

AsiaEP out to prove itself

| BY RISEN JAYASEELAN |

Just when you thought Internet-based companies were passé, along comes AsiaEP Bhd.

This pure “Internet play” is enjoying a meteoric rise in its share price, hitting RM1.14 last week, up some 300% since early this year.

Market observers say the run-up was possibly sparked by news of potential future earnings from the company’s new business model, which entails a business-to-business (b2b) search engine that can potentially be used the world over.

But is the sharp rise in its share price justified? Remember Iris Corp Bhd? Many investors who bought into the Iris euphoria last year lost out as the company hit a host of problems. The stock was designated by the authorities and later, the company was not able to show any significant improvement in earnings.

It may be different for AsiaEP. Its latest quarterly results indicate that the company’s new business model may be working. AsiaEP posted a profit after tax of RM2 million for its fourth quarter ended Feb 28, 2007, up 81.3% from the corresponding quarter of FY2006 and an increase of 44.8% from the previous quarter.

For the full year, Asia EP’s net profits rose 67% to RM5.1 million, compared with RM3.1 million previously.

In a statement, AsiaEP said its 4QFY2007 results represented the highest revenue and profit both annually and quarterly for the

company. It was the fastest quarter-on-quarter profit growth since it listed on the Mesdaq Market in 2004.

An analyst says AsiaEP has made a “quantum leap” in its business model after it started offering its b2b search engine late last year. He adds that its latest quarterly earnings are only the start of better ones to come.

Indeed, in a press release dated March 26, AsiaEP said the new search engine will start contributing to the company’s bottom line from 4QFY2007. The full impact, the company noted, will be felt in FY2008 and FY2009.

AsiaEP’s new search engine can be found on b2b.itah.com. It promises simplicity and high relevancy, which is presumably what the business community needs.

AsiaEP recently made a shift from an online business-matching site to running this search engine. In short, AsiaEP hopes to become the Google of the business world. That’s an ambitious target, and many are sceptical that this local company can achieve that goal.

But some key facts remain: A big-name investor in the form of Goldman Sachs International bought into the company sometime in early January, paying around RM10 million for a 5% stake.

Teoh Cheng Guan, an analyst with Kenanga Research, reckons that Goldman Sachs may have been drawn to AsiaEP because of its familiarity with the Internet search engine business.

Goldman Sachs and Credit Suisse First Boston (CSFB) were the lead underwriters of the listing of Baidu.com, a search engine dedicat-

ed to users in China, points out Teoh.

Second is the fact that AsiaEP has been focused on online information for a long time, which puts it in a good position to create a successful b2b search engine.

In AsiaEP’s previous business model, the company charged companies that appeared on its web portal. AsiaEP targeted Malaysian and other Asian companies and managed to turn the business into a profitable one.

Hence, it is not starting from scratch. Its e-marketplace has been running the last 10 years and it will be relying on its existing traffic to make use of its search engine.

The new specialised search engine is based on an algorithm that the company has spent the last 10 years developing.

AsiaEP’s revenue model is very much the same as Google’s — it entails so-called “paid search” advertising, where advertisers pay only for actual mouse clicks.

Kenanga’s Teoh reckons AsiaEP’s profits will rise to RM3.6 million in FY2007 and surge to RM10.1 million in FY2008 and RM21.8 million in FY2009.

There are many reasons a simplified business search engine like AsiaEP’s could work. In its presentation to fund managers recently, AsiaEP pointed out that nearly 38% of Yahoo’s advertisers are businesses targeting other busi-

nesses, with nearly 64% of search engine users searching for business information first. A whopping US\$7.4 billion (about RM25.3 billion) was spent on search engine marketing in 2005. Also, search engines like Baidu.com, Yahoo! and Google are all profitable, enjoying healthy profit margins.

Based on its latest quarterly results, AsiaEP has achieved initial success from the new venture.

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For it to be even more successful, the company will need businesses around the world to use its search engine. It is understood that AsiaEP is planning aggressive advertising and promotion of its search engine to gain more popularity. It is also planning on applying its algorithm to create other search engines for different communities that use the Internet.

It may be hard to imagine a Puchong-based IT company reaching the heights achieved by giants like Google. But even if AsiaEP’s profits are a small percentage of what Google makes from its advertising model, that would make it a hugely profitable and successful business. Google achieved a net profit of US\$3 billion in FY2006 and has a market capitalisation of US\$150 billion. Many will be eagerly watching AsiaEP’s earnings in the coming quarters, as it would be a good indication of the success of its new business model. ■