the Main Market in November 2010.

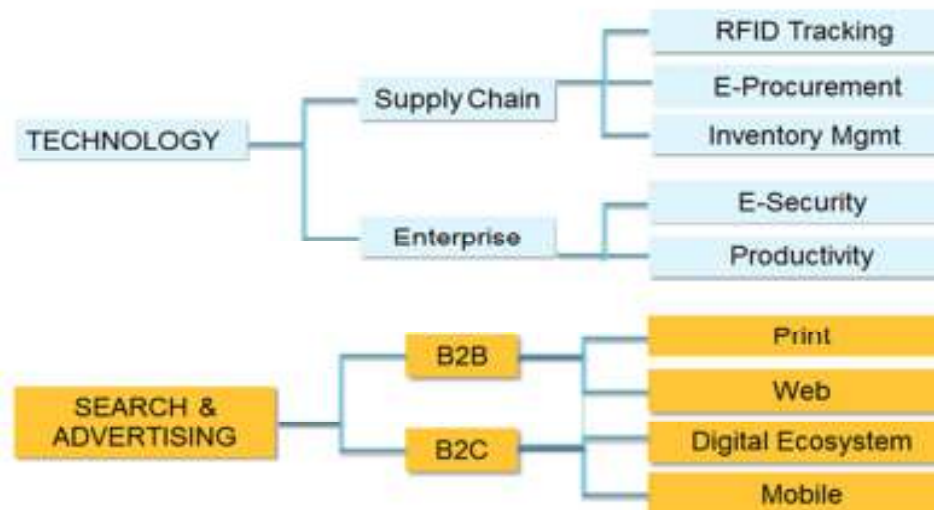
CBS is the brainchild of Mr. Sun Chee Kong. He began his career with IBM Malaysia in 1987 and left in 1996 to start CBS. The success of CBS to date is attributable to his leadership and business acumen. Mr. Tan Tian Sin and Mr. Sun Chee Kong are currently the major shareholders of CBS holding 13.41% and 12.40% equity interest in the company, respectively. Mr. Sun continues with his post as the Managing Director while Mr. Tan now holds the post of Executive Director.

### Corporate structure



## Business

CBS started as ICT software developer. At the time of listing, its main business was in ICT involved developing application software, leveraging on Radio Frequency Identification (RFID) technology and e-security technologies. Presently, the company has expanded its segment business scope to include search and advertising division.



### A. Technology ~ Major product lines: RFID, e-Procurement, e-Security

ICT comprises 3 major product lines namely;

1. Software application using *RFID* technology to manage inventory and provide security, is marketed under the Solmate® brand. As it is more capable than bar-code, Solmate is used for high value assets such as museum artifacts, newborns in hospitals, confiscated evidence items by law enforcement, and inventory of utility companies' warehouses.
2. *e-Procurement*, which is a supply chain management software application to facilitate purchase, bidding, ordering, and trading of products. The solution lends itself to forming communities of trading partners of buyers and sellers.
3. *e-Security*, marketed under the Paymate® brand, which enable users to manage and transmit sensitive information and data securely through the usage of industrial compression, data finger printing and encryption technologies. Users include banks and government departments.

### B. Search & Advertising ~ Exciting growth potential

#### 1. B2B

CBS is a digital ecosystem developer and operator for South East Asia's B2B hubs for SMEs and microenterprises to market their products and conduct their business.

In 2009 the company made a strategic decision to expand into online e-commerce business.

CBS aims to develop its own internet community portal which will be the platforms for B2B e-commerce, catering specifically for SMEs and microenterprises.

In September 2009, CBS acquired 100% of Infodata Media Sdn Bhd (IMSB) for RM29.0m cash. The acquisition of the E-commerce service developer and operator was financed entirely from the reserves accumulated. The purchase came with a profit guarantee of RM5.0m and RM5.5m after tax profit for each of the financial years ended/ending June 30th 2010 and 2011 respectively i.e IMSB was valued on a PE of 5.8X.

IMSB in turn owns Super Pages Media Sdn Bhd (SPM), which operates an online business directory. SPM is also a content provider to Google and Yahoo, and a business partner of Alibaba.com for Malaysia and Singapore.

In FY2010, CBS continued to focus on the Search & Advertising business. CBS' strategic plan is to ultimately create and manage a digital ecosystem in which CBS has the strengths and experience to be successful.

## 2. B2C

CBS complements its digital ecosystem by publishing print directories which will promote awareness and branding. The ecosystem will serve a large community and connected to world renowned websites for global audience, covering almost every key market in the Southeast Asia region i.e Thailand, Indonesia, Vietnam and Malaysia.

