



**KAREN SOFT TECHNOLOGY BHD**

**Fairly Valued at RM0.61**

YE	Turnover	PBT	Net Profit	EPS*	Chg.	PER#	DPS	DY#
31 Dec	(RM mln)	(RM mln)	(RM mln)	(sen)	(%)	(x)	(sen)	(%)
1999A	0.7	(0.2)	(0.15)	(0.23)	(<100)	n.m	0.00	0.0
2000A	1.3	0.05	0.0	0.03	>100	n.m	0.00	0.0
2001A	2.0	(0.5)	(0.5)	(0.72)	(<100)	n.m	0.00	0.0
2002KAF	3.6	1.0	0.9	1.54	>100	39.6	0.00	0.0

\*Based on 68.0 million shares post IPO but before ESSOS

#Based on Fair Value of RM 0.61

INVESTMENT STATISTICS			
Public Issue (mln shares)	17.3	Listing Sought	Mesdaq
IPO Price (RM)	0.61	Expected Listing Date	24 January 2003
Paid-up capital (RM mln)	6.8#	Over-subscription Rate (x)	0.2
Par Value (RM)	0.10	Major Shareholders	Chee Chong Hwa (47.2%)
NTA/share (RM)	0.22		Khaw Teik Gim (10.4%)
			MSC Venture One S/B (6.8%)

# after IPO but before ESSOS

**VALUATION**

**KAREN SOFT TECHNOLOGY BHD** (KarenSoft) is fairly valued at its IPO price of RM0.61. At this price, the stock trades on 39.6x FY02 earnings (note that its financial performance has not been consistent). Other profitable Mesdaq companies on average trade at 49.6x FY02 earnings. The nearest compatible company in terms of nature of business on Mesdaq is **PALETTE MULTIMEDIA BHD (RM0.70)**, trading at 134.6x FY02 earnings and P/NTA of 8.8x, compared to KarenSoft's P/NTA of 3.0x. Compared to **PATIMAS COMPUTERS BHD (RM1.72)**, which is listed on the Main Board, KarenSoft is at a 16.7% discount in terms of P/NTA and 53.9% in terms of FY02 earnings.

Company	FYE	Par value (RM)	Price(RM) 20/01/2003	2001 EPS (sen)	2001 PER(X)	2002KAF EPS (sen)	2002KAF PER#(X)
KarenSoft	31 Dec 01	0.10	0.61	(0.7)	n.m	1.5	39.6
Palette	31 Dec 01	0.25	0.70	0.50	140.0	0.52	134.6
Intelligent Edge	31 Dec 01	0.10	0.44	(6.50)	n.m	(5.0)	n.m
Patimas	31 Dec 01	1.00	1.72	6.8	25.3	2.0	86.0

FY 2001	NTA/share (sen)	Price/NTA# (X)	EV/EBITDA (X)	Principal Activities
KarenSoft	22.0	3.0	(167.8)	Software solutions provider
Palette	8.0	8.8	92.7	Design, development & marketing of IT products
Intelligent Edge	53.0	0.8	4.1	Software developer & IT services provider
Patimas	48.0	3.6	7.9	Software solutions and hardware provider

#Based on Fair Value of RM0.61

## BACKGROUND

**KarenSoft is a total software solutions provider specialising in enterprise applications.** Such applications include Enterprise Resources Management (ERM), Customer Relationship Management (CRM) and Supply Chain Management (SCM). These applications, known as KarenSoft ERP2, contributed 85% to FY01 turnover. Apart from that, the company also develops management systems for hotels and resorts as well as healthcare information systems for hospitals. KarenSoft is also the developer for ExecSuite, which is an all-in-one digital organiser. The product was the finalist in the 1999 PIKOM Computimes IT product of the year. The software is still under evaluation and may contribute positively to the company in the future. The company is also involved in software maintenance and consultancy services. All KarenSoft's products are localised and sold to Small & Medium Enterprises (SME) and larger companies. Business partners include IBM and Rosettanet. The company was granted the MSC status on 7 August 2002 by MDC.

## INVESTMENT HIGHLIGHTS

**Business Development and Future Plans.** Currently, KarenSoft's products are marketed locally. However, the company is planning to expand its market overseas, particularly in ASEAN and Asia Pacific countries, within the next five years. Capital expenditure for overseas expansion is minimal and the company can expand by following customers overseas. The company is now working closely with hotels and resorts to penetrate their hotel chain overseas. The R&D team is also looking into increasing product range and developing existing products. These include converting the existing ERP2 from Windows-based to web-based Windows version, developing a new treasury management system to be integrated with its Financial Accounting System and converting the Hotel Management System and Hospital Information System from MS/DOS to web-based Windows version. About RM1.0 mln has been spent on R&D in the last five years.

**Industry overview.** The market for enterprise applications, which consists of ERM, SCM and CRM, looks promising. According to International Data Corporation (IDC), the enterprise applications market in Malaysia is expected to sustain revenue growth of 9.9% in the next 5 years. The prospects of the business are encouraging as Small and Medium Enterprises (SME) IT spending in Malaysia is projected to have a CAGR of 14.4% from 2001-2006.

Software applications	Total billings in Malaysia 2001 (RMmln)	Total billings in Malaysia 2005 (RMmln)	CAGR from 2001 to 2005
Enterprise Resources Management (ERM)	270.5	399.5	9.4%
Customer Relationship Management (CRM)	46.9	73.9	10.0%
Supply Chain Management (SCM)	156.1	218.3	10.9%

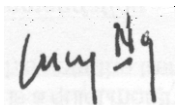
**Operating risks.** The Group's performance has not been consistent. For example, it suffered losses in FY99 and FY01 due to higher operating costs as a result of business expansion. However, the company recorded a net profit of RM0.6mln on the back of RM2.1mln turnover for the six-month period in FY02. The management is optimistic that the company is able to record a 100% turnover growth in FY02. The margins for software sales are higher compared to hardware sales, and the company should benefit from this since 85% of sales revenue is derived from the KarenSoft ERP2. Total borro

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