

Arbitrage opportunity in AsiaEP-W

BY CINDY YEAP

History tells us that Mesdaq Market stocks are generally not for the faint-hearted. But it is hard to ignore AsiaEP Bhd, the board's current top performer. Shares of AsiaEP, which some tout as Malaysia's very own Google, have quadrupled in value since the year began. And K&N Kenanga Research says there is still room for the stock price to double over the next 12 months.

Following AsiaEP's recent earnings, the brokerage had on April 30 raised its target price to RM2.25, implying a 127% potential upside to the 99 sen that AsiaEP ended at last Thursday. The target price is based on a two-year price-to-earnings growth ratio of 0.8 times and applying a 20 times multiple to expected earnings for FY2009. The multiple is "not excessive for a bona fide growth stock", given rising earnings momentum, says the research house.

Its bullishness is also built on confidence in AsiaEP's specific community vertical search engine, dubbed "Itah SE", developed specifically to facilitate business-to-business (B2B) transactions. The search engine can be found on <http://b2b.itah.com>.

"We believe Itah SE is worth a lot as a technology. Otherwise, Wall Street would not accord Google and Baidu.com [a Chinese search engine] a market capitalisation of US\$149 billion [about RM507 billion] and US\$4 billion. Moreover, players without a strong presence in the paid-search space, such as Microsoft and eBay, may be willing to pay top dollars for Itah SE once proven," the brokerage told clients three months ago, when it started coverage with a 99 sen target. (K&N Kenanga raised its target price to RM1.97 on March 9.)

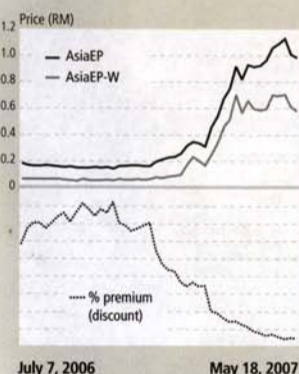
Whether investors share K&N Kenanga's optimism on the stock, there is money to be had in its warrants. Of course, this is provided the current strong trading appetite for AsiaEP securities is sustained.

Closing at 58.5 sen last Thursday, AsiaEP warrants are deeply in the money. What's more, there's a small arbitrage opportunity in buying the warrants and converting them into the underlying shares. If one were to pay 30 sen to convert AsiaEP warrants into the underlying shares, one's cost would be 88.5 sen. This is a 11.8% discount to the 99 sen at which AsiaEP shares ended at that day.

Using the Black-Scholes pricing model, the warrants are worth 73 sen, says OSK Securities analyst Chan Ken Yew.

"Based on Thursday's prices, the warrant's intrinsic value [underlying share price less exercise price] is 69 sen. Based on these numbers, it looks like the warrants

AsiaEP-W vs mother share



have a good upside," he says.

AsiaEP warrants have four years to run up before expiring on June 18, 2011. However, warrant conversions may dilute value in the long run.

There are 66.86 million AsiaEP warrants in issue. If they are all converted, the company's share base will enlarge by a third, diluting earnings per share. Between May 9 and 18, some 2.5 million new shares have been listed pursuant to the warrant conversion.

AsiaEP is also planning a private placement of up to 10% of its capital base, which stands at 200.6 million shares currently.

Also, some investors may follow UK-based Goldman Sachs International's recent move to take profit. Filings dated March 30 show it is no longer a substantial shareholder after disposing of 2.3 million shares on March 19. Goldman Sachs had emerged as a substantial shareholder on March 1 after buying 12.4 million shares or a 5.72% interest.

Still, it is worth noting that AsiaEP's earnings for the financial year ended Feb 28, 2007, came in ahead of K&N Kenanga's initial expectations. This was helped by lower operating costs and the adoption of the "pay-per-click" revenue model for its existing e-marketplace customers, which boosted revenue "in an otherwise seasonally slow period", the brokerage told clients recently.

