

IPVG Corporation (IP)**BUY**

More Than Just a Call Center

Price	5.20
Target Price	10.3
Shares FreeFloat (m)	263
Shares Outstanding (m)	675
Market Cap (Pb)	3.51
52 week High	11.5
52 week Low	4.40



The Company

IPVG Corporation (IP) is a publicly listed, global company, with operations in the USA, Latin America, Europe and Asia. IP engages in Telecommunication and Information Technology, CallCenter/BPO/KPO, and Electronic Games through its three subsidiaries. The company does not focus on a single field of information technology but spreads itself among the numerous opportunities that are present in the industry. IP has come a long way since it first ventured into IT in 2005 when it purchased a data center based in the RCBC Tower. While the data center has grown into one of IP's main subsidiaries, the company has also reached out to other fields and has now made a name for itself in each of these fields. IP Converge is the Information Technology and Telecommunications arm of IP. For its gaming arm, IP has IP EGames. The third subsidiary is IP Contact Center Outsourcing, which is in various forms of Business Process Outsourcing.

IP Converge

While the company's recent bid to acquire PeopleSupport has led to a focus on the Call Center division of IPVG, it is actually the data center that got the ball rolling for the company. IP Converge (IPC) offers a wide array of IT and communications services. While IPC offers various services such as Server Co-Location, International Managed Bandwidth Services, Managed IT Solutions and Financial services, it is their recent purchase of Prolexic Technologies that excites management the most. Prolexic provides cutting edge solutions that protect Internet operations from the debilitating service disruptions caused by DDoS (Distributed Denial of Service) attacks.

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Last September, IPC reached its operational capacity of 160 racks. IPC rents out these racks to customers for an average price of \$1,200 per rack per month. It is through these racks that customers are able to avail of the numerous services IPC has to offer. IPC has also recently expanded its data center in the RCBC Tower by 40 racks, which are now ready for provisioning. IPC also recently completed the acquisition of a second data center in Singapore, which has 275 racks, and completes IPC's Asian ring network. IPC has also enjoyed three years of profitable growth.

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IP E-Games

IP E-games, a subsidiary of IPVG, is the premier local game publisher in the Philippines. E games started its operation in late 2005 through the introduction of the revolutionary free-to play/item-based system. It has since enjoyed very strong growth over the last two years. The company caters to the on-line gaming public with only the best in online entertainment, providing great games without the hassles of time credits and prepaid accounts. Through the unlimited gameplay, players have access to their favorite games full-time.

Having recently passed the 6-million subscriber mark, IPE, whose core business is licensing and distributing online games, is the biggest online game publisher in the Philippines. Among its biggest titles are O2Jam, Audition, Granado Espada, Supreme Destiny, and RAN, the most dominant online game in the country. IPE is relatively new to the gaming industry having only entered in late 2005. However, IPE has parlayed this to an advantage, disrupting Level-Up's stranglehold on the market. Since its entry to the scene, IPE has introduced games for both casual and serious gamers. Casual games are easy to play and are even beneficial for the players, providing many educational benefits. In fact, O2Jam has been given the seal of approval by the Malaysian government. On the other hand, serious gamers play Massively Multiplayer Online Role Playing Games (MMORPG) that are the rage nowadays. While both IPE and Level-Up claim to have a larger share of the current market, IPE has certainly come a long way in such a short time, accounting for approximately 50% of the current screen share in nationwide Internet cafes.

Through its collaboration with Singaporean company, Infocomm Asia Holdings, E-games has established a regional presence. Granado Espada is successfully run in the Philippines from servers based in Singapore, using IPVG's telecommunications capability. IPVG also recently established its first venture in the on-line games space outside the Philippines by releasing Ran on-line in Vietnam. More recently, E-games announced the inauguration of I-Play, Inc., a joint venture between IP e-Games and GMA-NMI, a subsidiary of GMA7 that is focused on the online casual gaming segment. The joint venture is envisioned to design, operate and maintain casual online gaming and casual online gaming-related portals leveraging on GMA7's massive network.



Source: IPVG Corporation

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IP Contact Center Outsourcing

IP Contact Center Outsourcing (IPCCO) started operations in July of 2006. A wholly owned subsidiary of IPVG Corp (PSE: IP), IPCCO is in the business of providing outsourced & offshored solutions based on the specific needs of its customers. This results in maximized value for clients and an enhanced experience for client's customers at a substantial cost savings as compared to onshore solution.

IPCCO primarily provides customer service, technical support, and other telemarketing services, both in voice and non-voice interactions, to clients located in North America, Europe, and South East Asia in the industries of banking and finance, telecommunications, retail and electronic commerce, and consumer electronics. IPCCO now operates 600 seats in the Philippines and serves a number of US based multinationals.

