

▶ Untapped Wealth

September, 2009 Edition

Late Summer Profits

Members,

This month, we're going back to China for more profits; the country is just absolutely killing and it's our job to capitalize. Our last 2 recommendations, China Grentech and ACTS Semi Conductor have been doing quite well with returns that have exceeded 90%. I believe that part II of your September recommendations will simply add to the Chinese factor.

The second position for September is a company in the up and coming Indian economy. While India's economy is not as strong as China's, they do indeed show signs of growing fast and large. It is because of that, I am turning to this side of the globe.

Let's get right into the stocks.

Have a great month.

Regards,

Tim Fields

Introduction to Patni Computer Systems

Patni Computer Systems (PTI: \$17.53*) is one of the leading Indian Company providing global information technology and business solutions.



The company's global footprint spreads to 27 sales offices across America, Europe and Asia-Pacific. The company's global delivery centers are located in strategic locations around the world and it opened its 22nd Global Delivery Center in Mexico in June 2009. Patni employs around 14,500 professionals to service more than 400 Fortune 1000 companies, and has been in business for almost thirty two years since its inception in 1978.

Patni has been consistently rated as one of the Best Indian IT Company delivering high quality, reliable and cost-effective IT services. They are known for constantly exploring and implementing innovative solutions providing long-term value to their customers. The company delivers significant ROI through end-to-end solutions leveraging decades of outsourcing experience, deep domain knowledge and a mature Global Delivery Model.

Over the years, their client relationships with world leaders in major industries have evolved into partnerships focused on delivering business value. They have integrated

Six Sigma techniques to focus on continuous, measurable process improvement, with powerful analytical tools and sophisticated review processes.

Patni's service offerings include application development and maintenance, enterprise application solutions, business and technology consulting, product engineering services, infrastructure management services, customer interaction services & business process outsourcing, quality assurance and engineering services. The 32-year-old IT firm filed for its first technology patent about a few months ago which goes to show its emphasis on IP (intellectual property) and IP-led services.

Areas of Operation

Patni areas of operations include the following business segments:

1. **IT services** - Patni has years of experience and technical expertise in delivering end to end IT services and solutions. It has always focused on developing domain knowledge in all the verticals of Insurance, Financial Services, Manufacturing, Retail, Logistics and Transportation, Life sciences, Telecom, Media & Entertainment, Energy & utilities, ISVs etc.
2. **Product Engineering Services** - Patni offers end-to-end Product Engineering Services for almost all industry domains. Their service offerings cover the full range of Product Engineering disciplines. Patni's engineering services and innovative solutions have helped customers reduce time to market while keeping product costs lower.
3. **Customer Interaction Services (CIS) & Business Process Outsourcing (BPO)** - Patni offers excellent solutions in delivering CIS & BPO solutions. They provide clients with a clear roadmap that is designed to enhance productivity and reduce costs through process assessment, process standardization and process re-engineering.
4. **Infrastructure Management Services** - Patni's comprehensive, industry-leading portfolio of infrastructure management services guarantees high reliability, round-the-clock availability, remote manageability and optimum scalability. Their domain expertise covers diverse set of systems and technologies. Patni enables its clients to leverage it's offshore service delivery centers to avail proactive and cost-effective solutions and gain quick return on IT infrastructure investments.

Alliances

Patni has carefully chosen world class partner for strategic alliances with leading vendors.

- Alliance with Microsoft for Custom Development Solutions., Patni is a Microsoft Gold Certified Partner for Custom Development Solutions.
- Tie ups with Microsoft Corporation, Texas Instruments, Cadence design Systems, MontaVista software, QNX software systems etc. for Product Engineering services and Embedded software .
- Alliances with SAP, Oracle and i2. For Enterprise Applications Solutions.
- For IT Governance Solutions, it's alliance partners include Computer Associated and HP software.
- For Infrastructure Management Services it is yet again Microsoft.
- Alliance with BEA systems and OASIS for web solutions.
- Alliance with EPC Global, OAT systems, Shipcom and Lowry for implementing RFID technology.
- Alliances with SAP Business Objects, Informatica, SAS, Netezza, Pentaho, Microsoft and Kognitio for Business Intelligence and data warehousing._

Competitive Strengths

The company enjoys significant competitive strengths over its peers in the Industry.

These include:

