

FSBM Holdings Berhad (FSBM)		Price:	RM0.93
		Market capitalisation:	RM47.574mn
		Board:	Second Board
		Sector:	Trading / Services
Stock Code:	9377	Recommendation:	BUY

<u>Key Stock Statistics</u>	<u>2003</u>	<u>2004</u>
EPS (sen)	-	6.05
P/E (x)	-	15.36
Dividend/Share (RM)	-	-
NTA/Share (RM)	0.83	1.25
Book Value/Share (RM)	0.65	1.16
Issued Capital (mn shares)	51.15	51.15
52-wks Share Price Range	RM0.75- RM1.63	RM0.81- RM1.27

Major Shareholders:

Government	
Others (specify)	Dato' Tan Hock San @ Tan Hock Ming (35.45%) Phang Hong Yee (35.45%)

<u>Per Share Data</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005E</u>
Book Value (RM)	1.20	0.65	1.16	1.29
Cash Flow (sen)	-	-	20.88	22.48
Earnings (sen)	-	-	6.05	16.05
Dividend (sen)	3.60	-	-	4.00
Payout Ratio	-	-	-	-
PER (x)	-	-	15.36	5.79
P/Cash Flow (x)	-	-	4.45	4.14
P/Book Value (x)	0.77	1.44	0.80	0.72
Dividend Yield (%)	3.87	-	-	-
ROE (%)	-	-	5.24	12.40
Net Gearing (%)	11.90	20.35	18.46	16.75

<u>P&L Analysis (RMmn)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005E</u>
Year-end: 31 st Dec				
Revenue	56.1	48.9	63.4	75.3
EBITDA	-4.7	-17.7	6.7	8.2
Depreciation	-3.2	-4.0	-4.6	-4.6
Interest Expenses	-1.5	-1.3	-1.3	-0.7
Pre-tax Profit	-5.3	-19.3	5.7	8.5
Taxation	-0.3	0.1	-0.1	-0.1
Net Profit	-6.5	-19.3	3.1	8.2
EBITDA Margin(%)	-8.4	-36.1	10.6	10.9
Pre-tax Margin(%)	-20.7	-266.3	129.4	49.4
Net-Margin(%)	-7.2	-198.7	116.1	165.2
Revenue Growth(%)	27.5	-12.8	29.5	18.8
EBITDA Growth(%)	-79.6	-1693.9	188.3	18.5
Pre-tax Growth(%)	-20.7	-266.3	129.4	49.4%
Net Growth(%)	-7.2	-198.7	116.1	165.2

1. Investment Highlights/Summary

- The Group has a well-established relationship with its technology partners and principals especially Fujitsu. This enables the group to respond to any projects at ease.
- FSBM had signed a MOU with Vietnam's Education and Training Ministry last year to review the use of ICT in Vietnam schools.
- FSBM is working closely with China Telecom and China Netcom for the VOD market in China.
- Currently the Group has over RM120mn contracts in its order book. This includes revenue from the Malaysian Teachers Training Program (MTTP) which contributed about RM89mn, telecommunication industry, Banking industry and Government sector.
- Comparing 2H of the preceding year, the Group's revenue has recorded a 20% jump in revenue to RM37.7mn from RM31.6mn as well as a triple digit growth of 545% from negative RM0.945mn to RM4.3mn in net profit.

2. Background

Corporate Profile

FSBM Holdings Berhad was incorporated in 1984 as Talasco Computers Sdn Bhd and later changed its name to Fujitsu Systems Business (Malaysia) Sdn Bhd in 1991 when Fujitsu Ltd of Japan bought a 20% equity in the company. The company was listed on Bursa Malaysia Second Board in 1994 as "Fujitsu", and assumed its present name in 2001 as its business activities extended outside Malaysia and diversified into non-Fujitsu products and services.

