

# Aces on the ACE Market

BY Kathy Fong

More often than not, companies on the ACE Market hog the limelight for the wrong reasons. The general perception is that these companies do not have a track record, which leads to investors having reservations about the viability of their business models and their prospects.

Another factor is the illiquidity of the stocks, which makes it difficult for investors that take up big positions to exit. These are but two reasons why ACE Market-listed companies are usually off the radar screen of institutional investors.

But increasingly, a number of these companies have been delivering sterling results, even paying out dividends from a growing cash pile. Examples are Boilermech Holdings Bhd, Digistar Corp Bhd, eBworx Bhd, M-Mode Bhd and M3 Technologies (Asia) Bhd (M3 Tech).

Fuelling the earnings growth of many of these companies is rising demand for mobile content, software solutions and telecommunications technologies arising from the increasing use of tablet computers and smartphones.

The spike in M-Mode's earnings seems to have attracted the attention of investors. Its share price surged to a record high of 43.5 sen last Thursday. YTD, the stock has gained nearly 300% from a low of 10.5 sen in early January.

In the first nine months of FY2011 ended Sept 30, M-Mode's cumulative net profit grew over four times to RM10.7 million from RM2.22 million in the previous corresponding period. Revenue more than doubled to RM57.7 million from RM20.3 million while earnings per share (EPS) rose to 6.69 sen from 1.4 sen previously.

Apart from higher demand for mobile content, the sharp rise in earnings was due to the company's efforts to expand its range of services, says group managing director Datuk Lim Thean Keong.

"We are optimistic about the company's earnings prospects because there is room for growth in mobile content," he tells *The Edge*.

The mobile content provider has a strong balance sheet with a cash pile of RM18 million. After stripping out its borrowings of RM3.2 million, including a long-term loan of RM2.84 million, M-Mode is in a net cash position of RM14.9 million or 9.38 sen per share.

eBworx, which specialises in the provision of technology solutions for the financial

services industry, is another cash-rich ACE Market company that has chalked up strong earnings growth. In the first nine months of FY2011 ended Sept 30, its net profit leapt to RM8.68 million from RM3.8 million previously while EPS expanded to 4.14 sen from 1.67 sen.

Be that as it may, eBworx's share price went into reverse, falling from a year high of 69 sen posted on Oct 31 to 53 sen last Thursday, a m-o-m decline of 23%.

"The share price decline could be due to the company stopping a share buyback scheme — the share cancellation narrowed the public spread," says managing director Tan Suan Fong.

He adds that with the restriction on public spread, eBworx is considering rewarding shareholders with dividends instead of continuing the share buyback scheme.

Tan is the company's third largest shareholder with a 16.1% stake, followed by Singapore-based CSE-Infotech Ltd (29.2%) and OSK Capital Partner Sdn Bhd (25.3%).

He believes the company's earnings growth momentum will continue over next two financial years. "Our earnings visibility is good for the next 24 months," he says, adding that eBworx is targeting revenue and profit growth of 30% to 40% in the coming two years.

According to him, the company has secured nearly RM80 million worth of contracts. In addition, it is anticipating recurring income of about RM30 million from maintenance and enhancement work.

The company is also bidding for new contracts. "Our revenue target for next year is RM70 million," says Tan.

Digistar Corp is among the star performers of the ACE Market. The broadcast and transmission system provider achieved a record profit of RM19.1 million in FY2011 ended Sept 30 compared with RM4.29 million the year before. EPS shot up to 9.48 sen from 2.36 sen previously.

Digistar's share price has soared in line with the big improvement in its earnings. The stock has risen nearly 230% YTD and closed at 46 sen last Thursday. It was below 10 sen at the beginning of the year.

The company recently won new orders amounting to about RM24 million for the design and supply of a HD base band broadcast system, a hospital communication system and other electronic and electrical systems.

As at Sept 30, its net cash position was RM28.6 million or 12.5 sen per share. Based on a historical EPS of 9.48 sen, Digistar is trading at a price-earnings ratio (PER) of 4.85 times despite the rise in its share price.

## Boilermech



## eBworx



## M-Mode



## M3 Technologies



As for M3 Tech, its earnings growth momentum continued into 1QFY2012 ended Sept 30 after net profit more than doubled to RM4.7 million or 2.91 sen per share in FY2011.

For the quarter of July to September, net profit rose to RM1.38 million or 0.71 sen per share from RM885,000 or 0.47 sen per share in the previous corresponding period. Revenue was higher at RM51 million compared with RM40.2 million previously.

This ACE Market-listed company tripled its dividend payment in FY2011 to 1.5 sen per share from 0.5 sen per share the year before. Its balance sheet as at Sept 30 indicated a net cash position of RM17.3 million or 10.58 sen per share compared with its share price of 28.5 sen.

Industrial manufacturer Boilermech Holdings is also faring well. In fact, it was the best performing initial public offering this year, even outshining big caps like Bumi Armada Bhd, MSM Malaysia Holdings Bhd and Ever-sandai Corp Bhd.

Boilermech, which manufactures boilers,

is a 36%-owned associate of QL Resources Bhd. Its share price has more than doubled from its IPO price of 33 sen and closed at 77 sen last Thursday. A catalyst for its strong performance could be its maiden dividend payment of 1.25 sen per share after releasing earnings figures for 1QFY2012 ended Sept 30.

The company posted a net profit of RM3.62 million or 1.38 sen per share on revenue of RM35 million. It is sitting on a cash pile of RM14.75 million and has borrowings of only RM2 million, of which RM1.65 million is a long-term loan. In FY2011 ended April 30, net profit was RM19.2 million or 6.21 sen per share while revenue was RM120.1 million.

While investors generally distance themselves from ACE Market-listed companies because of their lack of liquidity and unclear business models, there are clear signs of impressive growth and increasing cash pile. Therefore, not all of them should be shunned. But to be accepted by institutional investors, these companies will have to show their ability to sustain growth. ■

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