



Googling for growth

stocks could be that they are relatively cheap; yet this in itself has not been enough to draw retail investor interest.

But with the bulls evidently back in the local bourse, many technical analysts reckon that it is only a matter of time before the sugar rush reaches Mesdaq stocks. In fact, it may have already begun.

In the past two trading weeks, the Mesdaq index has shot back to life, a major boost being the anticipated news of the possible beneficiaries of the WiMax licence, namely YTL-e Solutions Bhd.

In a matter of three weeks, this previously dormant stock has awoken from its slumber, and to date, has seen its share price triple to its closing price of 89 sen on Thursday.

With that, it would appear to be far too hasty to write off certain Mesdaq stocks from one's radar screens.

An acute Mesdaq watcher suggests to look at companies that have a "disruptive" new technology or approach that undercuts the way business was previously done in an industry.

Right smack on that spot would be AsiaEP Bhd, a company that looks set to roll by virtue of its intellectual property. It has been tagged the "Malaysian Google", given its status as the first Malaysian company to pioneer a search engine.

But the fact is that it has been researching and developing the algorithms of this particular technology over the last 10 years. In 2005, after nine years of toiling, the breakthrough in its quest for a business (B2B) search engine finally came through.

Having finally perfected its algorithms, the company is today ready to launch its newly created search engine to the world – and at the same time, to totally change the landscape of its potential customers, earnings and business model.

How it got started

Many remain sceptical on whether AsiaEP has what it takes to create a B2B search engine. It's harder still to be convinced considering that this company made its way into the Mesdaq board some three years ago with a core business in B2B marketing.

While it has an array of other solutions ranging from Enterprise Resource Planning, web services and mobile application, its core competency has remained its dominant knowledge of both e-business and the manufacturing environment. The AsiaEP eMarketplace is a multilingual B2B market place that facilitates international trade matching. It is a cost-effective platform that enables Malaysian enterprises to access global business efficiently and effectively.

Presently, asiaEP.com is a global focus e-marketplace which ranks fifth in the business and trade category on Ranking.com. Established in 1996, it is one of the oldest e-marketplaces in the world with an outstanding cumulative inflow of international buying value in excess of US\$130bil.

Its earnings per annum over the last three years have averaged

around RM3mil, which translates into an earnings per share of about 1.5 sen. Profitable yes, but certainly not exciting.

So, what has the recent hype over AsiaEP in recent weeks been all about?

According to managing director and founder Dr Bernard Tan, it's this: AsiaEP is on the brink of a breakthrough.

"What we have done over the last 10 years is to create a search engine exclusively related to business and manufacturing purposes. We are likely the first in the world to create a business search engine with a simplified format. 2007 will be the year we make this quantum leap," he says.

He explains that this is in fact, far from new: "When we went for our listing three years ago, we already had this technology. We have been researching and developing it since 1997. However, the algorithm breakthrough came in 2005. After extensive testing, we are now ready to commercially launch our search engine."

What AsiaEP has done is to develop a Specific Community or Vertical Search Engine (Itah SE), which offers a simpler, deeper and more relevant search for B2B users.

For this reason, Define Search Sdn Bhd (DSSB), a wholly owned subsidiary of AsiaEP, has been established to provide Internet search engine services. DSSB was granted MSC status in mid-January and hence will enjoy tax-free incentives that are renewable up to January 2017.

In search of new avenues

For the uninitiated, a search engine (SE) is a software program that searches documents for specified keywords and returns a list of documents where the keywords are found.

Typically, a SE works by sending out a program called a "spider", which functions to fetch as many documents as possible. Another program called an "indexer" then reads these documents and creates an index based on words contained in each document.

Each document uses a proprietary algorithm to create its indices, so that ideally only meaningful results are returned for each query.

Today, search functions drive the Internet. Google has enjoyed a meteoric rise for being the first



»AsiaEP is no new kid on the block, it has been operating a successful B2B for the past 10 years«

TEOH CHENG GUAN

company to have created the first intelligent search engine via the clever application of algorithms, which harnesses and leverages the extant intelligence already on the web.

Currently, Google and its Chinese counterpart Baidu are very much the dominant search engines for their respective languages. However, neither caters to the specific needs of business surfers, which constitute about 64% of the surfer population.