Corporate Structure

The whole Group comprises of 20 subsidiaries. Its active subsidiaries details are listed below:

Name of subsidiaries	Principal Activities
FSBM CTech Sdn Bhd	Development of software applications and systems integration for various flagship applications within the Multimedia Super Corridor and commercial sector
FSBM DapanNet	Provision of multimedia production services for development industrial and academic training programmes
FSBM-Isis Sdn Bhd	System integrations
FSBM i-Command Sdn Bhd (FIC)	System for intelligent buildings, communities and cities
FSBM Net Media Sdn Bhd	Provision of communication and networking services including telephony services over internet
FSBM i-Design Sdn Bhd	Design and development of multimedia contents
FSBM M2B Sdn Bhd	Contents syndication and distribution, contents aggregation, channel development, electronic programming, consultancy and design
FSBM Learning Media Sdn Bhd	Development and delivery of multimedia learning and teaching products and services
Westview Services Limited (Hong Kong)	Involved in information technology activities and products including but not limited to the development and supply of multimedia technology based programmes and products in education and training.
FSBM I-Center Sdn Bhd	Development of ICT competency courseware for teachers

Business

Business Group	Products & Services
Systems & Solutions	<ul style="list-style-type: none"> • Healthcare <ul style="list-style-type: none"> ▪ Hospital Information System ▪ Ancillary Systems ▪ Clinical Support Systems • Customer Care <ul style="list-style-type: none"> ▪ Call Centre ▪ CRM System • Business Application Software <ul style="list-style-type: none"> ▪ eGovernment Application ▪ eBPP (Electronic Bill Presentment & Payment) ▪ Revenue Assurance ▪ Custom Application • Infostructure <ul style="list-style-type: none"> ▪ Network Products ▪ Storage Products ▪ Infosecurity Products ▪ Infostructure Management Products • Hardware and System Software <ul style="list-style-type: none"> ▪ Servers, PCs, Notebooks, Printers ▪ System Software • Services <ul style="list-style-type: none"> ▪ Systems Integration ▪ Project Management ▪ Change Management ▪ Support and Maintenance
Education & Training	<ul style="list-style-type: none"> • ICT -Enriched Education <ul style="list-style-type: none"> ▪ ICT -Enriched Education Framework ▪ ICT -Enrich Education Consultancy • Teacher Training Programmes <ul style="list-style-type: none"> ▪ ICT Skills ▪ Integration of ICT in Teaching • Multimedia Services <ul style="list-style-type: none"> ▪ Multimedia Courseware Development ▪ Multimedia Content Production

Business Group	Products & Services	
Communication & Multimedia	<ul style="list-style-type: none"> • IP Telephony <ul style="list-style-type: none"> ▪ Discounted IDD, STD, Mobile calls ▪ Discounted Fax Services ▪ Post-paid and Pre-paid • Broadband Content Provision <ul style="list-style-type: none"> ▪ Syndicate, aggregate and distribute entertainment and education ▪ Channel programming ▪ Entertainment-on-Demand Portals • Broadband Systems and Content Services <ul style="list-style-type: none"> ▪ Design and Deploy Video Streaming Systems ▪ Post-production and Digital Content Programming 	<p>commercial sector. Its main product is the Project Monitoring System (PMS) which is designed to support and monitor national development programmes. PMS is a complete turn key development with a cost of RM48mn covering professional services, hardware and software, and it spans for approximately 3 years from Nov 1999 until Mar 2003.</p> <p>Smart community. The Smart Community Unit is a provider of smart community solutions. The Intelligent Systems Framework is a blueprint for stakeholders to design and build intelligent systems for cities communities and buildings. In addition, the Group also offers complete products and services for the construction of intelligent cities, communities and buildings.</p> <p>The Group was awarded City Command Centre (CCC) by Government of Malaysia. The purpose of this project is to turn Cyberjaya into an intelligent city. This project is divided into three phases with the first phase comprises of professional services for system integrator (SI) and project manager (PM), hardware application software and system software. The cost of the phase I was approximately RM46mn and started from Aug 1999 until Aug 2003. Phase II and III are meant to integrate another six systems and more to end-users levels such as traffic lights, bus stops, buildings and kiosk which cost approximately RM100mn. However, the Government has yet to decide on this.</p>
Smart Community	<ul style="list-style-type: none"> • Smart Systems <ul style="list-style-type: none"> ▪ Smart City Framework ▪ City Command Centre ▪ Intelligent Building Systems • Services <ul style="list-style-type: none"> ▪ Project Management ▪ Systems Integration 	<p>Communication and Multimedia. The Communications and Multimedia Unit operates a discounted VoIP call service. The unit also syndicates, aggregates and distributes entertainment and education content to Telecommunication and Internet Service Provider (ISP) for their broadband video-on-demand channels. The library contents range from lifestyles, movie, music, pageant, glamour, comedy, education and documentaries from major production houses and distributors in USA, Europe and China.</p> <p>The Voice-over-Internet Protocol (VoIP) business started in year 2001 after FSBM Net Media Sdn Bhd obtained its licence amongst the first batch of ten other companies. The company is currently putting great effort to increase its revenue while reducing its operation costs as the VoIP business is facing stiff competition.</p>

