

Company Updates

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FSBM Holdings Bhd

OVERWEIGHT

UNOS Voice – offering new concept on roaming service...

Fair Value:

RM1.97 (+35.9%)

Stock Data

Price (RM)	1.45
Stock code	9377
Bloomberg Ticker	FSBM MK
Listing	Second Board
Share Cap (RM mn)	54.83
Market Cap (RM mn)	79.51
Par value (RM)	1.00
52-wk high (RM)	1.65
52-wk low (RM)	1.11
Major Shareholders	Dato' Tan Hock San @ Tan Hock Ming (45.65%)

Financial Data

PER (x)	6.08
BV per share (RM)	1.32
P/BV (x)	1.10
ROE (%)	14.81
Beta (x)	0.69
Altman Z Score	1.99
Dividend yield (%)	2.07

Relative Performance

1-month (%)	1.1
3-month (%)	-15.1
6-month (%)	-23.1
YTD (%)	-19.3
12-month (%)	-21.3

Investment Highlights

We are maintaining our **OVERWEIGHT** recommendation on FSBM with a revised target price of **RM1.97** pegging on a forward PER of 6.5x. Our investment case is outline below:

Well executed strategy to market Unos Voice into China. FSBM's recent launch of new product - Unos Voice service, coupled with its strategic alliance with Beijing Telecom NTT Engineering Co Ltd (BNTe) to market its Unos Voice service to China market has reaffirmed our confidence on the Group's ability to introduce and market its innovative service to boost its earnings going forward.

Unos...more than just a low rate roaming calls. Apart from offering low rate roaming service for calls and SMS, Unos Voice also provides other rich functionalities such as Buddy Call, Hotel Connect and Conference Call. We believe these valued added offering will increase the attractiveness of Unos Voice service compared with the existing IDD service providers.

More to come... We are positive about the strategic alliance with BNTe since it allows the Group to tap into the existing customer base of BNTe and to penetrate into the most populous market in China. We also gather that the venture may provide further opportunity for the Group to expand into other provinces such as Shanghai, Guan Zhou and Da Lian going forward.

Expecting small contribution for now... Nonetheless, we believe the contribution from the latest Unos service to be modest in the near term although we expect its earnings potential to be enormous with the increased public acceptance overtime.

Revised earnings upwards. We have revised upwards our earnings estimation marginally to take into the earnings contribution from Unos Voice. Key risks to our recommendation include the slower-than-expected acceptance of public on its Unos service and stiffer competition from the existing IDD players.

Chaw Sook Ting
Tel: 603 – 5634 0202 ext 254
chawst@sjsec.com.my

Our reports are available for download on Sjenie website as stated below.

SJ Securities Sdn Bhd
A Participating Organisation of
Bursa Malaysia Securities Bhd

www.sjsec.com.my
Tel: 603-5634 0202
Fax: 603-56376811

Unos Voice... more than just a cheaper roaming calls

Thrifty and user-friendlier...

UNOS Voice...

FSBM has recently introduced its new communication and multimedia service – Unos Voice - to the public. Unos Voice is a free mobile software that allows users to enjoy low roaming charges and private business exchange (PBX) functionalities on their mobile phone.

We gather that one of the key functions of Unos Voice Call is to allow subscribers to make and receive calls locally and abroad at an affordable rate. Unlike the existing IDD services, it does not require its subscribers to own a physical IDD phone cards nor to memorize the pins and passwords. The Conference Call is a push-conference call function to multiple parties, bringing the PBX function out of the traditional office setting.

Prepaid individuals can register for Unos Voice online at www.myunos.com. Postpaid corporate customers may contact the Unos team for a corporate account as explained on its website and install a free 61 kiloByte (kB) MIDlet software into mobile phone via SMS/3G/Edge/Wibro/Wimax/WIFI/WCDMA mobile access.

Comparisons of Standard IDD rates and Unos Voice rates are illustrated below:

Figure 1: Unos IDD call rates comparisons

	Standard rate (RM/min)	Unos Voice rate (RM/min)	% of savings
Australia	2.60	1.19	54.2
China	5.40	0.38	93.0
Hong Kong	2.60	0.44	83.1
India	5.00	1.33	73.4
Indonesia	3.30	0.99	70.0
Singapore	1.20	0.39	67.5
Taiwan	4.40	0.99	77.5
Thailand	3.00	1.09	63.7
United Kingdom	6.18	0.99	84.0
United States	3.50	0.41	88.3

Source: Company

Figure 2: Unos roaming rates from overseas to call back Malaysia

	Standard rate (RM/min)	Unos Voice rate (RM/min)	% of savings
Australia	10.11	1.69	83.3
China	9.09	1.59	82.5
Hong Kong	9.09	1.09	88.0
India	18.00	2.59	85.6
Indonesia	9.48	1.59	83.2
Singapore	2.09	0.69	67.0
Taiwan	3.60	1.19	66.9
Thailand	4.55	1.29	71.6
United Kingdom	5.00	1.99	60.2
United States	10.78	1.89	82.5

Source: Company

Comprehensive & exciting features!!!