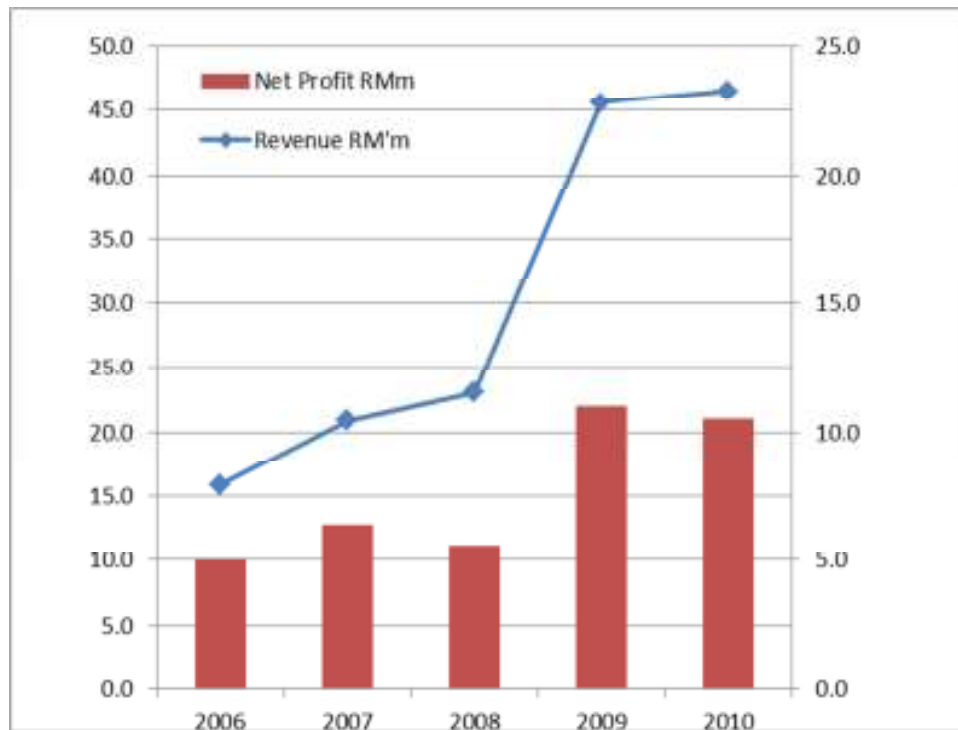
The sales force is about 100 people currently, which CBS aims to build up to be 500-1,000 strong to cater for future expansion. CBS's Internet Media Expertise is currently expanding its businesses to include Content Distribution, Brand Awareness, Social Media, Mobile Media, Direct marketing and Search Engine Marketing.

Internationally, CBS is building up its listing database in Thailand, Vietnam and Indonesia. It launched its operations in Thailand in September 2010, Vietnam is targeted for April 2011 and Indonesia in July 2011.

For computer users web pages now include the existing [www.superpages.com.my](http://www.superpages.com.my), plus [www.aseansources.com](http://www.aseansources.com), [www.panpages.com](http://www.panpages.com) and [www.panhalal.com](http://www.panhalal.com) and for mobile phone users [www.superpages.com.my](http://www.superpages.com.my) and [www.foodshout.com](http://www.foodshout.com).

### Financial Highlights ~ Steady & respectable financial track record

#### Audited Revenue & Net profit (FY2006-2010\*)



\* Based on the unaudited results of Q42010

#### Latest Results

The group results for FY2010 reflect the impact of the first full year contribution from the Search & Advertising division. It is a vindication of CBS's decision to parlay its accumulated reserves into a new business instead of reinvesting in its ICT division.