FSBM is an information technology service and systems provider. It has four divisions, namely solution, smart community, education, as well as communication and multimedia, System and Solution Unit, and Education and Training are the most important sources of revenue to the Group currently contributing approximately 24% and 35% of the Group's total revenue respectively in FY04.

Systems and Solution. The System and Solution Unit focuses on infrastructures, system integration, project management, application software development, security systems and customer care systems targeted at the healthcare, financial, telecommunication and government sector.

Under the solution division, FSBM CTech is involved in the development of software application and system integration for various flagship applications with the Multimedia Super Corridor and

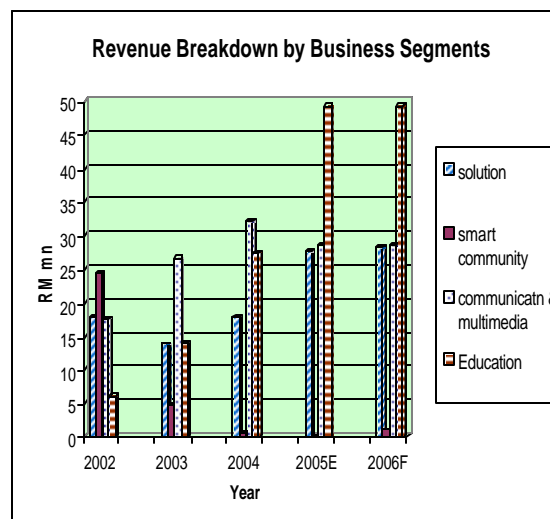
The VOD business started in year 2003 by FSBM M2B Sdn Bhd (FM2B) with minimum revenue as it is still in the infancy stage. It is one of the first company in Asia to source for a variety of entertainment content, ranging from Hollywood, Bollywood to China Central TV (CCTV). The Group expects it to grow rapidly once the management had settled the issue of foreign content (especially Hollywood movies) into China. In addition, the Group expects FM2B to be one of the major contributors of the Group's total revenue when the broadband infrastructure matures in Asian region. FM2B had its contracts signed with various telecommunication and ISPs in Japan (NEC), China (China Telecom and China Netcom regional offices), Thailand (Telecom Asia), Malaysia (TMNet TM for 3G), Singapore (via M2B World) and USA (via M2B World).

Education and training. The Education Unit supplies interactive multimedia courseware and Information and Communication (ICT)-enriched education training programs for schools and teachers. The ICT-Enriched Education Framework enables education stakeholders to plan for and integrate ICT into education in order to enrich the learning experiences of students and enhancing teaching. In support of ICT-Enriched Education, the Group also develops a full programme and the courseware to train teachers to acquire knowledge and competence in the application of ICT in teaching.

The Group has secured Malaysia Teachers Training Program (MTTP), whereby 100,000 Malaysia teachers are being trained to apply and integrate their ICT skill in their classroom teaching. This project is a partnership project with its associate company Prestariang Technology Sdn Bhd worth RM114mn for about two years and nine months. The roll out of the MTTP has reached its optimal level beginning Apr 2004 and is expected to continue its smooth progress to the end of the current financial year and onwards to 2007.