Unos Voice-In (Receiving Call)

‘Unos Voice-In’ enables subscribers to receive voice calls and SMS call alert while in overseas without paying expensive roaming charges. There are two core functions under the ‘Receiving Call’:

- **Follow Me Function** – allows its users to enjoy more savings using an overseas Subscriber Identity Module (SIM) card. All voice calls to local mobile SIM number will be routed to the new (overseas) SIM card via SMS/ 3G/ Edge/ Wibro/ Wimax/ WIFI/ WCDMA. All Unos Voice Call initiated will also be routed to the new (overseas) SIM card number upon the activation of the Follow Me function.
- **Call Alert Function** – no overseas SIM card is required. All voice calls to local country’s SIM number will not be routed to users’ mobile phone. Instead Unos system will notify the caller that users are currently overseas. An SMS Call Alert notification will be sent to inform its users on the caller’s phone number and name if stored in users’ phone book.

Figure 3: Unos receiving call rates

	Standard rate (RM/min)	Unos Voice rate (RM/min)	% of savings
Australia	1.68	1.00	40.5
China	3.63	1.49	58.9
Hong Kong	3.63	1.09	69.9
India	10.23	1.33	86.9
Indonesia	6.73	1.19	82.3
Singapore	2.09	0.59	71.7
Taiwan	2.39	1.19	50.2
Thailand	4.92	1.29	73.7
United Kingdom	1.78	0.80	55.0
United States	5.63	1.19	78.9

How it defers from the others?

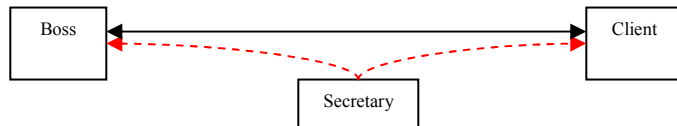
There is no minimum charge or monthly fee with Unos. The software allows direct access to existing mobile phone contact list and can be used on any mobile network operator. The functionalities are very simple and seamless as there is no need to memorize pin numbers or phone numbers. Apart from the ordinary making and receiving calls using IDD functionalities, the newly launched Unos Service also provides additional features as outlined below:

- *Unos Buddy Call*
- *Unos Hotel Connect*
- *Unos Conference Call*
- *Unos Roaming SMS*

Unos Buddy Call

This enriched feature allows its subscribers to initiate voice calls on behalf of another user. Subscriber can relate 2 parties in conversation via mobile phones as illustrated as below:

Figure 4: Illustration on Buddy Call functionality



A function that allows third party to relate 2 parties in conversation.

Unos Hotel Connect

Hotel Connect allows travelers to bridge a voice call connection over the hotel reception and get connected to the hotel room telephone and the intended call destination to avoid expensive hotel call charges.

Unos Conference Call

In the traditional conference call setting, users have to dial in a pre-specified and registered number to participate in the conference call. Unos Conference Call enables subscribers to initiate conference call up to 20 participants through mobile phones and charge based on Unos' IDD rates. Billing is as per usage, there is no conference room rental or requirements to buy specific phone models.

Unos Roaming SMS

Conventional IDD services do not provide roaming short message short message service (SMS). Unos Roaming SMS allows subscribers to send roaming SMS at an affordable price ranging from RM0.25 to RM0.70 per SMS depending on destinations.

Partner with China's Beijing Telecom NTT Engineering Co Ltd

FSBM has recently announced that its subsidiary, Asialink Technology Development, has formed a strategic alliance with Beijing Telecom NTT Engineering Co Ltd (BNTTE) which allows BNTTE to offer UNOS Voice services to both corporate and individual users in Beijing on a profit sharing basis.

BNTTE is a joint venture company between China Network Communication Group (CNC) and Japan's NTT Com Asia limited. BNTTE provides a system integration service which includes construction and maintenance of telecommunications networks for corporate customers mainly in the area of Beijing, thus contributing to the development of the city's telecommunications services. BNTTE has over 20,000 corporate customers in Beijing, which are mainly from Japan and Korea. The strategic alliance allows Unos to tap into the customer base of BNTTE exclusively and to penetrate the most populous market in China.