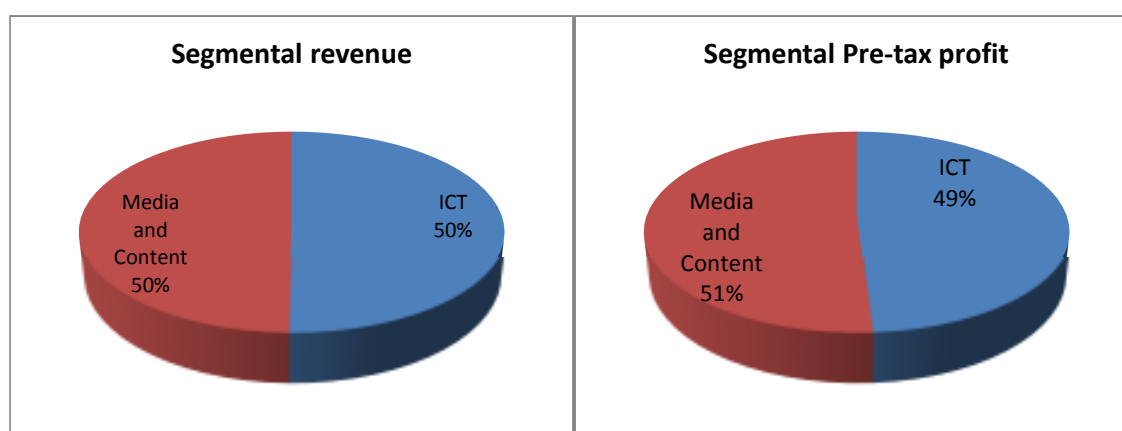
Following the acquisition of Infodata Media Sdn Bhd in FY2009, CBS's revenue surged by 63% to reach RM45.6m mainly due to consolidation. However, Group figures remained flat for FY2010 (grew marginally by 2%) due to less encouraging performance of ICT division during the year (RM23.4m compared to RM35.0m in the preceding year).

The ICT business was adversely affected by the delays in the project implementation and lower revenue from software maintenance and enhancement. Nevertheless, the negative effects were partially offset by strong performance of the Search & Advertising division; this sharp downturn at ICT was hardly felt at the Group level.

CBS's net profit for FY2010 declined marginally by 4.3% despite positive revenue growth. The decline was mainly attributable to lower operating profit margin.

### Segmental Breakdown

FYE 31st Dec RMm	2006	2007	2008	2009	2010
<b>Revenue</b>					
ICT	15.9	20.9	23.0	35.0	23.4
Media and Content				10.6	23.2
	<b>15.9</b>	<b>20.9</b>	<b>23.0</b>	<b>45.6</b>	<b>46.6</b>
<b>Pretax Profit</b>					
ICT	5.3	6.9	6.6	7.3	5.6
Media and Content				4.4	5.8
	<b>5.3</b>	<b>6.9</b>	<b>6.6</b>	<b>11.7</b>	<b>11.4</b>
<b>Attributable Profit</b>	<b>5.0</b>	<b>6.4</b>	<b>5.6</b>	<b>11.0</b>	<b>10.5</b>

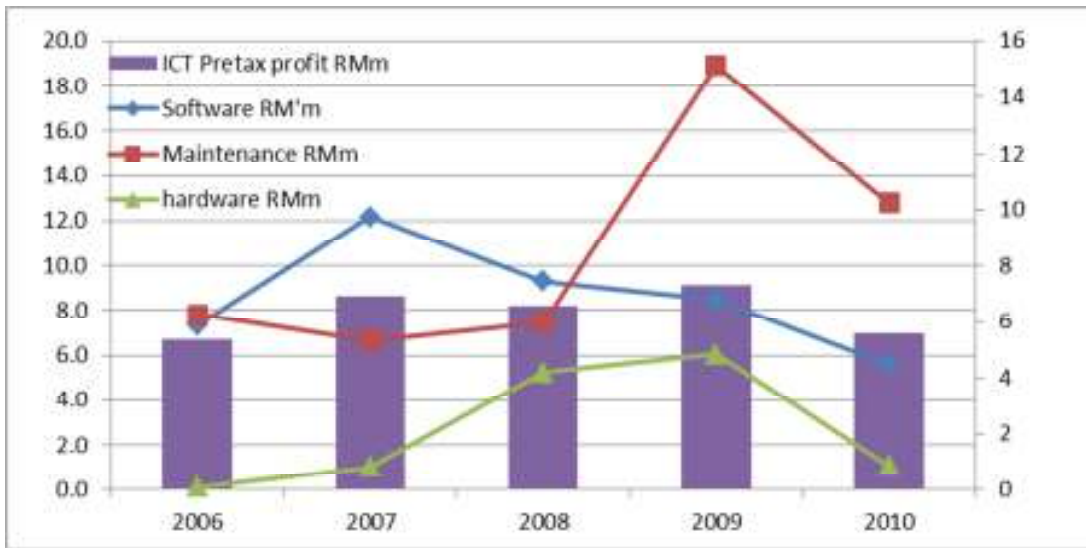


### ICT (Technology)

Currently, ICT's revenue is a combination of project-based and recurrent. Clients acquire CBS's software as part of their capital expenditure program and pay CBS on a project basis. Thereafter, they pay CBS yearly software maintenance fees, which constitute recurrent income to CBS.

