

TeleChoice Int'l

1Q10 results update

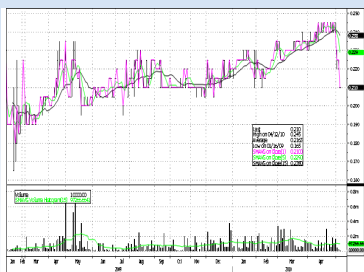
BUY

Current Price **S\$0.21**
17 May 2010

Fair Value **S\$0.28**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$95.2m
52-HI	S\$0.245
52-LOW	S\$0.195
Avg Vol (1 yr)	77,088
Shares Outstanding	453.1m
Free Float	135.9m

Key Indicators

ROE FY10	18.7%
ROA FY10	10.6%
P/BK	1.25x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Smartphones riding the wave

- **Earnings above expectations.** 1Q10 net profit of S\$3.0m (+53% yoy) was slightly above our net profit forecast of S\$2.8m due to better-than-expected sales and lower-than expected effective tax rate.
- **Sales increased 36% yoy to S\$75.3m** as personal communications solutions services (PCS) and Engineering divisions growth by 45% and 17% respectively yoy, these however were slightly offset by a 10.5% drop in sales from Telecoms division due to lower ASP from IDD charges.
- **EBITDA margins improved 48 basic pts yoy** but dropped 136 basic pts qoq to 4.7%. Traditionally, TeleChoice's result is stronger in 4Q but weaker in 1Q. Including the lower financial cost and reduction in job credit granted by the government, pretax increased by 37% yoy (-27% qoq), the lower effective tax rate boosted its net profit by 53% yoy (-18% qoq).
- **Balance sheet remains strong.** TeleChoice generated S\$0.5m of positive free cash flow in 1Q09 despite its stocking up more inventories during the quarter. Net cash increased by S\$0.9m qoq to S\$45m as at end Mar10.
- **Expanding three more outlets.** Given the overall improvement in consumer spending, the group is expanding more outlets in Parco Marina Bay, Esplanade MRT Station and Bedok Point. In spite of TeleChoice losing market share on the handphone market (as iPhones are sold exclusively by the three Telcos), it does indirectly benefit from StarHub's activation commissions. According to management, for every 10 pieces of smart phones sold, 8 are iPhones. Currently, TeleChoice has only 2-3 outlets that are able to sell iPhone bundles with StarHub services. According to AdMob, smartphone penetration reached 40% across Southeast Asia in Q409 and Singapore had the highest at 77%. We believe the new cycle for smartphones, such as when the iPhone 4G and 4G roll out next year, will continue to benefit the group.
- **Kept forecasts and maintain Buy.** We have kept our FY10-12 net profit forecast unchanged. Our fair value remains unchanged at S\$0.28, still pegged at 1.5x PBR FY11. We maintain our **Buy** recommendation as we believe the group will continue to payout at least 60% of its net profit. This implies an attractive yield of 9-14%.

Key Financial Data

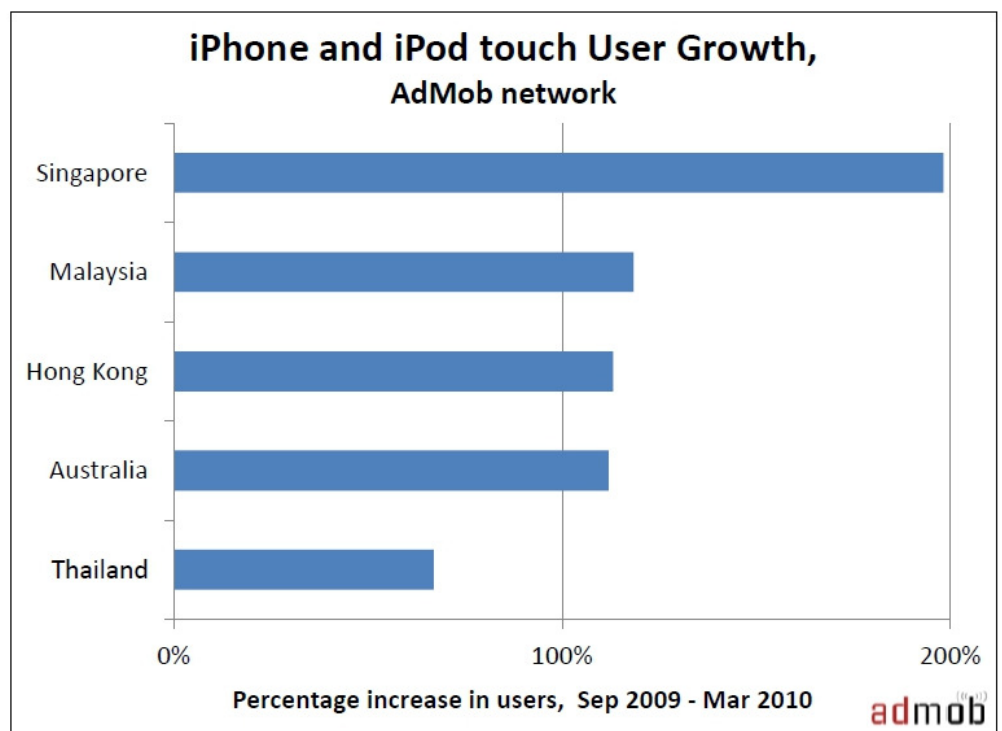
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	354.0	273.7	339.3	420.7	521.9
Gross Profit	37.2	28.6	35.6	44.2	54.8
Net Profit	14.2	11.4	14.2	17.7	22.1
EPS (cents)	3.1	2.5	3.1	3.9	4.9
EPS growth (%)	(0.3)	(19.8)	24.4	24.7	25.0
PER (x)	6.7	8.4	6.7	5.4	4.3
NTA/share (cents)	14.5	15.3	16.7	18.5	20.6
DPS (cents)	2.0	1.8	1.9	2.3	2.9
Div Yield (%)	9.5	8.3	8.9	11.1	13.9

