

New Listing

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KLCI : 909.58

Sector : TECHNOLOGY

Bloomberg : MNCW MK

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**Fair Value RM0.47(+47%)
(Ex-Bonus)**

MNC Wireless Berhad

Carving A Niche in Mobile Messaging

SHARE INFO

Stock Code		MNC
Listing		Mesdaq
Enlarged Share Cap	(m)	105.225
Market Cap @ RM0.47	(RMm)	49.46
Par Value	(RM)	0.1
IPO/Offer for sale/Placement	(m)	90
Issue Price	(RM)	0.48
	(ex-bonus price: RM0.32)	
Oversubscription Rate	(%)	53
Estimated Free Float	(%)	24.5
Listing Date		25/10/2005
Major Shareholders	(%)	
		Monaxis - 51.64%
		Lee Sze Inn - 3.98%
		Chung Jaan Hao - 3.98%

RATIO & ANALYSIS

NTA/shr (Post IPO)	(RM)	0.17
Price to NTA	(x)	2.7
ROE - '05		19%
- '06		21%
ROA - '05		15%
- '06		18%
Net Gearing	(x)	Net Cash
		RM12.62m

UTILISATION OF IPO PROCEEDS

	(RM 'm)	%
Purchase of New Equipment	1.58	20
Working Capital	1.2	16
Overseas Expansion	1.5	20
R&D Expenditure	2.1	27
Estimated Listing Expenses	1.3	17

As a provider of mobile messaging technologies targeting the infotainment market, MNC Wireless (MNCW) is joining the race in tapping on the rapid growth of the lucrative mobile messaging market. MNCW is one of the pioneers in mobile marketing that integrate mobile phone with other forms of traditional media (e.g. TV, radio, Internet and print). It believes the exponential growth in mobile market especially with the proliferation of wireless handheld devices such as PDAs and hybrid smart phones, offers an untapped opportunity for them. On the other hand, as an epitome of confidence on its product quality offerings, the group intends to expand into regional markets like Singapore, China, Thailand and Philippines, a similar path undertook by other players such as mTouche and Nextnation. We value the group at RM0.47, based on its FY06's earnings, indicating a 47% upside potential from its theoretical ex-bonus price of RM0.32. With its compelling upside, the stock deserves a BUY.

Making Its Mark in Telecommunication Industry

MNCW is joining the bandwagon as a one-stop center for mobile and wireless solutions. The group serves as a service and content provider in the mobile content and application market, developing and providing multimedia application service platform and solutions to aggregators and promoters of mobile content and application. The group's products are being developed based on the latest mobile technology platform such as EDGE, 3G and WiFi which run on open source and Microsoft platform using programming languages such as Java, C++ and Microsoft.Net, among others. The group also provides consulting expertise in product marketing, interactive marketing, business planning, product development and management, mobile telecommunications and customer relationship management (CRM).

EARNINGS SUMMARY (RMm) - MNC

YE Dec 31st	2002*	2003	2004	2005F	2006F
Revenue	0.25	8.60	12.35	14.20	16.30
Pretax profit	-0.30	1.70	3.40	5.11	5.90
Net profit	-0.31	1.05	2.60	3.70	4.20
EPS (Sen)	-0.3	1.00	2.47	3.52	3.99
EPS Growth (%)	-	-4.39	1.48	0.42	0.14
PER @ RM0.47 (x)	-160	47.10	19.02	13.37	11.78
Div (sen)	-	-	-	-	-
Div Yield (%)	-	-	-	-	-

* 6-months only

Effective Wireless Solution Development

The group believes that in order to remain competitive and maintain sustainability, it should focus on the following key factors, which include

1. Product development and R&D; and
2. Continuously creating 'Smart Solution Packaging'.

Since 3Q04, the group has launched and utilised numerous proprietary mobile marketing platform including

- A. Mobile marketing platform via Go!iTV (currently utilised by CH-9 Media, NTV7, TV3 and 8TV).
- B. Mobile marketing and mobile-CRM platform via Go!SMS (currently utilised by Pan Malaysian Pools Sdn Bhd, Prudential Assurance, Great Eastern, BHLB Trustee and Trinity Towers)
- C. Sales/field force automation (version 1.0) launched with British American Tobacco (BAT) in Nov '03. Another new release is planned for January 2006.