The booking of revenue and profits tend to be lumpy as they reflect the timing of actual payment made for specific projects.

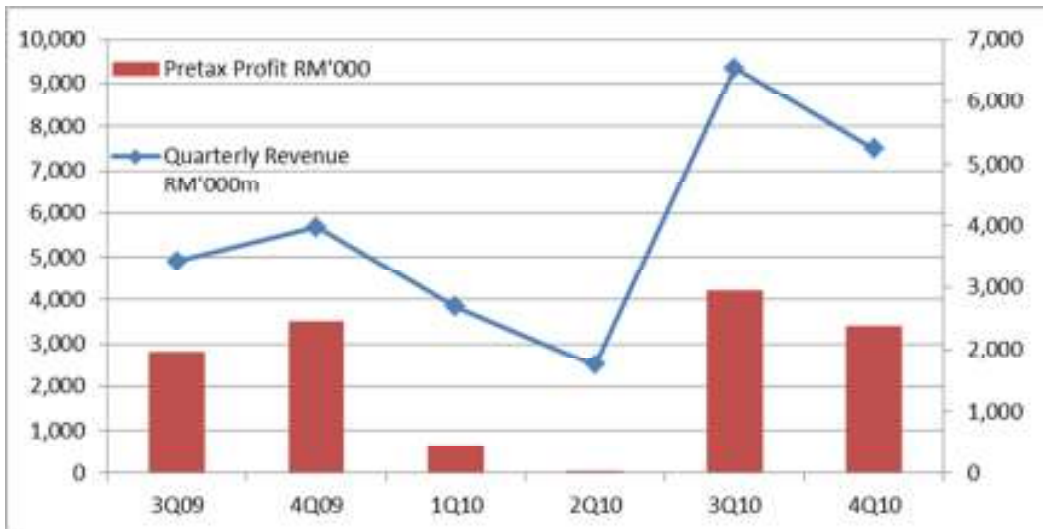
**ICT segment's composition of annual revenue and pretax profit.**



**Search & Advertising (Media & Content)**

Search & Advertising division's revenue is mainly recurring in nature, but is highly seasonal. The revenue comes mainly from the sale of advertising space in its yearly print directory. The revenue and direct production costs are recognized only upon distribution of the directory to users, which is usually in July.

**Quarterly Results of Search & Advertising**



### Cash Flow & Balance Sheet ~ *Solid conservative balance sheet*

CBS has maintained a solid and conservative balance sheet throughout the years. The balance sheet carries intangible assets of RM29m. This comprises goodwill on consolidation of RM8.3m, mainly accounted for by the premium over NTA paid for IMSB, whilst the balance is the consolidated intangible assets of IMSB. IMSB's intangible assets comprise of trademark (RM9.3m), customer lists & relationship (RM11.5m) and development cost (RM1.3m).

Balance sheet Highlights	2005	2006	2007	2008	2009	2010
<b>FYE 31<sup>st</sup> Dec (RM'm)</b>						
Total assets	32.3	36.0	49.8	46.9	65.7	76.9
Intangible assets	1.7	1.9	2.0	2.1	30.1	30.5
Cash and bank balances*	25	26.1	39.2	19.5	5.4	20.3
Shareholders' equity	22.9	28.1	25.2	30.9	43.3	54.4
Minorities					0.2	0.3
Borrowings					1.4	0.2

\* Include money market funds disclosed within Investments (under current assets)

### Earnings Outlook ~ *Better quality earnings*

CBS is confident of sustaining RM27m (FY2010 total revenue: RM46.6m) from recurring revenue – RM15m from Search and Advertising (FY2010 revenue: RM23.2m) and RM12m (FY10 revenue: RM12.8m) from ICT maintenance contracts.

#### ICT

At the ICT division, CBS is relying more on maintenance/enhancement of the software already installed at clients' and is also repackaging its new sales from the traditional "software sales + maintenance" to "Software as a Service (SaaS) model" to drive revenue growth. Under this package, software will be installed to clients (at minimal cost) and subscription fee or transaction fee will be charged on its subsequent usage.

CBS is also developing a new version of e-procurement that can be distributed via the B2B portal that it is also currently developing.

In FY2011 management expects revenue from ICT to rebound following the booking of projects that were delayed in FY2010.

#### Search & Advertising

Management is targeting the media division to maintain the strong growth momentum of advertising revenue. To date, the print edition makes up about 70-80% of total revenue. The online segment, which makes up the balance, should in future grow faster in line with the expected progress of the B2B and B2C hubs.