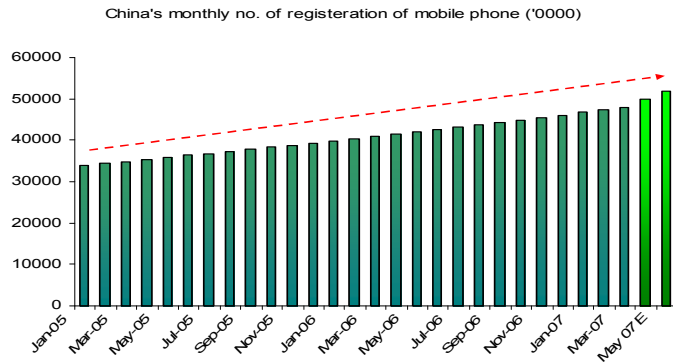
Penetrating China market

Expecting more to come...

China is experiencing explosive growth in the past few years upon its accession to the World Trade Organization (WTO) in 2001. We applaud the Group's venture to Beijing since we believe that the hosting of Olympic 2008 in Beijing will boost the usage of the IDD calls service.

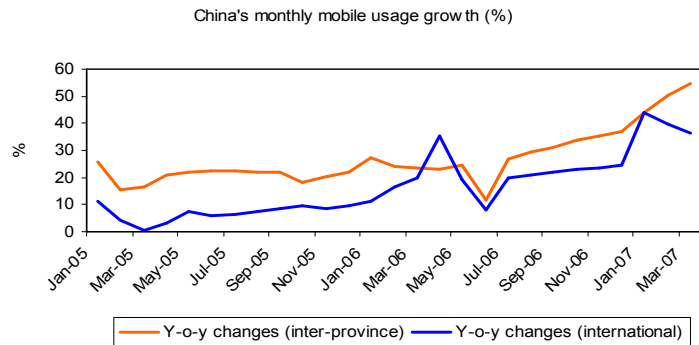
It is important to note that that the China's inter-province calls are currently being charged at IDD call rates. Therefore FSBM's venture to China not only to allow the Group to tap into the international IDD calls market but also open the opportunity for FSBM to expand its business into other provinces such as Shanghai, Guan Zhou, and Da Lian going forward. In fact, we believe the inter-province IDD calls provides a lucrative market for Unos Voice given the impressive growth rate of inter-province IDD calls as illustrated in Figure 6.

Figure 5: China's monthly registration of mobile phone



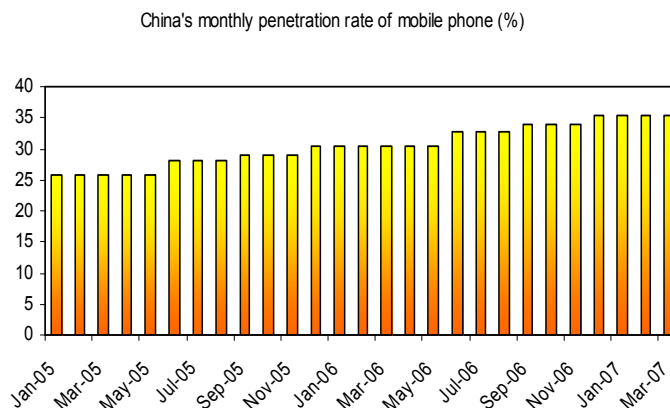
Source: Ministry of Information Industry, China

Figure 6: China's monthly IDD calls growth (%)



Source: Ministry of Information Industry, China

Figure 6: China's monthly penetration rate of mobile phone (%)



Source: Ministry of Information Industry, China

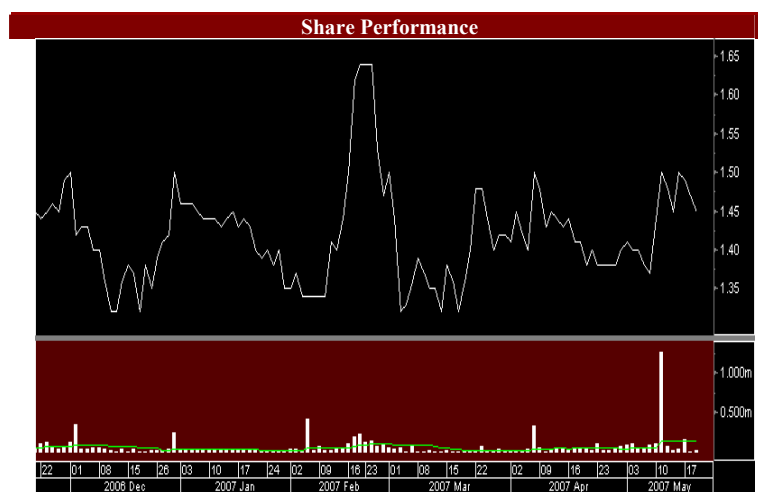
Earnings contribution to be modest in the near term