Based in Libis, IPCCO also offers Knowledge Process Outsourcing (KPO) with its key partner, Credence Analytics, the number 1 Financial Solutions systems company in India to develop outsourced treasury services for the Banking and Financial Sector. KPO caters mostly to financial institutions and offers value added services in company analysis, financial newsletter and related services sector. With the meteoric rise of the Philippine Peso, BPO companies and call centers have taken a beating. However, such is not the case for IPCCO. Much like IPE, the late entry of IPCCO has actually proven to be quite an advantage. IPCCO was able to take into consideration the rising Peso when it priced its services. It has also hedged its dollars at the exchange rate of P44.30:\$1 for the rest of the year. Approximately 56% of IPCCO's expenses are also in dollars. Last year, IPCCO accounted for a very small portion of IP's consolidated revenues, resulting in a net loss. However, 2008 promises to be better indicator of what IPCCO can truly contribute to IP.

The PCCW differentiator
PCCW will exclusively brand IPCCO's operations here in the Philippines as a PCCW Teleworlds certified center.

Awards of Excellence

PCCW Philippines was named "most successful" by "The Investor's and Investor's PCCW awards list 2007" for its performance in the Philippines.

PCCW is named as one of the world's top call centers by the 2007 "Call Center Magazine" - the authoritative source for all services.

PCCW was named "Best BPO & Outsourcing Outsourcing Call Center Strategy Award" by "Crain's Ohio".

PCCW is a top winner of a series of call center awards by the Hong Kong Call Center Association for the Western of the Hong Kong (Prestigious) Awards Presentation by Award for Services.

Worldwide Recognition

- 2004-2005 Best Customer Service in Southeast Asia by ITO
- 2004 Best Call Center Award in Greater China by Frost & Sullivan Global
- 2004 Best Call Center Award by CallCenter Magazine USA
- Call Center of the Year (2007) by CallCenter Magazine USA
- Service Excellence Award 2002
- Call Center Award 2003 - 2005 by Hong Kong Call Center Association
- Regional Call Center Award 2005 by CallCenter Magazine USA
- 2007 Best Call Center Award by CallCenter Magazine USA
- 2007 Best Call Center Award by CallCenter Magazine USA

Source: IPVG Corporation

IPVG Corporation (IP)

BUY**Daring To Be Different**

Nowadays, companies are always on the lookout for a proven formula for success. Companies look at older, more successful companies who have shown that their methods work. But IP isn't like any other company. Instead of looking for a company they could pattern themselves after, they went out and made their own formula for success. It wasn't easy and it certainly took time, effort, and determination. In fact, IP has already gone through several rounds of business remodeling. Now that it has found its niche, it is blazing a trail that is the envy of others. What truly sets IP apart is that it dares to be different. This willingness to be different is evident in the way each of its three main subsidiaries has grown.

DDoS Mitigation

IPC is unlike any other data center in Southeast Asia because it is the only one offering the DDoS Mitigation system. In an environment wherein corporations are becoming more and more reliant on the internet and computers to conduct business, cyber terrorism leads to huge revenue and profit loss due to prolonged disruption of service. However, IPC's DDoS Mitigation system, along with its other services, make sure that companies are well equipped to deal with such problems as well as other IT needs.

A DDoS attack occurs when a network or web service is rendered unavailable or inaccessible to its intended legitimate users, either temporarily or permanently, usually by flooding the target system with high volumes of traffic or spam. Perpetrators of DDoS attacks typically target sites or services hosted by high-profile institutions such as those from the financial services sector, payment gateways, government sites, websites of major corporations, entertainment sites, and the media.

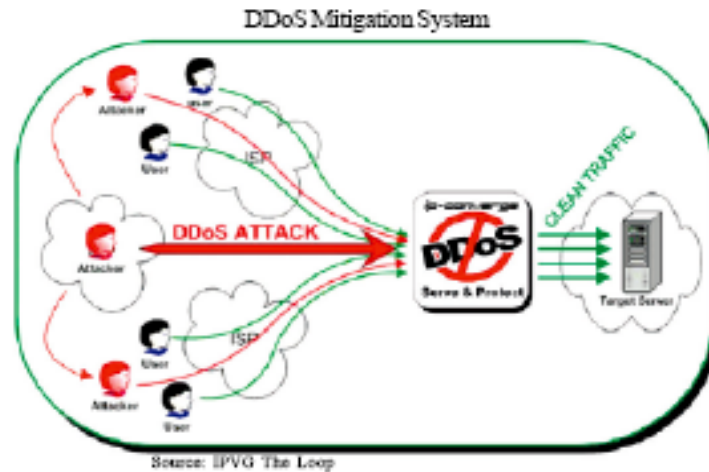
According to the Computer Security Institute there are as many as 10,000 DDoS attacks occurring worldwide each day— the size of which can go beyond 10 Gbps at any given time, and the likelihood of an organization experiencing an attack is growing. Without any warning, websites and web applications can be taken down, cutting off customers, partners and suppliers. The FBI/ Computer Security Institute 2007 study estimated the hourly loss of revenue attributed to DDoS can range from \$90,000 for a sales catalog company to \$6,450,000 for a retail brokerage.