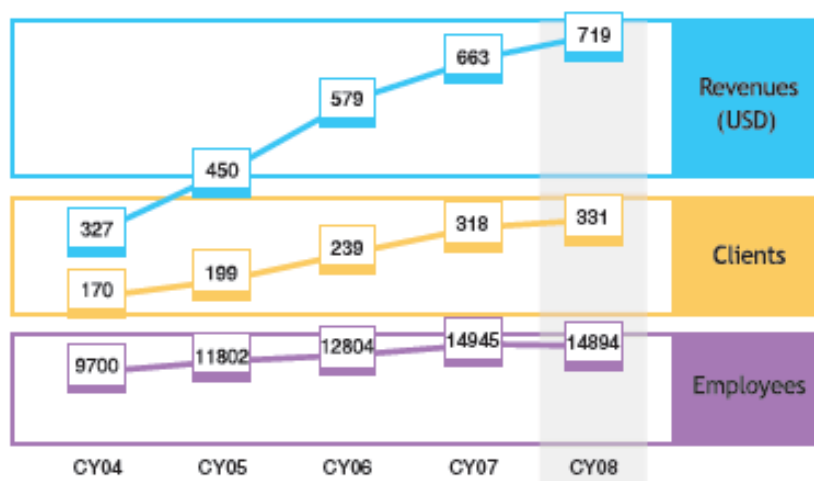
- Ability to Manage Large Client Relationships.
- Delivery Excellence
- Engagement Models.
- Industry Specific Knowledge and Experience
- Broad Range of IT Services.
- Investment in Sales Organization.
- Scalable Organizational Structure.

Business Strategy

The company aims to consolidate and enhance its position as a leading Indian provider of integrated IT services through:

- Penetrating and Growing Strategic Accounts.
- Enhancing Industry Expertise.
- Strengthening and Effectively Leveraging Sales and Marketing Expertise.
- Enhancing Service Offerings.
- Focusing on Brand Building.
- Pursuing Selective Strategic Acquisitions.

Financial Performance: 2004-2008



Recent Earnings for Quarter ending June 2009

- Sales for the Quarter ending June 2009 stood at USD 161.9 Mn up 3.3% QoQ from USD 156.7 Mn. Revenue growth was driven by volume growth of 2.2% (including higher number of days) and 1.1% due to currency impacts. Numbers of active clients were 294 at quarter end as compared to 320 in Q1 2009.
- Gross Margins for the quarter were at 34.7% or USD 56.2 Mn against 33.1% or USD 51.8 Mn in the previous quarter reflecting an increase of 8.6%.
- Operating Income for the Quarter stood at 15% to USD 24.3 Mn up 51.9% QoQ from USD 16.0 Mn. This was largely attributed to operating and cost efficiencies.
- Net Income for the Quarter at USD 28.7 Mn was up 91.7% QoQ from USD 16.0 Mn.

- Sales and marketing expenses during the quarter were at USD 12.0 Mn at 7.4% compared to USD 13.3 Mn at 8.5% in the previous quarter.
- G&A expenses during the quarter were lower at US\$ 15.9 million (Rs.756.9 million) or 9.8% as compared to US\$ 16.1 million (Rs.818.7 million) at 10.3% during the previous quarter.
- EPS for the quarter at USD 0.22 per share.

Future Outlook

Revenues for Q3 ending September 2009 are expected to be in the range of USD 163-165 Mn and Net Income (excluding the hedging Gain/Loss) is expected to be in the range of USD 22.5-23.5 Mn.

Recent Accolades

- Listed as a 'NeoIT 2008 Global Services 100 Company'.
- Listed as a 'IAOP 2008 Global Outsourcing 100 Company'.
- Listed among 'India's Top ITes & BPO Companies - 2008', by Dun & Bradstreet.
- Listed among Top 10 in 'F&A BPO Competitive Landscape of Up-and-Coming Players – 2008', by Gartner.
- Ranked amongst the 'Top 10 Insurance Technology Vendors' and 35th amongst the 'top technology providers for financial institutions' in the 'FinTech 100 - 2008' list.
- Named a 'Challenger' in Gartner's Magic Quadrant for Help Desk Outsourcing, North America, 2009 Report.
- Named the 2009 'IT Supplier of the Year' by Weyerhaeuser, a leading provider of integrated forest products.

In the end

Patni Computer Systems has been at the forefront of the outsourcing industry since its inception over three decades ago. Patni is run by a professional management team with strong and independent board members of high professional and public repute ensuring the highest degree of ethical and corporate governance practices. The company is listed on two primary stock exchanges in India namely the Mumbai Stock Exchange and The National Stock Exchange.

It's ADS are also listed on the New York Stock Exchange (NYSE) under the symbol PTI. In October 2008, Patni also concluded buyback of over USD \$50 M of its stock four months earlier than originally forecast; further strengthening their balance sheet and reinforcing their commitment in the business. Patni Computer Services is poised to enter the league of top five Indian software providers that will enable it get an access to bigger contracts and projects. The company is strongly evaluating acquisitions in the areas of business process outsourcing and infrastructure management services.

Recommendation #2

Introduction to Kongzhong Corporation

Kongzhong (KONG: \$13.25*) was established in 2002 and is headquartered in Beijing, China. It is one of the leading companies in the mobile internet space in the Chinese market. Based on the first quarter performance of 2009, it is estimated that the company is the no. 1 mobile game publisher/developer in the Chinese market based on revenues.



