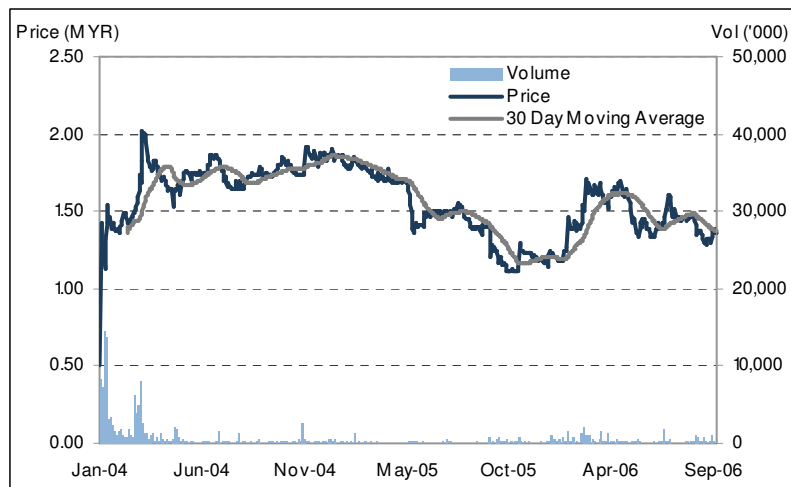


Dreamgate Corporation

Recommendation: **STRONG BUY**Stock Code: **0037**Bloomberg: **DCB MK**Price: **MYR1.36**12-Month Target Price: **MYR1.83**Date: **September 21, 2006****Board:** Mesdaq**Sector:** Trading Services**GICS:** Consumer Discretionary / Casinos & Gaming**Market Capitalization:** MYR382.2 mln

Summary: Dreamgate Corporation (Dreamgate) is a leading supplier of slot machines and casino table games equipment in Asia. It was listed on the Mesdaq market of Bursa Malaysia on January 13, 2004.

Analyst: Sharon Wong, CFA

Recent Developments

- With gaming operations in Mongolia temporarily suspended and no indications as to when it will resume, Dreamgate is looking to move its new machines from Mongolia to Cambodia. The older machines installed in 2005 will be left in Mongolia for now as Dreamgate has already recovered its cost on those machines. The Mongolian government has suspended gaming operations since August 2006 pending the review of gaming licenses. However, contribution from Mongolia is small at 3% of net profit in 2Q06.
- The military coup in Thailand could potentially impact business in Cambodia, especially in Poipet, which is close to the border with Thailand. We believe that a significant amount of Poipet's casino revenue is derived from Thai visitors. Dreamgate has five technical, sales and marketing (TSM) concessions in Poipet. Uncertainties in Thailand could potentially impact casino arrivals from Thailand, though we understand that there is no noticeable impact as yet.
- Meanwhile, management is looking to restructure its TSM operations in Cambodia, reassigning machines from less profitable outlets to the better potential outlets. In addition, it is continuously looking to develop new markets and is currently exploring opportunities in Vietnam.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	10.0	12.9
PER (x)	13.6	10.5
Dividend/Share (sen)	1.5	1.5
NTA/Share (MYR)	0.40	0.52
Book Value/Share (MYR)	0.40	0.52
Issued Capital (mln shares)	281.1	
52-week Share Price Range (MYR)	1.10-1.72	
Major Shareholders:	%	
Datuk Chuah Kim Seah	39.2	
Gerak Juara Sdn Bhd	19.2	

Recommendation & Investment Risks

- We maintain our Strong Buy recommendation with an unchanged 12-month target price of MYR1.83. In our opinion Dreamgate is well-positioned to benefit from further liberalization of casino activities, strong demand for gaming machines and rising casino spending in the region. Dreamgate currently trades at an undemanding PEG of 0.59x.
- Our target price is based on ascribing a fair 2007 PER multiple of 12x (unchanged) and adding net DPS of 1.1. The 12x target earnings multiple is derived from Dreamgate's average two-year historical rolling forward PER.
- Risks to our recommendation and target price include its high level of receivables (which increases bad debt risks), changes in gaming regulations, changes in regional governments' move towards liberalization of casino activities, potential impact on business from military coup in Thailand, and an increase in competition for the supply and distribution of gaming machines in the region.

Earnings Outlook

- Our earnings projections remain unchanged. We forecast net profit to rise at a CAGR of 23% over the next two years on the back of robust casino spending and demand for gaming machines in the region. Earnings will largely be driven by the TSM division.

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	0.16	0.31	0.40	0.52
Cash Flow (sen)	9.3	9.3	17.0	21.7
Earnings (sen)	7.7	6.5	10.0	12.9
Dividend (sen)	0.0	1.0	1.5	1.5
Payout Ratio (%)	0.0	15.4	10.8	8.4
PER (x)	17.7	20.8	13.6	10.5
P/Cash Flow (x)	14.6	14.6	8.0	6.3
P/Book Value (x)	8.4	4.4	3.4	2.6
Dividend Yield (%)	NM	0.7	1.1	1.1
ROE (%)	NM	30.4	28.2	28.0
Net Gearing (%)	0.0	0.0	38.6	16.5

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Dreamgate Corporation

Recommendation: **STRONG BUY**

Stock Code: 0037

Bloomberg: DCB MK

Price: MYR1.36

12-Month Target Price: MYR1.83

Date: September 21, 2006

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	115.3	154.1	178.6	196.8
Operating Profit (EBIT)	18.4	30.0	39.4	45.3
Depreciation	-7.8	-19.3	-24.6	-27.5
Net Interest Income / (Expense)	0.2	-1.7	-2.5	-1.9
Pre-tax Profit	18.4	28.2	36.9	43.4
Effective Tax Rate (%)	1.1	0.4	2.0	2.0
Net Profit	18.2	28.1	36.2	42.6
Operating Margin (%)	15.9	19.4	22.1	23.0
Pre-tax Margin (%)	16.0	18.3	20.7	22.1
Net Margin (%)	15.8	18.2	20.3	21.6

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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