

Technology groups holding their ground

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Technology companies in the computer outsource field have proved to be relatively resilient in economic downswings.

While other sectors of the economy have experienced a sharp drop-off in earnings, companies like Simeka Business Group, Datacentrix and AdaptIT held their ground when they reported their latest sets of results.

Datacentrix's revenue dropped 1,66% to R687,5m and profit before tax increase slipped marginally to R79,1m for the half-year to the end of August. The group was confident enough to declare a 13,4c dividend.

Even global players like Datatec, which has interim results coming out in the next few days, expect headline earnings a share only to be slightly down, when the options that were exercised in the past few months are excluded.

However, it has not been plain sailing for all the companies in the outsource sector. Faritec's poor results — a 30% drop to R727m in revenue for the year to June — caused its then CEO, Simon Tomlinson, to resign, but the company's performance appears to be an exception. Even struggling companies like SecureData seem to be holding their own.

Somewhat surprising

The performance of these companies is somewhat surprising considering that the local information telecoms and communications market is shrinking, because companies have opted to hold off on spending until the economy improves.

One of the reasons behind these companies' robust performances is that they are finding niche areas that are yielding outsource deals. The days of businesses hiring companies to operate their computer systems seem to be over. There is a move to outsourcing specific areas of computing, says Datacentrix CEO Ahmed Mahomed

An example of finding such a niche is the case of Datacentrix taking over all a company's printing. Printing is one of those non-core business processes that fall between the cracks — IT provides the equipment and the finance department pays for the paper. Datacentrix says it can save a business between 10% and 30% on printing cost.

Mahomed says Datacentrix's results would have been better had government officials not been reluctant to spend ahead of the presidential elections this year. He is hopeful that state departments will now increase their orders.

Lacklustre economy

The lacklustre economy might not be offering these companies much, but there are some things they can tap into. Mahomed says the 2010 soccer World Cup is an event that could have a significant impact on the technology sector.

Datacentrix has already had a piece of the World Cup pie. It won contracts for the warm-up event, the Confederations Cup, which was held earlier this year.

The sector may receive more business in time because companies will be forced to upgrade their old Microsoft operating systems to the Vista system when Microsoft stops providing support for the old software.

Mahomed also points out that companies can sweat their assets only for so long — there will come a point when they will have to start spending just to stay in business.

Is Datacentrix a good investment?

The group is certainly setting itself up in terms of its skills base for when the economy turns. “Datacentrix has benefited from investments in targeted new skills and competencies among its higher earning employees,” says Frost & Sullivan ICT analyst Silvia Hirano Venter

Venter says the group has not considered retrenching, and regards other companies' staff lay-offs as an opportunity to hire more skilled personnel.

Venter adds that Datacentrix's partnership with business intelligence specialists Harvey Jones is bringing significant benefits. Harvey Jones has worked with Datacentrix since 2002 and Frost & Sullivan expects the partnership to bring dividends.

At a share price of R4,38 and a p:e of 7,71 the group warrants a closer look.

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