In the international level, FSBM continues to work hard to secure projects in Vietnam, Indonesia and Thailand.

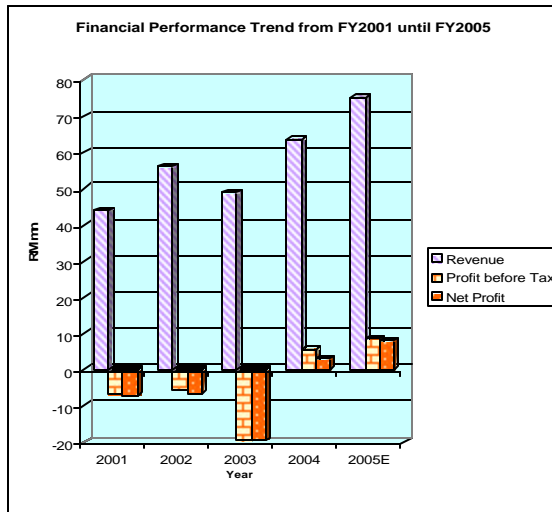
The business segments analysis and geographical segments of the Group's total revenue for FY2001 until FY2004 are illustrated below:



3. Earning Outlook

FSBM has been recording net losses for three consecutive years since FY2001. The Group recorded lower revenue in FY2001 due to general curtailment of capital expenditure and project delays, infancy of many of its subsidiaries resulting in them been sidelined by more established providers. There was actually an improvement in revenue in FY2002 but this was offset by the need to write-off the cost incurred in preparing for the Teachers Training Project which was shelved until 2004.

However, the Group's revenue was on track for FY2004, and we believe the company will continue to grow steadily in the next 12 months based on its 2H FY2005 result. In addition, the Group has benefited from restructuring and refocusing its business and the cost-saving measures taken during the 1Q in FY2005. These programmes will continue throughout the whole year. Comparing 2H of its preceding year, the Group's revenue has recorded a 20% jump in revenue to RM37.7mn from RM31.6mn as well as a triple digit growth of 545% from negative RM0.945mn to RM4.3mn in its net profit.



4. Recent Developments

FSBM Holdings Berhad is in the business of providing technology and business solutions for over 20 years, with excellent partnership with various technology leaders such as IBM, Fujitsu, AGFA and Oracle. As Malaysia implements Ninth Malaysia Plan (9MP), the Group expects to benefit from it as the Government moves into e-Government when the Government enhances the broadband infrastructure especially in healthcare sector, homeland security and telecommunication sector. In addition, the City Command Centre may be extended within Cyberjaya and other Multimedia Super Corridor locations such as Penang and Sarawak.

FSBM also signed an agreement with Quantiq International to offer fifteen systems and data security products in Malaysia. Quantiq International is the newest partner for FSBM. The product and services is expected to fill an important niche need in the security of networks. It is expected to generate positive earnings in near future as the Group has just started marketing these products early 2005.

To date, the Group has over RM120mn contracts in its order book. This includes revenue from the Malaysian Teachers Training Program (MTTP) which contributed about RM89mn, telecommunication industry, Banking industry and Government sector.

In future, the Group expects to secure other similar contracts to supply to other agencies whilst continuing the projects in both telecommunication industry and banking industry in upgrading,

enhancing and maintaining the services. Besides, the MTTP projects will continue to carry out until May 2007. On the international scene, the Group also intends to introduce solutions in education, e-commerce and entertainment field into the mass consumer markets since it has penetrated into Asian market particularly in China and Japan. In addition, FSBM is now negotiating with Ministry of Education and Training of Vietnam to integrate ICT in its schools and learning institutions.