The group has continuously applied smart packaging when marketing its products and services. This is evident since September 2004 when the group's services were re-branded with the brand Go! for easy reference, such as Go!SMS, Go!TV and Go!CPA. The group's commitment is to make these wireless solutions development as an on going process which it foresees as essential to remain competitive in the mobile telecommunication industry.

Regional Market Expansion Plan

In order to accelerate the group's products expansion plan, it intends to continue forming strategic alliances with foreign companies. The group's business partnership with multinationals such as Air Games (Canada) and Xgate (Hong Kong) will be a springboard for the its planned regional expansion activities. MNCW has identified Singapore, China, Thailand and Philippines as its regional areas for expansion.

MNCW's Competencies

1. First Mover Advantage

MNCW is one of the pioneers in mobile marketing that integrates mobile phones with other forms of traditional media (e.g. TV, Radio, Internet and Print). By being a first mover in this field, the group's expertise will serve as a barrier to entry for new competitors trying to embark on similar business models in the future. Currently, the group has a number of reputable companies under its fold including Bonuslink, Digi Telecommunication, EMI, PMP, Permanis and NTV7, which is a testimony of its quality products. We believe that serving these well-known companies successfully will open more avenues for the companies to expand its horizon. We foresee this as an important factor in ensuring the success and sustainability of its business model.

2. Synergistic Experience

Apart from developing content and application service platform for its customers, MNCW is also creating its own niche by offering a real world incubation testing environment for new technologies via its consumer mobile service portal 'www.gospecial.com'. This will become a test bed for the latest consumer wireless technologies. More importantly, it will effectively contribute to the deployment of MNCW's m-business solutions.

3. Strategic Partnership

The group's strategic technological alliance with Xgate (Hong Kong) will allow access to the latest wireless and multimedia technology developments from Europe and Hong Kong. It is important to highlight

that this wireless technology will be developed based on an exclusive copyright content. EMI and Air Games (Canada) are among the group's content partners. On the other hand, the group's international product distribution alliance will allow them effective distribution of its product worldwide. This unique set-up will allow MNCW to assess the viability of each foreign market before making commitment on any direct investment for the group's mobile portal business.

Valuation and Recommendation

For comparison purposes, we have selected mTouche as a benchmark for MNCW as both are competing in the infotainment industry. Similar to mTouche, MNCW is also targeting to expand regionally into markets like Singapore, China, Thailand and Philippines. However, in terms of revenue, mTouche has a significantly higher turnover compared to MNCW but in terms of profit margin, MNCW commands a better margin. The group recorded a higher profit margin of 26% in 1H05 vs. 21% recorded in FY04 due to several effective measures taken to enhance profitability including ceasing unfavorable revenue sharing agreement and capping advertisement and promotion expenses.

For valuation purposes, we are attaching a 30% discount to mTouche's PER of 17x to our FY06's earning forecast due to MNCW's smaller revenue and profits compared to mTouche's. We believe the market has factored in the potential from mTouche's tie-up with Green Packet (e.g. to penetrate market in China) which reflected in the former's above average PER of 17x. Pegging the valuation to our FY06 earnings projection, MNCW is worth RM0.47, which results in targeted FY06 PER of 12x. This fair value offers a premium of 47% over its ex-bonus price of RM0.32. Bonus issue is based on one new share for every two existing shares held.

INDUSTRY COMPARISON

FY06 FYE		MNCW Dec	Nextnation April	mTouche Dec
Share Price @ 20/10/05		0.47	0.625	1.82
Revenue	(RMm)	16.3	68.5	40.5
Net Profit	(RMm)	4.2	23.3	8.3
EPS	(sen)	4.0	9.2	11
PER	(x)	12	6.8	17
PBV	(x)	3.1	4.8	17
Operating Profit Margin*		28%	28%	24%
Profit Before Tax Margin*		28%	28%	23%
ROE*		39%	32%	46%
ROA*		24%	26%	37%
NTA/Share**		0.15	0.13	0.11

*derived from latest financial year

**derived from latest quarter

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