Business Model

The Company has three areas of revenue generation which include:

- Wireless value added Services (WVAS) - The Company delivers wireless value-added services to consumers in China through multiple technology platforms including wireless application protocol (WAP), multimedia messaging service (MMS), JAVA TM , short messaging service (SMS), interactive voice response (IVR), and color ring-back tone (CRBT). Almost 80% of the company's revenues are generated from this segment. The company provides SMS, IVR and CRBT services through 2G technology platforms while the other WVAS services including WAP, multimedia messaging services and Java are offered through 2.5G technology and operating platforms.
- The company operates 3 wireless Internet sites, Kong.net, Ko.cn and cn.NBA.com, which enable users to access media, entertainment and community content directly from their mobile phones. The company sells advertising space in the form of text-link, banner, and button advertisements.
- The Company also designs and operates mobile games, including mobile online games, downloadable offline games and WAP games.

The company offers a host of other interactive entertainment services such as pictures, logos, karaoke, electronic books, and mobile phone personalization features such as wallpaper, clocks, and calendars; media services that include content, such as domestic and international news, entertainment, sports, fashion, lifestyle, and other special interest areas; and community services, which comprise interactive chat, message boards, dating, networking, and photo albums.

Recent Important Financial Announcements

The company recently acquired a leading Mobile game developer in China named Simlife. Simlife currently has a portfolio of over 200 mobile games and a development team of more than 50 members with years of experience in developing high-quality 3D mobile games.

One of Simlife's mobile games, X Dancery, was selected by Nokia in 2009 as a Grand Prize winner in the Technology Showcase category in the global calling all innovators contest for mobile applications and solutions. The other game very well received by internet gaming participants includes the Lament Island. The company believes that that Simlife's mobile games and development team will be important additions to their portfolio of mobile games and development team. It is expected that Simlife's strong development capabilities, including its self-developed 3D mobile game engine, can help consolidate and extend the company's leadership in the Chinese mobile games market.

In March 2009, Nokia Growth Partner took stake in Kongzhong. This would enable Kongzhong connecting their various mobile value-added, gaming and community services to Nokia's mobile device platform. A good working relationship with Nokia is key to Kongzhong's preparation for launch of 3G services in China. Expanding relationship and business opportunities with Nokia is important to their interactive content offerings on the mobile.

On March 27, 2009, the Company entered into an agreement with Mailifang to acquire 100% of its equity interest.

Financial Results for Q1 2009.

The financial numbers for Q1 2009 are summarized below:

- Revenue during Q1-2009 increased from USD 21.4 Mn in Q1-2008 to USD 29.6 Mn showing an increase of 38%. The quarter on quarter growth also looked healthy at 11%. Q1 revenue was ahead of the upper end of company's guidance of USD 28.5 Mn.
- On the margin front, company managed to maintain the gross margins at the same levels of QIV 2008. at app. 49%
- The mobile gaming business continues to see high growth and the company's revenue through mobile gaming increased from 10% in QIV 2008 to 17% in Q1 2009.

- Significant increase in net income – Net income in Q1 09 stood at USD 2.52 Mn up significantly from levels USD 0.52 Mn in QIV 2008.
- Diluted net income per ADS is USD 0.07 based on the number ADS outstanding as of March 31, 2009 of 36.74 Mn.
- Non-GAAP net income was \$3.73 Mn and Non-GAAP diluted net income per ADS was \$0.10.
- Company's cash position looks healthy at USD 141.67 Mn as of March 31, 2009.

Guidance for Second Quarter 2009

The Company expects total revenues for the second quarter of 2009 to be between \$30.5 million and \$31.5 million thereby projected to grow at app. 7% compared to Q1 2009.

Recommendation

Kongzhong is well positioned as a top-3 service provider in each of the major WVAS categories. They enjoy strong relationships with each of the Chinese mobile operators and are positioned well for 3G opportunities. The Company is expected to consolidate its position in WVAS services while it starts to maximize potential from Mobile gaming and Internet content offerings.

The company looks set to become the preeminent leader of the mobile Internet industry in China. The WVAS business is performing in-line with the company's goal of providing sustained and strong cash flows for their mobile game and Kong.net business segments which are expected to be high growth segments in the years to come.

The company continues to increase efforts to supplement Kong.net by developing new mobile game social networking services. The company has app. 3.0 Mn unique daily users on Kong.net today. Kong.net's user base and revenues are set to grow rapidly this yea

The company has leveraged its in-house development capabilities to expand mobile game distribution channels. The company continues to enhance mobile entertainment content offerings through a tie up with leading media firms like Titan Sports. The recent initiatives by the company include China's first flash-lite mobile game community, a new mobile avatar system, China's first mobile social game, 'Nong Chang Da Heng'. These new initiatives have helped the company generate revenues based on their 'Traffic to Transaction' or 'T2T' strategy which leverages Kong.net's mobile-based virtual currency system.

In The End

In the end, I believe that both of these positions will do great things for your portfolio and should continue to grow throughout 2009 and well into the new year.

Have a fantastic month.

-Tim Fields
Editor In Chief
Untapped Wealth

*Indicates Initial Recommended Price

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Untapped Wealth

Publisher: Kyle Hodgens

Editor in Chief: Tim Fields

Marketing Director: Shawn Abrosino

Customer Service: (800) 479-5084

*Website: **www.untappedwealthonline.com***

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Untapped Wealth, 103 NE 4th Street,
Delray Beach, FL 33444*