As the leading DDoS mitigation/managed service provider, Prolexic deploys patented and proprietary processes which make the company the only security provider with proven capabilities in mitigating the largest and most innovative attacks faced by corporations today. Prolexic operates in USA, Latin America, Europe, and Asia and has 100 clients across a wide range of industries including the banking and financial sector, media, telecommunications, online games, and internet companies, and with IPVG's other assets provides a unique value proposition to customer in their targeted lines of business. IP is the only company offering this product in Southeast Asia and the acquisition of Prolexic allows IP to keep up with the continued growth of the internet and of cyber terrorism.

No office is without a computer nowadays and no matter the business, a company will have IT matters. With the complete and high quality services that IPC offers, it is not surprising that it is the preferred choice for Information Technology and Telecommunications services. Even with the expansions it has undertaken, IPC may soon find itself operating at its full capacity again.

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Free to Play (FTP) games

There was a time when everyone was playing Ragnarok. It was the very first MMORPG and it captured everyone's imagination. Soon other similar games followed, but these games had one thing in common: the user had to pay in order to play. Then, IPE broke the mold with free to play (FTP) games. Since spending was a matter of choice and not necessary, FTP games not only appealed to serious gamers but to everyone else as well. All of IPE's games, both casual and MMORPG, are FTP games wherein users have the option to purchase special items voluntarily. Everyone plays the same games and interacts in the same worlds but spenders have access to special items that give them distinct advantages in the game for a limited time. The idea is paying off as 40% of all players are purchasing special items. IPE has over 6 million registered users, at least 30% of which are active. The ARPU varies with each game as serious gamers spend more than casual gamers, who are relatively younger. IPE believes that the number of registered users and the ARPU of each game are on track to grow in the coming years. Proper pricing and knowing the different spending patterns of the gamers can enable IPE to induce higher spending. IPE plans to introduce more games this year and is looking towards expanding further in the Asian region.

Enter BPO/call center despite rising peso

Whereas everyone was worried about BPOs and call centers due to the strength of the Peso, IP isn't. IP entered the BPO business early last year and acquired Globalstride later in the year. Not content with the acquisition, IPVG made a very generous offer to purchase PeopleSupport. Although the deal did not push through, it emphasized IP's commitment to improving its BPO and call center services. Despite the weakening dollar, IP believes that BPOs and call centers are still very lucrative. Following the rejection of its bid for PeopleSupport, IP moved on and found a different outsourcing company to acquire; now being the perfect time to acquire BPO businesses as the industry is in a consolidation phase and valuations are much cheaper. Thus, a majority stake in Interactive Teleservices Corp. (Influent) was obtained. Through Influent and IPCCO, IP currently has approximately 2,000 seats. However, more is still to come as IP is contemplating on buying two more BPO firms. One of the deals may push through as soon as the first half of this year.

IPVG Corporation (IP)

BUY**Internet Boom**

With each year that passes, today's world is becoming more and more technologically savvy. The youth of today are at a loss on how earlier generations survived without mobile phones, laptops, flat screen TVs, and DVD. But what really ushered in the age of advanced technology was the internet. A decade ago, only techies knew of and made use of the internet. But now everyone has heard of it and everyone is utilizing it. The internet boom is paramount among the many factors that are in IP's favor; where the internet goes, so does IP. It is the advent of the internet that made businesses switch from papers and ballpens to desktops and laptops. It is on the internet that the people spend most of their free time, playing games and surfing, and it is the connectivity of the world that allows BPOs to flourish.

As the internet becomes more ubiquitous, cheaper, faster, and more efficient, IP benefits. Internet cafes are popping up everywhere and broadband internet is becoming cheaper, giving more people swift access to the internet 24 hours a day, 7 days a week. This leads to more opportunities not only in gaming but also for IPC and IPCCO. The rise in the number of registered users for IPE underlines the fact that more and more people are getting better access to the internet. Businesses that are cognizant of this are able to take advantage and tap the potential market. The proliferation of the internet gives way to faster information dissemination and online versions of tasks such as shopping and banking. This is where IP enters. The unparalleled services that IP and its subsidiaries offer enable firms to take advantage of the internet.

