



FAIR VALUE

KAREN SOFT TECHNOLOGY BERHAD

RM0.82

A homegrown IT Solutions Company

Date

24 Jan 2003

KLCI

670.78

Listing Sought

**MESDAQ -
Technology**

Analyst

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KarenSoft Technology Berhad (KTB) is a leading local provider of Extended Enterprise Resources Planning (ERP2) solution. Its principal activities are computer software development and marketing of computer software solution, hardware equipment, maintenance services and consultancy. The company's products are used mainly by small and medium-sized industries/enterprises (SMIs/SMEs) to improve their efficiency. With enterprise applications expected to grow at a compounded rate of 9.9% between 2001 to 2005, KTB is well poised to benefit from the growth. We value KTB at RM0.82, or 4.5x price-to-book. This is an 18.4% premium to PUC Founder MSC Berhad's PBV of 3.8x. Our valuation also takes into account the current softness in IT spending.

Company background and business

KTB is a Multimedia Super Corridor status (MSC) company with its headquarter in Prai. KTB was founded in 1991 by Chee Chong Hwa. It is a net centric company providing ERP2 solutions to SMIs and SMEs. The ERP2 is an all-inclusive e-Biz solution that comprises sales distribution, material requirement planning, logistics management, planning and production, financial accounting & fixed assets, human resources information and customer relationship management. KTB's main product, KarenSoft ERP2, was a finalist in the 1999 Pikom-Computimes IT Product of the Year Awards and "Best of Industrial Commercial Products" at the 1999 Asia-Pacific MSC IT & T Awards. All KTB's products are noted for their flexibility, ease of implementation, adaptability, maintenance, portability and scalability.

EARNINGS SUMMARY (RMm)

	YE 31 Dec	1998	1999	2000	2001	2002E*
Pretax Profit		0.01	(0.15)	0.05	(0.47)	1.45
Net Profit		0.01	(0.15)	0.02	(0.53)	1.27
EPS (sen)		0.0	n.a	0.0	n.a	7.3
EPS Growth (%)		-	n.a	-	n.a	72
PBV @ RM0.82		-	-	-	4.5	-
DPS (sen)		-	-	-	-	-
Dividend Yield (%)		-	-	-	-	-

**Annualised*

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Yaw Chun Soon
Executive Director - Operations

KEY DATA

Issued shares #	(m) : 68.0	Post IPO NTA/Shr	(RM) : 0.18
Public Issue / offer #	(m) : 17.3	Listing Sought	: Mesdaq
Issue Price	(RM) : 0.61	Listing Date	: 24-Jan-03
Est Free Float	(%) : 33.08	Oversubscription	: 1.7
Major Shareholders	(%) : Chee Chong Hwa (47.20), Khaw Teik Gim (10.38)		

Par Value RM0.10

Products and Services

The company earns revenues from a variety of products and services. Its flagship product, KarenSoft ERP2 which is a combination of enterprise resource management, supply chain management and customer relations management solutions, contributed 85% of KTB Group's turnover for FY01. According to the management, ERP software costs between RM100,000 to RM500,000 and the company provides after sales services on training and use of the software. The company's other revenue streams include hotel management system and healthcare information system and ExecSuite. In addition, KTB also develops customized software based on customer's business needs. Currently, all KTB's products are written primarily for the Windows platform. The group is planning to develop its KarenSoft ERP2 application for non-Windows platforms and also a new version of Windows-based software for hotel and healthcare management in the first quarter 2003.

Customer and Market Distribution

KTB's products are applicable to SMIs and larger companies as well as industrial and commercial sectors including manufacturing, hospitality and healthcare industries. Currently, customers from the manufacturing sector accounted for 80% of the total customer base. With the imminent implementation of AFTA, the SMIs will have to equip themselves with the ERP software to remain competitive. Currently, KTB sell its products through its agents or Certified KarenSoft Solutions Providers (CSKP) and directly through its regional offices in Penang and Petaling Jaya.

Targeting Tier 2 Customers

KTB breaks down the ERM applications market into 3 tiers and position itself as a player in the Tier 2 segment. Currently, KTB is the only local ERP2 player that is able to deliver ERP2 product via LAN, Intranet, Extranet and Internet. This strategy has reaped great success as evidenced in the rapid growth in revenue and market share.

Market	Description	Players
Tier-1	Consists of players who are able to provide a suite of ERM applications to the medium and large organizations	SAP, PeopleSoft, JD Edwards
Tier-2	Applications offered in this market are normally less expensive and need less customization to integrate into current operation of an organization.	Exact/Macola, Baan, KarenSoft, IFS, Great Plains, Navision, InterBiz and AccPac
Tier-3	Players in this market offer off-the-shelf standalone applications targeting small and medium sized enterprises. Applications available in this market are priced below RM2,499.	UBS, Quicken and MYOB

Source: IDC Research Report and Prospectus

The industry in which KTB operates is competitive and subject to rapid technological change. Therefore, competition is based primarily upon product quality, performance and price. We believe that KTB generally compete favourably with respect to these factors. As a leading Malaysian ERP2 Solution Provider in Malaysia and has more than 10 years track record and strong management team, KTB has a competitive advantage in having a full suite of locally developed integrated ERP2 software products. This is proven by an increase of 54 % in revenue from 2000 to 2001 and a doubling of sales from 2001 to 2002.

Growth Potential

KTB is focused on being the leader in the ERP2 Solutions Provider market in the Asia Pacific region. IDC forecasts the enterprise application market to grow from RM473.5 million to RM691.6 million in 2005.

MALAYSIA - ENTERPRISE APPLICATION SOFTWARE REVENUE MARKET FORECAST, 2000-2005

Year	RM (mln)	Growth (%)	KTB Market Share	KTB (mln)	KTB Growth (%)
2000	432.44	N/A	0.30	1.30	77.0
2001	473.48	9.5	0.42	2.03	55.3
2002	521.36	10.1	0.70	2.06*	100.0
2003	565.17	8.4	N/A	N/A	N/A
2004	621.03	9.9	N/A	N/A	N/A
2005	691.64	11.4	N/A	N/A	N/A

* - First 6 months
Source: IDC, 2002

With the advent of AFTA, SMIs will have to equip themselves with business solutions if they wish to remain competitive. With the RM150m e-manufacturing grant introduced in Budget 2002, we believe the number of ERP software orders will increase substantially from the SMIs and large scale companies. Hence, we believe the KTB market share is expected to increase due to these two factors. Recently, KTB expanded its reach to China, which provides a huge market growth opportunity in the immediate future.

Growth Strategies

In order to be a leading ERP solutions provider in the Asia Pacific region and to sustain its growth amid intense competition, KTB will continue to grow its core product line through continuing product development. KTB plans to convert its existing products from Windows based to web-based Windows version. Also, KTB is planning to develop ERP2 for Linux, which will be aimed mainly at the China market in 2003. In addition, the company will look for opportunity to expand its market position outside the Malaysian market. This includes expanding regionally into China, Middle East, Central and Eastern Europe countries using CSKP model and leveraging on relationships with strategic partners.

Fair Value at RM0.82

We value KTB at RM0.82 based on Price to Book ratio of 4.5x. This valuation is at 18.4% premium to PUC Founder MSC Berhad PBV of 3.8x. Comparing the two, we believe KTB is operating in a segment that has bigger mass market and rapidly growing. The premium is also given to its management which is visionary and focused. Our valuation is also justified given the current slowdown in IT spending in global economy.