Source: Company, NRA Capital

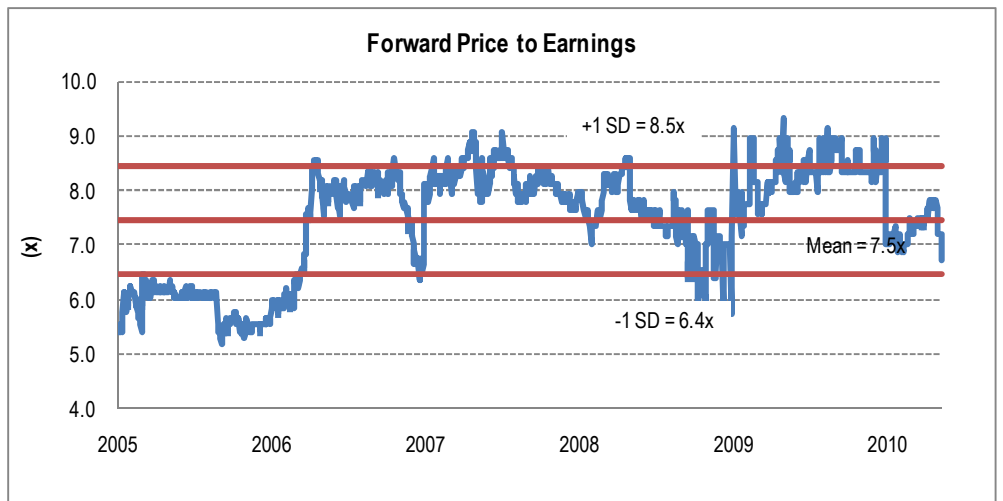
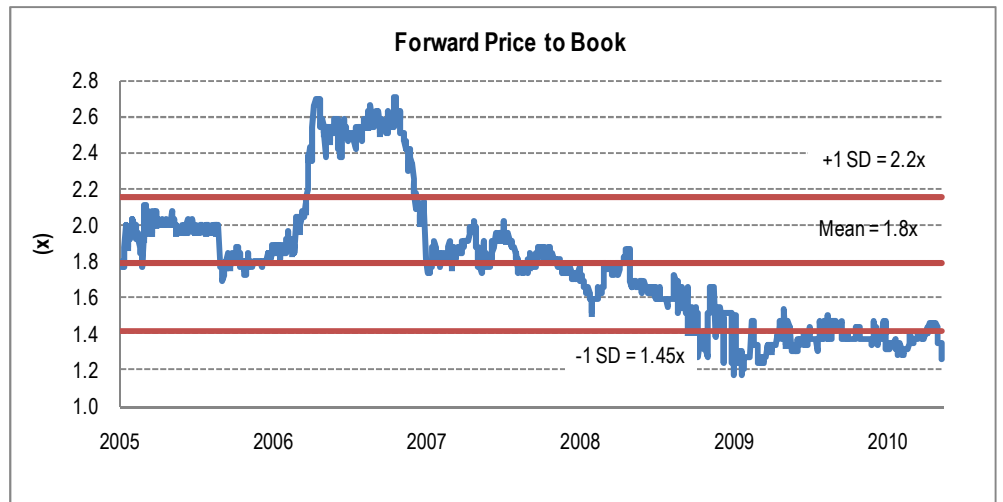
Results comparison