AsiaEP had on March 26 told Bursa Malaysia that it expects the positive impact from the B2B Itah search engine to be more evident in FY2008 and FY2009, while some earnings

Warrants

SECOND BOARD

	WARRANT PRICE (RM)	EXERCISE PRICE (RM)	MOTHER SHARE PRICE (RM)	EXPIRY DATE	WARRANTS OUTSTANDING (MIL)	PERIOD TO EXPIRY (DAYS)	PREMIUM/DISCOUNT TO SHARE PRICE (%)	GEARING* (%)	YEAR HIGH	YEAR LOW	1 WEEK % CHG
ABRIB	0.105	1.000	0.305	APRIL 24, 2010	33.02	1072	262.30	2.90	0.230	0.070	-18.23
AHS HOLDINGS	0.680	1.000	0.290	MARCH 21, 2014	5.23	2459	473.31	0.43	0.800	0.515	0.00
ASIA BRANDS CORPORATION	0.480	1.150	1.360	FEBRUARY 17, 2012	6.17	1736	18.85	2.83	0.600	0.280	-4.00
ASIAEP	0.580	0.300	0.985	JUNE 18, 2011	64.38	1492	(10.66)	1.70	0.795	0.050	-4.92
ATLAN HOLDINGS	0.700	2.160	2.530	JANUARY 19, 2010	57.72	977	13.04	3.61	1.500	0.190	0.00
AUTOAIR HOLDINGS	0.070	2.250	0.300	MAY 18, 2008	17.33	366	673.33	4.29	0.180	0.030	-12.50
BONIA CORPORATION	0.830	1.000	1.080	MAY 15, 2008	14.43	363	69.44	1.30	2.840	0.310	-2.92
BORNEO OIL	0.210	1.000	0.925	NOVEMBER 18, 2012	11.85	2011	74.05	1.52	2.850	0.310	-16.44
CENTURY LOGISTICS HOLDINGS	0.230	1.000	1.050	MARCH 17, 2008	25.65	304	25.71	3.28	0.400	0.080	-4.48
CHASE PERDANA	0.165	1.500	0.320	JUNE 17, 2009	46.74	761	420.31	1.94	0.380	0.030	-10.81
DATAPREP HOLDINGS	0.005	1.500	0.355	JUNE 27, 2007	15.15	40	323.94	71.00	0.150	0.005	-50.00
DENKO INDUSTRIAL CORP	0.120	1.000	0.220	MARCH 15, 2009	6.92	667	409.09	1.83	0.230	0.020	-7.69
DIGISTAR CORP	0.100	0.160	0.140	FEBRUARY 7, 2017	90.04	3553	85.71	1.40	0.175	0.050	0.00
EDEN ENTERPRISES	0.505	1.000	0.925	FEBRUARY 15, 2008	12.15	273	62.70	1.83	0.850	0.120	-17.89
EG INDUSTRIES	0.340	1.000	0.680	JUNE 16, 2015	16.67	2951	97.06	2.00	0.570	0.180	0.00
EMCO HOLDINGS	0.240	1.000	0.545	DECEMBER 1, 2013	11.13	2389	497.23	2.27	0.510	0.020	-11.11
FARM BEST	0.075	5.950	1.060	SEPTEMBER 17, 2007	14.80	122	468.40	14.13	0.350	0.060	-37.50
FEDERAL FURNITURE	0.160	0.500	0.320	MARCH 30, 2017	31.57	3604	106.25	2.00	0.270	0.025	-8.57
GLOBAL SOFT	0.110	0.130	0.175	APRIL 18, 2011	78.97	1431	37.14	1.59	0.175	0.050	-12.00
GOLDEN FRONTIER	0.200	1.440	0.860	NOVEMBER 15, 2007	31.13	181	90.70	4.30	0.330	0.035	-6.98
GUNUNG CAPITAL	0.130	1.000	0.335	OCTOBER 13, 2013	16.00	2340	237.31	2.58	0.215	0.050	0.00
HARN LEN CORPORATION	0.175	1.000	0.690	JULY 17, 2008	74.31	426	70.29	3.94	0.285	0.060	-12.50
HUAT LAI RESOURCES	0.150	1.000	0.580	MARCH 27, 2010	27.50	1044	98.28	3.87	0.300	0.020	-9.09
HYAT TAI INDUSTRIES	0.280	1.740	1.040	JUNE 2, 2009	19.85	746	92.31	4.00	0.460	0.090	-10.34
IRS CORPORATION	0.235	0.150	0.305	JUNE 24, 2016	46.62	3325	26.23	3.00	1.170	0.095	-7.84
KARYON INDUSTRIES	0.125	0.260	0.270	APRIL 2, 2012	89.83	1781	42.59	2.16	0.195	0.120	0.00
KOMARKCORP	0.110	1.700	0.355	JUNE 30, 2010	40.00	1139	409.86	3.23	0.225	0.045	-15.38