5. Investment Risk

- The Group has a high level of dependency on local governments for some major projects, namely MTTP, CCC and MAMPU & ICU in Prime Minister Department.
- There is high volatility in revenue since listing in Bursa Malaysia in 2001. Its revenue growth ranges from -21.8% to 29.5% whilst its net profit margin ranging from -39.0% to 4.4% from FY2001 to FY2004.
- The Group's continual success depends significantly on its existing Chairman, Executive Directors and key management. The loss of any of the Group's Chairman, Executive Directors and key management may affect the performance of the Group.

6. Balance Sheet

<u>Balance Sheet and Other Financial Data (RM mil)</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>
Total Assets	98.3	109.5	103.8
Fixed Assets	48.7	47.7	61.9
Current Asset	49.6	61.8	41.9
Current Liabilities	27.3	58.6	29.2
LT Liabilities	7.3	6.7	10.9
Share Capital	51.2	51.2	51.2
Shareholders Funds	61.6	33.1	59.1

7. Effectiveness of Management

	Ranking
Delivering the corporate vision	5
Creating shareholder value	4
Practicing good governance	4
Communicating with investors	4

(scale of 1-5; relatively low to high)

8. Recommendation

FSBM is trading at PE of 16.5x based on its EPS of 6 sen in FY04. On annualized 2H FY05 result, FSBM expects to record EPS of 16 sen pegging its PE at 6.4x.

However, we believe that using a NTA basis would better reflect the valuation of FSBM. The Company is trading at an average price to net tangible asset (P/NTA) of 0.89 times for the past five years. Assigning a fair P/NTA of 0.9 times to our FY05 NTA/share of RM1.23, FSBM is valued at RM1.10.

Meanwhile, FSBM has interest in a NASDAQ-listed company named Amaru Inc., a leader in the Broadband Media business and a major provider of interactive video-on-demand streaming and e-commerce over Broadband channels, Internet portals, and 3G devices, through its subsidiary FSBM M2B Sdn Bhd. The Company currently is holding 2.5mn shares in Amaru Inc at the market price of USD4.00. If the Company disposal its shares, it is expected to provide an expected book gain of approximately RM35mn. Taking into consideration of this, FSBM's NTA per share arrives at RM1.92. Hence, FSBM is fairly valued at RM1.73 pegging its fair P/NTA of 0.9 times.

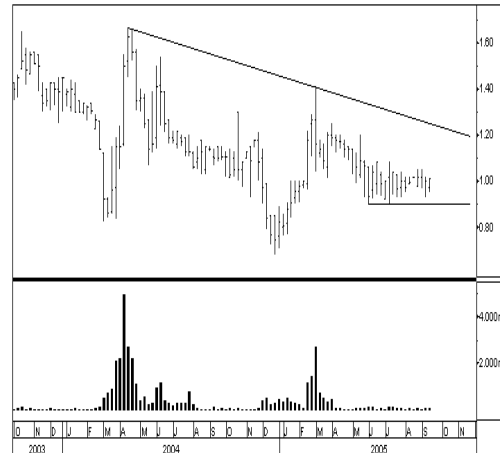
Currently the stock is 86% upside potential from its current price RM0.93. We recommend FSBM a **BUY** call.

We believe that FSBM is worth investing in the long term based on the reasons below:-

- The Group has good record in delivery past projects on time and within the budget for medium and large projects over the last 21 years.

- The Group has well-established relationship with its technology partners and principals especially Fujitsu which enables the group to respond to any projects at ease.
- The Group is fast in adopting new technology, thus always moving ahead of other companies.
- The Group has a wide range of high quality products which are suitable for Telecommunication industry, Healthcare industry, Banking industry and Network Security industry. These industries are in the development stage where growth is at a rapid speed.

9. Technical Analysis



FSBM (Stock code: 9377) – Ranging

Resistance: 1.60, 1.28, 1.20
Support: 0.86

Share price is at 0.95 on 20/9/05. It has hit a significant low at 0.68 in December 2004. The subsequent recovery to 1.41 high in August 2005 has stabilised the share. With limited downside at 0.86, near term outlook favours sideways, ranging between 1.20 and 0.86. Longer term outlook requires an upside breach of 1.28 to target 1.60.