We expect the earnings contribution of the newly launch of Unos Voice to be modest in the near term since we believe users need time to adopt the new service provided and high market expenses are required to promote the service. Nonetheless, we are optimistic that its contribution will grow exponentially overtime giving its rich features and user-friendlier service.

We have revised upwards our earnings estimation marginally to take account of the earnings contribution from Unos Voice. We are maintaining our **OVERWEIGHT** recommendation on FSBM with a revised target price of **RM1.97** pegging it at a PER of 6.5x. Key risks to our recommendation include the slower-than-expected acceptance of public on its Unos service and stiffer competition from the existing IDD players.

Financial Analysis				
<u>P&L Analysis (RMmn)</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007F</u>
Year-end: 31 st Dec				
Revenue	63.4	72.7	101.7	162.8
EBIT	6.7	10.4	16.0	18.4
Depreciation	(4.6)	(4.4)	(2.2)	(5.0)
Interest Expenses	(1.3)	(0.9)	(1.0)	(1.5)
Pre-tax Profit	5.7	9.5	14.6	17.0
Taxation	(0.1)	(0.0)	(0.6)	(0.2)
Net Profit	3.1	9.4	14.1	16.6
EBIT Margin (%)	10.6	14.4	15.7	11.3
Pre-tax Margin (%)	9.0	13.0	14.4	10.4
Net-Margin (%)	4.9	12.9	13.8	10.2
Revenue Growth (%)	29.5	12.1	40.0	60.0
EBIT Growth (%)	138.0	55.4	53.1	15.0
Pre-tax Growth (%)	129.4	66.1	54.5	16.0
Net Growth (%)	116.1	202.3	50.2	18.1

	Per share date			
	2004	2005	2006	2007F
Book Value (RM)	1.16	1.32	1.51	1.73
Cash Flow (RM)	0.21	0.20	(0.28)	0.22
Basic earnings (RM)	0.06	0.18	0.26	0.30
Dividend (RM)	-	0.03	0.06	0.08
Payout ratio (%)	-	16.38	0.23	26.39
PER (x)	13.55	5.02	5.85	4.78
P/Cash Flow (x)	3.93	4.67	(5.42)	6.63
P/Book Value (x)	0.71	0.70	0.99	0.84
Dividend yield (%)	-	3.26	4.00	5.52
ROE (%)	5.24	13.90	16.97	20.35
Net Gearing (%)	11.76	6.73	26.48	31.01



Appendix 1: FSBM's 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.

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.

Appendix 2: Peers' comparisons in terms of roaming calls, functionalities, & features

Descriptions	Unos	Competitor T	Competitor C	Competitor H	Competitor D
Steps for roaming calls – calling home country from overseas	Out going call directly with phonebook function	Requires users to rent phone in the booth	<ol style="list-style-type: none"> Dial *120* - country code - area code/mobile prefix - phone number - # - call Wait for call back Receive call that will connect to the party that you are calling. 	<ol style="list-style-type: none"> Dial *120* - country code - area code/mobile prefix - phone number - # - call Wait for call back Receive call that will connect to the party that you are calling. 	<ol style="list-style-type: none"> Dial *111* - country code - area code/mobile prefix - phone number - # - call Wait for call back Receive call that will connect to the party that you are calling.
Payment	Payment upon monthly usage	Payment upon returning rented phone in the booth	Payment upon monthly usage	Payment upon monthly usage	Payment upon monthly usage
SMS	Charged RM0.25 – RM0.70 per SMS	Not applicable	Not applicable	RM1.00 charged per SMS. Receiving SMS is FOC.	SMS to Singapore – charging RM1.00, other countries – RM2.00 per SMS
Buddy call	Allow third party to make call on behalf	Not applicable	Not applicable	Not applicable	Not applicable
Conference call	Maximum persons in conference call: 20 persons	Not applicable	Not applicable	Not applicable	Not applicable
Hotel connect	Able to utilize hotel phone lines	Not applicable	Not applicable	Not applicable	Not applicable

Source: Various