KUMPUAN JETSON	0.275	1.080	0.660	NOVEMBER 27, 2012	17.00	2020	105.30	2.40	0.470	0.100	10.00
LEN CHEONG HOLDINGS	0.130	1.000	0.355	DECEMBER 14, 2013	8.00	2402	218.31	2.73	0.180	0.035	-7.14
MAGNA PRIMA	0.560	1.300	1.340	SEPTEMBER 26, 2011	23.40	1592	38.81	2.39	0.630	0.270	0.00
MITHRIL	0.075	1.000	0.190	APRIL 3, 2009	32.69	686	497.23	2.40	0.335	0.045	-6.25
MULPHA LAND	0.400	1.750	1.300	AUGUST 21, 2010	30.25	1191	65.38	3.25	0.530	0.045	-6.98
NEPLINE	0.100	1.040	0.235	FEBRUARY 28, 2010	33.04	1017	385.11	2.35	0.175	0.060	-9.09
NGIU KEE CORPORATION	0.130	1.000	0.305	SEPTEMBER 13, 2009	32.07	849	270.49	2.35	0.290	0.095	-13.33
PAHANG CORP	0.105	1.000	0.410	SEPTEMBER 11, 2012	12.60	1943	169.51	3.90	0.170	0.030	0.00
PAKELINT CORPORATION	0.100	1.000	0.100	JUNE 27, 2014	41.43	2597	1000.00	1.00	0.100	0.100	0.00
PENSONIC HOLDINGS	0.130	2.850	0.505	JANUARY 4, 2011	22.69	1327	490.10	3.88	0.290	0.070	-15.07
PUBLIC PACKAGES HELDGS	0.070	1.625	0.260	AUGUST 7, 2007	77.07	81	528.83	26.00	0.100	0.005	-50.00
RALCO CORPORATION	0.400	1.000	1.300	NOVEMBER 22, 2009	10.49	919	7.69	3.25	0.640	0.030	29.03
RAMUNIA HOLDINGS	0.890	0.550	1.400	DECEMBER 20, 2014	230.00	2773	2.86	1.57	1.020	0.550	-7.77
RAPID SYNERGY	0.660	1.000	1.380	APRIL 9, 2017	21.15	3614	20.29	2.09	0.700	0.440	-0.75
RHYTHM CONSOLIDATED	0.110	1.000	0.285	DECEMBER 17, 2008	24.34	579	289.47	2.59	0.290	0.100	-15.38
SAANG CONSOLIDATED	3.020	2.060	4.100	JULY 24, 2009	16.00	798	23.90	1.36	3.300	0.190	1.34
SARAWAK CONCRETE INDS	0.250	1.000	0.590	DECEMBER 10, 2010	14.53	1302	111.86	2.38	0.450	0.190	2.04
SILVER BIRD GROUP	0.115	0.800	0.390	SEPTEMBER 19, 2010	105.18	1220	134.62	3.39	0.215	0.075	-11.54
SMPC CORPORATION	0.095	1.750	0.250	NOVEMBER 21, 2010	14.93	1283	638.00	2.63	0.160	0.030	-9.52
STAMFORD COLLEGE	0.120	1.120	0.400	DECEMBER 21, 2013	16.00	2409	210.00	3.33	0.200	0.030	-14.29
SYARIKAT KAYU WANGI (05/15)	0.250	1.000	0.180	JULY 28, 2015	8.14	2993	594.44	0.72	0.435	0.030	0.00
SYARIKAT KAYU WANGI (97/07)	0.005	1.450	0.180	AUGUST 8, 2007	10.68	82	708.33	36.00	0.100	0.005	0.00
SYF RESOURCES (PREVIOUSLY TOMSHO HIGS)	0.240	1.000	0.600	SEPTEMBER 29, 2013	34.48	2326	105.67	2.50	0.475	0.220	-4.00
TAI KWONG YOKOKAMA	0.120	1.200	0.685	NOVEMBER 22, 2008	7.92	554	92.70	5.71	0.280	0.040	-11.11
TAKASO RESOURCES	0.125	1.000	0.350	NOVEMBER 13, 2013	5.88	2371	221.43	2.80	0.300	0.085	0.00
TAMADAM BONDED WAREHOUSE	0.220	1.450	0.855	JANUARY 4, 2010	21.78	962	95.32	3.89	0.360	0.060	-26.67
UNITED BINTANG	0.040	1.000	0.650	NOVEMBER 24, 2007	18.00	190	60.00	16.25	0.500	0.020	-33.33
WIDETECH	0.250	1.000	1.000	NOVEMBER 27, 2008	17.86	559	25.00	4.00	0.270	0.050	0.00
ZECON ENGINEERING	0.455	1.060	1.240	MARCH 5, 2017	44.17	3579	22.18	2.73	0.600	0.340	-8.08

should start filtering through in 4Q2007.

