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Shooting for liquidity

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FOR A COMPANY that has been in the red for three consecutive years, convincing its shareholders to raise more capital is an uphill task especially in these tough times. But that's just what ailing Dataprep Holdings Bhd hopes to do.

The company needs RM50 million from a rights issue to pump life back into it. If successful, the company's shareholders' fund deficit of RM36.04 million as at March 31, 1998, will be wiped out and most of its borrowings retired. Dataprep reported a pre-tax loss of RM8.8 million for the financial year ended March 31, 1998, compared with a loss of RM33.4 million previously.

Don't be surprised if the company's minority shareholders take up the rights offer which is slated for early next year. Reason: The possibility of bagging lucrative contracts by year's end could push it back into the black.

At Dataprep's recent annual general meeting, officials forecast a turnover of RM170 million for FY1999. Achieving that turnover is, perhaps, not the problem for the company. Becoming profitable is. Dataprep managed turnovers of RM153.8 million and RM94.06 million in FY1997 and FY1998 respectively, yet made losses.

But now that Dataprep is under new management it may buck the trend. Late last year, Tan Sri Mohd Yusoff (chairman) and Apandi Dollah (chief executive officer) vacated their posts. The resignation of Dr T S Lee, a director, followed. Apandi was the owner of Solsis Sdn Bhd and Lee the owner of Solsisnet Sdn Bhd before Dataprep took over those companies in the early 90s. In return, they were given management control of Dataprep. The posts of chairman and CEO are now filled by Mirzan Mahathir who was appointed on Oct 31, 1997. Mirzan is believed to be one of the bigger single shareholders of Dataprep. He has been an executive director of the company since its listing on the second board of the Kuala Lumpur Stock Exchange in 1991.

More recently, Dataprep received a shot in the arm when Yeoh Kee Pin was brought in as its chief operating officer by Mirzan to turn the company around. He has the credentials. Yeoh, 53, has a background in accounting and finance management. He was one of the key figures in the turnaround of the Multi-Purpose Group between 1987 and 1991 and has been with various organisations, such as Sime Darby Bhd where he group financial controller, Coopers & Lybrand, South East Asia Development Sdn Bhd and Upali (M) Sdn Bhd.

Yeoh says he took the job on one condition: If three months after his appointment he found that the company should be wound up, then the board had to accept his decision.

Yeoh was also given a free hand to make the changes he deemed necessary, and was assured of a minimum tenure of one year if after the three months were up he found the company to be viable. It is now more than seven months, and Yeoh says Dataprep is well on the road to recovery.

On the reasons for the huge losses, Yeoh rules out illegalities by the previous management. 'Quite a lot of the assets Dataprep bought were not as good as they were thought to be,' he says.

Also, in the last few years Dataprep had ventured into the retailing and distribution of computer equipment which proved to be a bad idea. Explains Yeoh, 'They never had the infrastructure for this.'

A lack of experience and insufficient credit control saw the company incurring losses. 'When dealing with systems integration, Dataprep's core business, the company didn't have to worry much about collecting its debts as its customers were well established entities like Petronas, Celcom, Tenaga Nasional and Telekom. It was different when they began selling to smaller companies and to individuals. Dataprep's bad debts and stocking went haywire.' (Late last year, Dataprep sold its retailing and distribution businesses, including PC Unlimited and Future Kids.)

Another reason for the losses, explains Yeoh, was because Dataprep funded most of its debtors with borrowings. That is, Dataprep borrowed to pay its suppliers before it collected from its debtors and in this way raked up short-term borrowings of RM75.7 million as at March 31, 1998.

'Actually that was okay because the margins were sufficient to factor in the cost of borrowings. But once the recession hit, the banks halted their facilities to Dataprep. We were unable to take on new projects. Existing suppliers who were not paid then stopped work on the projects. This, of course, led to more problems as existing contracts could not be completed and Dataprep could not get its full payment. This was the state of the company when I came in,' says Yeoh.

The first thing Yeoh did was to talk to Dataprep's bankers. 'I convinced them that Dataprep was still capable of carrying out its business and that they would have a better chance of collecting their debts if they continued lending to us,' he says.

Most of the banks agreed. Some refused to lend more money but allowed Dataprep to re-use the instalments Dataprep was paying them.

Next, he re-negotiated terms with Dataprep's suppliers, so that they would be paid only when Dataprep was paid. Clients also needed convincing that Dataprep could resume work as normal.

With Yeoh's help, projects that have been resumed include the RM24 million Petronet - an information system to link Petronas' locations around the country, a human resource information technology system for IBM that was begun in 1994 and smaller projects for government agencies such as Sirim Bhd and Hospital UKM.

'Now our day-to-day operations are breaking even,' says Yeoh. However, the company has lost some of its clients.

Even more troubling, a petition to wind up Dataprep was filed in court in March this year. A company offering hire-purchase and credit facilities called Soglease Advance (M) Sdn Bhd had obtained judgment against Dataprep for monies owed as guarantor.

Yeoh says he wasn't willing to pay at first as he needed more time to look into the whether the guarantee was legally binding on Dataprep but decided otherwise. 'We were tendering for a number of projects and didn't want this kind of bad publicity to affect our chances.' Dataprep has settled the outstanding amount - almost RM500,000 - and the petition has been struck off.

Among the projects that Dataprep are looking to secure is a smart school initiative with the Ministry of Education, which Yeoh is confident of securing. Solsisnet, a wholly-owned subsidiary, has applied for MSC status and is on the verge of receiving its certificate, says Yeoh.

Mirzan too is helping Dataprep get back into shape. Although he has been an executive director of the company since its listing, he did not oversee the daily running of Dataprep and was instrumental in changing its management. 'As a person with a keen interest in IT, Mirzan is providing Dataprep with its direction,' says Yeoh.

He adds, 'Mirzan is able to defend contracts that have been awarded to Dataprep. Mirzan's personal assurances to our clients helps clear doubts they may have about Dataprep's viability.'

Much depends on Dataprep's ability to win the contracts that will bring in the RM170 million or so in turnover. Says Yeoh, 'We have tendered for many projects, and if we can get some then we can turn around the company which has been in a break-even situation in the first half of this year.' The company itself has no dearth of talent, says Yeoh. 'They are a creative and talented bunch.'

Will a rights issue by Dataprep succeed? It has a paid-up capital of RM31.9 million and its market price is around RM2.08 a share. Analysts say that if the company manages to secure some projects, its share price may rise. This may make it easier to raise the RM50 million it wants.

In the worst case scenario, if Dataprep is unsuccessful in its bids for most of the projects, then the company's future could be bleak, considering its high level of borrowings and its shareholders' fund deficit. 'In such a situation, the best thing for Dataprep would be for it to propose a restructuring scheme to its creditors,' says an analyst.