Meanwhile, so confident is Tan about his new search engine, that he asks readers to visit the site <http://b2b.itah.com> and compare Itah SE with Google's generic search engine by typing in keywords that may link to any products, and then check the returned results from the perspective of a businessperson.

"You will be pleasantly surprised by Itah SE's search results. Simplicity and high relevancy – just what a business person needs. We believe Itah SE has the potential of becoming a popular B2B search engine," says Kenanga Research head of retail research, Teoh Cheng Guan.

The other advantage for AsiaEP is the fact that it is not starting from scratch. Having already served as an e-marketplace over the last 10 years, Itah SE will be riding on AsiaEP's e-marketplace strength for traffic.

"For customers who come to our marketplace, we will now redirect them to Itah SE. I'm not worried about getting enough traffic, because we already have it," says Tan.

When doing business in the borderless world of the Internet, quite naturally, the target market is global. Similarly, for Tan, the crosshair is on the worldwide B2B market.

What has really whet investors' appetite over this new addition is that if it proves to be successful and hassle-free, the company's popularity as a B2B search engine is likely to be enhanced many times over.

With Itah SE, AsiaEP does not need to rely on physical sales force or merely on the domestic market. In cyberspace, the market is not limited by geography. Sales and marketing will also be executed online. Still, one has to ask, if a B2B search engine were so important, why had-

Research also revealed that when generic search engines are used, results are often not directly relevant to the queries.

About 32.5% of surfers find that there are too many results returned, 39.9% find a relevant answer to their query on the first page of results, while 32.5% often go to more than one search engine to find answers.

"Obviously a void is waiting to be filled, and we believe AsiaEP is ready to play that role," says Teoh. "Itah SE will benefit both the business surfer as well as the advertiser. For the business surfer, you get straightforward surfing and more relevant results. For the advertiser, you get clearly targeted surfers, a focused community and minimum wastage of advertising cost," says Tan.

Thus, with all the hard work of creating a single search engine, does Tan have further plans of enhancing his engine or even crossing over to other Internet-related businesses?

"We definitely have plans in the pipeline, but it is too premature to say at the moment," he says.

Great potential to be tapped

enterprises before promoting them to overseas buyers for fixed yearly subscription fees, which ranged from RM500 to RM50,000 per year depending on the type of packages subscribed.

"The problem with this model is that AsiaEP never gets to share the benefit of additional traffic. Hence, AsiaEP has made a strategic decision to adopt the pay-per-click model as popularised by Google," says Teoh.

The new paid search business model is vastly more scalable, for it enables AsiaEP to tie its revenue with the traffic brought to B2B

US\$149bil and US\$4bil respectively.

Earnings prospects

For the nine months to November 2006, AsiaEP has so far recorded an almost unchanged net profit of RM3.07mil on the back of a 12% decrease in revenue to RM7.82mil.

