

## 2 Jul 2007: Small-Cap Corner: CBS Tech riding the RFID wave

By Choong Khuat Hock

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CBS Technology Bhd is a Mesdaq Market-listed software company specialising in RFID (radio frequency identification) software solutions, a service that is gaining wider acceptance. In its 2007 financial year, the company recorded a surge in orders for these solutions. Its other services include e-security, enterprise, e-procurement and banking and finance solutions.

The following are some of the interesting RFID projects undertaken by CBS Tech:

- Raw material management for a Japanese silicon wafer manufacturer to ensure the use of the right chemicals and that they have not expired;
- The Ministry of Domestic Affairs has used RFID tags to ensure that goods seized and stored in warehouses, such as DVD machines and fake items, are properly secured and accounted for. CBS Tech has successfully introduced the system in three warehouses. There is scope for more work as the ministry has over 50 warehouses. CBS Tech's RFID warehouse system is believed to be only one of two in the world, the other being in the US;
- Managing the inventory of artefacts and their movement from the vault to exhibitions for the Department of National Museums; and
- Baggage tracking through the baggage handling system, aircraft and destination for the Kuala Lumpur International Airport (KLIA). The use of RFID rather than bar coding can reduce baggage handling errors by half. The KL-Kota Kinabalu route has been successfully tested and trials for the KL-Hong kong route are being undertaken.

CBS Technology had cash of around RM30 million as at March 31, 2007 (over 30 sen per share) and has been designated a GN2 company as over 70% of its assets are in cash. One way for it to reduce its cash balance to below 70% of net assets is to pay out more than 10 sen per share in tax-free dividends.

### Comment

RFID is becoming more widely accepted as its cost declines and more software solutions are developed for a wider range of applications. Many of CBS Tech's solutions are scalable. For example, many more manufacturing companies can benefit from RFID solutions, especially if their products are expensive on a per unit basis.

CBS Tech's RFID warehouse solutions have wide applications within Malaysia and overseas. The company is believed to have received overseas requests for such systems. Its RFID solutions for museums also have wide applications outside Malaysia, especially in Europe and the US where there are numerous private and public museums.

It currently has a sizeable order book and strong recurring income from service contracts. There is a possibility that CBS Tech may clinch more contracts in the second half of 2007.

### Valuation

The shares are trading at a cheap prospective FY2007 price-earnings ratio (PER) of 9.1 times considering the company's strong net profit growth of 32% in the first quarter of 2007. The company expects a strong year in view of the continuous strong demand for the group's products and services, coupled with a few ongoing projects which are expected to be completed in the current financial year. It has consistently grown its profits and has translated those to hard cash in the bank, something investors should value after the recent scandals involving high-growth companies with equally high debts and receivables.

If the net cash of RM30 million is deducted from CBS Tech's market capitalisation, the shares are only trading at an FY2007 PER of 4.5 times. Assuming that a tax-free dividend of 10 sen per share is paid out in FY2007, the shares might provide an attractive net dividend yield of 16.6% or a gross dividend yield of 22.7%. Imputing a PER of 10 times for its FY2007 earnings and adding back cash per share of 30 sen would yield a valuation of around 90 sen per share.

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*Choong Khuat Hock is head of stock research and a partner at Kumpulan Sentiasa Cemerlang Sdn Bhd, a fund management company*