

Datapulse grooves to the beat

BY JOYCE TEO

Top executives at Mainboard-listed Datapulse Technology haven't had a lot to cheer about in the last two years. With IT spending slashed, earnings at the digital storage media company — which produces compact discs (CDs) and digital video discs (DVDs) — plunged 77% last year, forcing the company to impose ruthless cost-cutting measures to stay in the black.

But this Christmas is going to be a lot merrier for the company, thanks to the Microsoft Xbox. Datapulse is the sole manufacturer of the Xbox DVD in Asia-Pacific (ex Japan). Booming orders for Christmas bundles — Xbox games bundled with the popular game console — ahead of the festive season are kicking the company's earnings into high gear. For the quarter to end-October 2003, earnings at Datapulse surged 253% to S\$5.4 million from S\$1.5 million in the corresponding quarter of the previous year.

And, with these much stronger profits, Datapulse's management is heaving a sigh of relief and looking forward to a brighter future. "I think we are now more comfortable than at any [other] time in the past," says Ng Leok Cheng, general manager and

director of Datapulse. "Even when we were doing very well, we couldn't see the next stage. Now, we can see it is DVD. After that, it will be Blu-ray. You can see a longer time-line."

Blu-ray is a new optical disc standard based on the use of a blue laser instead of the red laser in today's DVD players. The standard, developed jointly by Hitachi, LG, Matsushita (Panasonic), Pioneer, Philips, Samsung, Sharp, Sony and Thomson, threatens to make current DVD players obsolete. Single-sided Blu-ray discs can store up to 13 hours of standard video data, compared with single-sided DVD's 133 minutes.

When major shareholder and managing director Ng Cheow Chye started Datapulse (then called Sound Technic) in 1980 with chairman Ng Khim Guan as a founding shareholder, it was a manufacturer of audio-related products. (The two Ngs are not related.)

By the late-1980s, however, they had transformed the company into a producer of micro floppy disks, a product they believed had higher entry barriers and export potential. "It was a painful decision to give up a lucrative [audio] business and start from zero," says 43-year-old Leok Cheng, who is unrelated to Cheow Chye and Khim Guan. "We didn't even know who to go to, to



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sell the floppy. But it was the right decision." The strategy paid off big time. In fact, it was largely on the strength of its booming earnings from floppy disks that the company went public in 1994.

But Datapulse didn't anticipate how quickly things would change. In just a few years, it found the floppy disk being replaced by higher-capacity data storage media like Zip Disks as well as writable (recordable) CDs and DVDs. Datapulse began producing CDs in 1996 but it wasn't able to increase its CD-ROM capacity until 1999-2000, when more software companies relocated to Singapore from Japan. Datapulse, which went

NG SOR LUAN/THEEDGE SINGAPORE

Datapulse Technology's sales and profit

S\$ MIL	1Q2004 (THREE MONTHS ENDED OCT 31, 2003)		1Q2003 (THREE MONTHS ENDED OCT 31, 2002)	
Turnover	22.96		14.17	
Profit before tax	6.05		1.89	
Net profit	5.40		1.53	
EPS (cents)	0.91		0.26	
	As at Oct 31		As at July 31	
NAV/share (cents)	18.76		17.71	

S\$ MIL (YEAR ENDED JULY 31)	2003	2002	2001	2000	1999
Turnover	53.15	50.64	76.01	69.20	45.85
Net profit	6.11	5.50	24.07	21.99	14.56
EPS (cents)	1.03	0.93	4.05	3.72	2.55

DATAPULSE

into DVDs in 2000, only completely halted its floppy disk production about half a year ago, after doing it at a loss for the past few years as a favour to its regular customers.

Riding on the Xbox

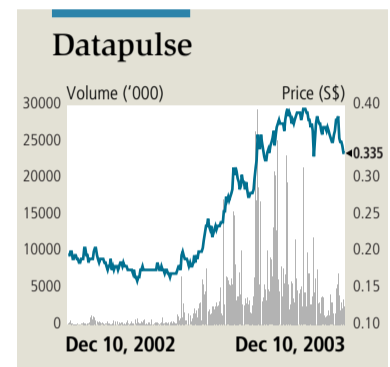
With the current boom in Xbox software orders, Datapulse is back in the game. Microsoft, for whom Datapulse has been producing PC application software since 1999, appointed the latter as manufacturer of Xbox DVD for the region ex-Japan in late-2001. But as Xbox sales were slow, Datapulse only felt their contribution from July this year, says finance director Dujuniarti Intan Ng. Currently, about half of Datapulse's six DVD lines are devoted to the Xbox. Nevertheless, Datapulse is not taking it easy.

At every stage of technological change, there is a high percentage of dropouts, says Leok Cheng. "The moment you lose money, you won't be able to go on to the next stage." And, the industry is becoming a lot less forgiving. "These days, [competition] is very tough," he adds. "It's only going to get worse, not better, so in view of that, in order to do well, profitability will be the most important thing."

Fortunately, on that front, things are improving for Datapulse whose customers include major software companies such as Microsoft, IBM and Adobe. "We're getting a lot more order flow and activity," says Intan, who is Khim Guan's daughter and has been with Datapulse the past 11 years.

Apart from orders from software giant Microsoft, it was the general pick-up in demand for DVDs and CDs that boosted Datapulse's results, says general manager Leok Cheng. Certainly, the Christmas season did its magic. The Christmas bundle Datapulse does for Microsoft's Xbox is traditionally the biggest of all the seasonal bundles. Furthermore, while Datapulse typically caters for the Asia-Pacific region, it is serving the worldwide market where bundles are concerned.

According to Leok Cheng, Datapulse's results weren't anything to shout about last year because "Xbox was still very new and DVD was a single-digit contribution". He adds: "On top of that, last year, a lot of hardware was moved out of Singapore to Thailand or China, so the driver business dropped. But whatever had to be moved has been moved, so that's not



going to happen again.

"While there is a shift of production to China, currently this industry [producing recorded or content media] is protected in China. You can go to China to produce blank media but not recorded media. To a certain extent, it's a blessing in disguise as we can still keep the business here. Once they open up, we may be forced to go to China as well."

Meanwhile, Datapulse, which has plants in Singapore and Taiwan, continues to invest in its DVD capacity — three DVD-recordable lines will kick in from next month. These lines will be able to produce both DVD-ROMs and DVD-recordables.

So far, the company's lines are mostly devoted to producing CD-ROMs and DVD-ROMs. "With our [CD- or DVD-] ROM business, the barrier is very high. In fact, there's no way [for others] to get in unless we mess up... but the bad thing is that it is volatile. They [customers] need, then they buy," says Leok Cheng. So, Datapulse's new flexible DVD-recordable lines will enable it to do more blank media to "even out the volatility in the [CD- and DVD-ROM] business," says Intan.

Jonathan Ng of GK Goh Research thinks the near-term outlook for Datapulse is fine as Xbox sales are doing rather well and current pricing for DVD-recordables is quite good. However, the risk is that "prices are likely to come off as the Taiwanese start to add a lot more new lines," he says.

Going forward, Datapulse is betting on Microsoft's upcoming new operating system Longhorn, as it hopes for another software boom similar to that of Microsoft's wildly successful Windows 95. "If Longhorn is really a killer app like Windows 95, then every single company will be upgrading its software," says Ng. "Then there will be a [manufacturing] boom." E