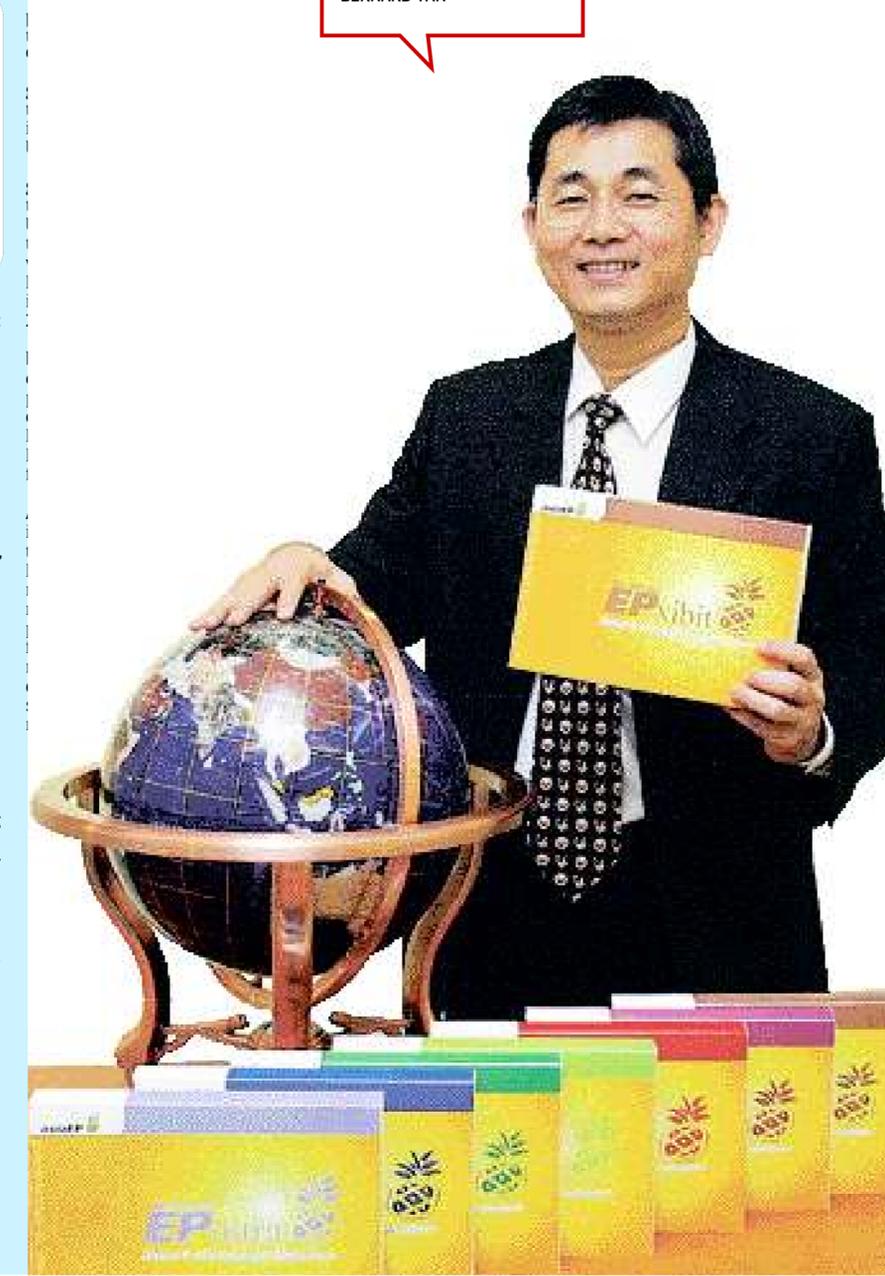
While the positive impact from Itah SE will filter through in its full quarter ending February 2007, the full earnings impact may be more evident in financial years 2008 and 2009.

Interest in the stock has been apparent in the last three weeks, and the stock has been appreciating on high volume to close at 58 sen as of Thursday.

Based on Teoh's forecast earnings of RM10.1mil for FY08, the stock would be trading at a price earnings ratio (PER) of 12 times.

"The transformation of AsiaEP's entire business process has begun. We expect a significant cost efficiency gain starting from the fourth quarter of its financial year (FY) ended February 2007. This is expected to result in a 16.3% year-on-year growth in AsiaEP's net profit," he says.

»AsiaEP has developed a Specific Community or Vertical Search Engine for B2B users«
BERNARD TAN



By TEE LIN SAY
linsay@thestar.com.my

WHILE the Mesdaq market may be a source of capital for start-ups seeking that one shot at making it big in the high-paced "today in, tomorrow obsolete" world of technology, why is it that most investors can only shake their heads in despair when one tries to discuss the merits of these so-called technologically-oriented companies?

Until recently, most investors had given up on "third board" companies, a sentiment further fuelled by the measly earnings, earnings shortfalls, unjustified valuations or even share prices of companies that refused to budge over its initial public offering price levels.

Then of course, there are the Mesdaq "blue chips" which have perpetually performed and delivered, for instance Green Packet Bhd, which spread its wings in China faster than any main board company ever had. We also saw similar euphoria surrounding companies such as MTouche, I-Power, Nextnation and Dreamgate, to name a few.

For the majority of the Mesdaq companies, however, many investors appear resigned to the notion that the board incorporates companies that are technologically savvy with business models that have failed to impress portfolio funds.

The biggest appeal of Mesdaq

The Internet Business Cycle

Itah = Internet Technology Alliance Hub Search Engine (It@h.com) Technology