People today are more dependent on the internet than most would care to admit. The internet has enabled the world to become a global village and has paved the way for BPOs and call centers. Outsourcing is fast becoming more prevalent, one second is all it takes for a firm in USA to access the report generated by a BPO center here in the Philippines. Due to the relatively cheaper labor costs here in the Philippines, there will be takers all over the world for as long as there are available seats. It is the same with IPC, which will need more and more racks in the future. In the past, a disk that could carry a little more than 1 megabyte sufficed. However, with so much information floating around the internet, businesses not only rely on data centers for the storage of data but also for the technical expertise in navigating and utilizing the internet and the opportunities it opens up.

Double Growth

2007 was a banner year for IP but 2008 promises to be even better. The growth of IP has been phenomenal and will definitely continue this year. While IP's organic growth is already remarkable, the company is also making huge strides through its acquisitions. IP's consolidated revenue jumped by more than 700% from 2005 to 2006 and by approximately 300% from 2006 to 2007. This year, the growth will be smaller but will still be impressive. 2007 marks the first year in the green for IP and the company is ready to build on their success last year. More and more companies are choosing IPC as their IT provider as evidenced by the fact that IPC reached operational capacity. The addition of more racks will enable IPC to keep up with the growing demand. IPE is getting stronger as time passes. More people are finding time to play their online games and are spending higher amounts at a more frequent rate. Also, advertising revenue is on the rise as more and more companies realize that online games serve as a unique medium to reach the general public. With more exciting games in the pipeline, there seems to be no stopping IPE. However, the bulk of the growth will come from IPCCO. With a year of experience under its belt and a larger capacity, IPCCO is ready to show how much it can really contribute.

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IPCCO is expected to have recurring revenues on the back of stable operations and a stable clientele. Based on organic growth alone, IP is expected to breach the P2 billion revenue mark this year but that is only one part of the equation as IP's recent acquisitions are expected to also contribute heavily.

Acquisitions

For quite sometime now, IP has been constantly appearing in newspapers due to acquisitions and planned acquisitions. It started with Globalstride last year and mobile technology provider MegaMobile is the latest. However, the two key acquisitions would undoubtedly be Prolexic and Interactive Teleservices Corp. (Influent). These two acquisitions not only enhance the service that IP can offer but also directly contributes to IP's revenue. The company acquired 100% of Prolexic and a 70% stake in Influent. Prolexic, which specializes in the DDoS Mitigation System and caters to over 7,000 websites, can be expected to contribute \$12 million to IP's top line. Influent is a BPO firm with operations in Panama, the United States, and Philippines. The firm has approximately 1,400 seats and is one of the top 20 BPO companies in the world. Influent caters to Fortune 500 companies and can be expected to add \$50 million to IP's consolidated revenues. However, IP is not content to rest on its laurels and is continually looking for other attractive companies that can be acquired. Even after all the acquisitions, IP still has a very low debt to equity ratio, having used cash, accumulated through various private placements last year, and shares in payment for the various transactions.

Sum of Parts

It would be unfair to identify IP solely through one of its subsidiaries. IP isn't just a data center or an online games publisher or a call center, it is the combination of all its endeavors into IT. With that said, IP is a company that is truly undervalued, particularly because people associate it with call centers and BPOs, which have plummeted as a reaction to the strength of the Peso. IP has so much going for it, strong organic growth brought about by the continuing internet boom, regional expansion and world-class acquisitions, and a management team that is not afraid to be different. True, the rising Peso will temper some of its growth and its aggressive expansion will bring margins down to 10% for 2008. However, the revenue growth in the next two years more than make up for it. Also, the dip in the income margin will be the result of one time expenses.

For next year, due to organic growth and through acquisitions, IP is expecting \$107 million dollars in revenue. Using the rate of P40 to a dollar and comparing it to 2007's expected revenue of P1 billion, IP's revenue growth is at 330%. The revenue growth is across all of its subsidiaries, leading to a significantly higher EPS. Using the sum of parts method, we have set target price of P10.32 for IP, which would be roughly 16x expected 2008 net income. With a current price of P5.20, IP is a clear buy, with an upside of almost 100%.

Per Share	2005	2006	2007F	2008F	2009F
Book Value	(0.01)	0.07	1.58	2.21	3.57
Earnings	(0.11)	(0.22)	0.30	0.63	1.36
P/Book Ratio	N/A	54.43x	3.23x	2.31x	1.43x
P/E Ratio	N/A	N/A	17x	8.1x	3.75x