For the year ended Feb 28, 2007, AsiaEP's net profit grew 67% to RM5.1 million from RM3.1 million the year before, helped by lower depreciation and amortisation charges. This was done on the back of a topline gain of only 3%.

K&N Kenanga expects AsiaEP to book RM11.2 million net profit for FY2008 and RM24.5 million net profit for FY2009.

If AsiaEP reaches K&N Kenanga's RM2.25 target price, the stock would be among the top five largest stocks on Mesdaq, from 19th place currently. The company already has a market capitalisation of RM198.6 million, which is a huge leap from a mere RM47 million at the start of this year.

REDEEMABLE UNSECURED LOAN STOCKS (RULS)/BONDS (AS AT MAY 18, 2007)

COUNTER	PRICE	CHG	VOL ('000)	COUPON	CONVERSION PRICE	FLAT YIELD	MATURE DATE
PUNCAK-NA	0.890	UNCH	53	2.50	2.81	5.58	20/11/16

CONVERTIBLE UNSECURED LOAN STOCKS (CULS) (AS AT MAY 18, 2007)

COUNTER	PRICE	CHG	VOL ('000)	COUPON	CONVERSION PRICE	FLAT YIELD	MATURE DATE
AIRB-LA	0.930	—	—	5.0	1.00	5.38	29/11/11
AMDB-LB	0.800	—	—	0.0	0.50	—	09/11/10
ASIAPAC-LB	0.600	—	—	4.0	1.25	6.67	21/12/07
BILAND-LB	1.170	-0.010	35	5.0	1.60	4.27	30/12/09
BICORP-LB	0.210	UNCH	6935.4	0.0	1.00	—	30/10/15
CAMERLIN-LA	2.200	0.040	37	5.5	1.16	2.50	15/07/07
CAMMERZ-LA	1.700	—	—	2.5	7.28	1.47	16/07/08
CRESCENDO-LA	1.620	—	—	3.0	1.00	1.85	25/08/07
DATAFRP-LB	0.880	—	—	5.0	1.50	5.68	06/08/07
E&O-LA	3.020	0.060	22.5	8.0	1.00	2.65	25/07/11
EDEN-LB	0.900	—	—	2.5	1.00	2.78	02/12/07
EG-LA	0.700	—	—	3.0	1.00	7.14	16/06/10
EQUINE-LA	1.440	UNCH	0.2	2.0	1.00	2.08	26/08/08
GADANG-LB	1.130	—	—	2.0	1.27	1.77	24/12/08
GENT-LA	0.485	—	—	0.0	0.50	—	29/09/13
GPERAK-LB	0.460	—	—	0.0	1.20	—	31/08/05
HILIND-LB	0.840	0.010	84.7	4.0	6.20	4.76	28/06/07
HUAT LAI-LA	0.600	—	—	5.0	1.00	8.33	28/03/10
IDAMAN-LB	0.100	-0.010	173	0.0	1.00	—	16/11/08
INSAS-LA	0.760	UNCH	1.8	8.0	1.00	10.53	19/04/09
JETSON-LA	0.600	UNCH	2	5.0	1.08	8.33	27/11/12
JOHAN-LA	0.175	UNCH	152	0.0	0.50	—	29/09/13
KAMDAR-LA	0.420	—	—	3.0	1.00	7.14	09/11/09
KOSMO-LA	0.820	—	—	2.0	1.00	2.44	23/06/08
KRETAM-LA	0.710	-0.040	1.7	1.0	1.00	1.41	10/08/10
LBS-LB	0.870	—	—	4.0	1.00	4.60	31/12/07
LBS-LC	0.770	—	—	4.0	1.00	5.19	31/12/08
LBS-LD	0.860	—	—	4.0	1.00	4.65	01/01/07
MEDIA-LA	1.760	0.010	21	2.0	3.00	1.14	18/07