Other sources of revenue for Media include:

- (i) Google and Yahoo - SuperPages currently has 80% of its traffic from their references. In return, for a small license fee, they get to use its listing database.
- (ii) Alibaba - CBS targets Malaysian exporters to US and Europe. In return, CBS receives a share of profits on each transaction plus free training conducted by Alibaba's staff.

Based on the above we forecast net profit in FY2011 to increase to RM11.5m from RM10.5m in FY10.

<b>P&amp;L Analysis (RM m)</b>			
<b>FYE DEC</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011E</b>
Revenue	45.6	46.6	52.0
EBITDA	12.5	12.1	14.2
Depreciation	0.8	0.9	1.3
Interest expense	0.0	0.2	-0.2
Share of associate company			
Pre-tax profit	11.7	11.4	12.8
Effective tax rate	-4.6%	-7.0%	-8.0%
Net profit	11.0	10.5	11.5
EBITDA margin	27.5%	22.3%	27.3%
Net profit margin	24.1%	22.5%	22.2%

Thus far, CBS's net attributable profit has benefited from a very low tax charge. The ICT subsidiary namely CBS MSC Sdn Bhd is granted pioneer status for a 5 year period to 25 September 2013, whilst that for IMSB had expired on 17 January 2011. CBS is applying for the extension of pioneer status and in our forecast we have assumed the tax charge to reflect the extension.

Going forward, management's objective is to improve the quality of income, by expanding the recurrent income and relying less on ICT project-based income. Also, it is expected that the management will be focusing on expanding its Search & Advertising business into the ASEAN region in the next few years after completing the acquisition of Infodata Media Sdn Bhd.

### Investment Risks

The main risk to our forecast is our estimates on the costs associated with development and expansion of the media division, the productivity of the expanded sales force and the extent of recovery at the ICT division, and also the delay in implementation of the project. We believe the move into cloud computing will attract many players and competition will be intense.

### Valuation

We list below valuations of the companies which we feel would give investors a sense of market pricing currently prevailing for this sector.

Although it has different products to CBS, JobStreet notably shares many common features with CBS, for example both are (i) software solution providers to enterprises; (ii) anchored in IT and ICT; and (iii) their income is based on a combination of one-off projects and recurrent.

Assuming CBS succeeds in creating the digital ecosystem, CBS's future profit may have similar characteristics to that of Jobstreet as the income profiles for the both companies are recurrent.

Our valuation rationale is to compare the P/E, y-o-y % change of published results and PB based on the latest full year results of some regional comparable companies including JobStreet.

NAME	Year End	Business	P/E (H)	P/BV	Latest Results	Net Profit y-o-y
CBS TECHNOLOGY	Dec	ICT and B2B internet hubs	8.2	1.6	FY2010	-4%
REXIT	Jun	Web based insurance solution	10.8	2.1	6M2011	-25%
EXCEL FORCE MSC	Dec	share trading system with integrated ICT solutions	15.0	2.0	9M2010	7%
EBWORX	Dec	Digital banking solutions	20.8	1.5	FY2010	130%
HEITECH PADU	Dec	ICT solutions	13.6	0.6	FY2010	-13%
FORMIS RESOURCES	Mar	diverse spectrum of IT related services.	14.5	0.9	9M2011	-24%
GRAND-FLO SOLUTION	Dec	Enterprise Data Collection and Collation System Solutions	6.7	1.0	FY2010	130%
JOBSTREET CORP	Dec	Recruitment portal	21.9	5.4	FY2010	48%
Average excluding CBS			14.8	1.9		

Source: Bloomberg

Based on the above comparison, CBS's is on the cheaper side, both in terms of PE and P/BV.

### Recommendation - BUY

We are assigning a forward PE of 9X to CBS. This is within the range of current market consensus which assigning a sustainable average PE of 8-10X to fundamentally sound but small cap and illiquid companies.

We believe this valuation is justified based on its strong balance sheet and a management team that has proven itself capable of maintaining profitability and increasing the level of recurrent income.

Our forecast EPS of RM0.482 for FY2011 gives us a valuation of RM0.43, implying an upside of 19% or a BUY.

Analyst: Wan AHMAD (ahmad@zj.com.my)

**RATING GUIDE**

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

**DISCLAIMER**

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme. ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/).

---

**ZJ Advisory Sdn Bhd (Co No: 645449-V)**  
*(An investment adviser licensed by the Securities Commission)*  
Suite 22B, 22nd Floor, Wisma Denmark,  
No 86, Jalan Ampang, 50450 Kuala Lumpur  
Tel (603) 2032 2328 Facsimile (603) 2032 1328

---