FYE Dec (S\$ m)	1Q10	1Q09	yoy % chg	4Q09	qoq % chg	Prev. 1Q10F	Comments
Revenue	75.3	55.2	36	77.7	(3)	70.8	6% above expectation
Operating costs	(71.8)	(52.8)	36	(73.0)	(2)	(67.6)	Above, higher-than-expected sales
EBITDA	3.6	2.3	52	4.7	(25)	3.2	Above, higher-than-expected sales
EBITDA margin (%)	4.7	4.2		6.1		4.5	In line
Depn & amort.	(0.2)	(0.4)	(45)	(0.2)	8	(0.2)	In line
EBIT	3.3	1.9	72	4.5	(26)	2.9	Above, higher-than-expected sales
Interest expense	(0.0)	(0.0)	(64)	(0.0)	(73)	(0.0)	In line
Interest & invt inc	0.1	0.5	(81)	0.1	13	0.4	Below
Associates' contrib	(0.0)	0.1	(111)	0.1	(110)	0.1	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.4	2.5	37	4.6	(27)	3.4	In line
Tax	(0.4)	(0.5)	(26)	(1.0)	(59)	(0.7)	Below, lower-than-expected effective tax rate
Tax rate (%)	11.5	21.1		20.7		19.7	Below
Minority interests	(0.0)	0.0	nm	(0.0)	(12)	0.0	
Net profit	3.0	2.0	53	3.7	(18)	2.8	Above, lower-than-expected effective tax rate
EPS (cts)	0.7	0.4	53	0.8	(18)	0.6	

Source: NRA Capital estimates



Source: AdMob network



Source: NRA Capital Estimates

Profit & Loss (\$\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	354.0	273.7	339.3	420.7	521.9
Operating expenses	(335.1)	(260.1)	(323.0)	(400.9)	(497.5)
EBITDA	18.9	13.6	16.3	19.9	24.3
Depreciation & amortisation	(2.0)	(1.3)	(1.3)	(1.3)	(1.3)
EBIT	16.9	12.3	15.0	18.5	23.0
Net interest & invt income	0.2	1.1	1.6	2.1	2.9
Associates' contribution	1.1	0.3	0.3	0.4	0.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	18.2	13.6	16.9	21.1	26.3
Tax	(4.0)	(2.2)	(2.7)	(3.4)	(4.2)
Minority interests	0.0	(0.0)	0.0	0.0	0.0
Net profit	14.2	11.4	14.2	17.7	22.1
Wt. shares (m)	452.4	453.1	453.3	453.3	453.3
Shares at year-end (m)	452.4	453.1	453.3	453.3	453.3
Balance Sheet (\$\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	1.7	2.3	2.6	2.9	1.6
Intangible assets	0.3	0.1	0.1	0.1	0.1
Other long-term assets	1.1	1.4	1.4	1.4	1.4
Total non-current assets	3.2	3.8	4.1	4.4	3.0
Cash and equivalents	42.6	46.6	39.2	42.2	46.5
Stocks	18.1	25.0	36.4	45.2	54.6
Trade debtors	44.9	29.2	54.5	58.4	66.8
Other current assets	0.0	(0.0)	0.0	0.0	0.0
Total current assets	105.6	100.9	130.1	145.8	167.9
Trade creditors	12.3	11.9	33.9	42.1	52.2
Short-term borrowings	5.0	3.0	3.4	2.1	1.6
Other current liabilities	25.5	19.9	20.6	21.9	23.5
Total current liabilities	42.8	34.8	58.0	66.1	77.3
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.1	0.2	0.2	0.2	0.2
Total long-term liabilities	0.1	0.2	0.2	0.2	0.2
Shareholders' funds	65.9	69.6	76.0	83.8	93.4
Minority interests	0.0	0.0	0.0	0.0	0.0
NTA/share (\$\$)	0.14	0.15	0.17	0.18	0.21
Total Assets	108.8	104.6	134.2	150.2	171.0
Total Liabilities + S'holders' funds	108.8	104.6	134.2	150.2	171.0
Cash Flow (\$\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	18.2	13.6	16.9	21.1	26.3
Depreciation & non-cash adjustments	9.7	(8.7)	1.0	(0.6)	0.3
Working capital changes	12.2	3.7	(13.7)	(3.6)	(6.7)
Cash tax paid	(3.7)	(2.9)	(2.1)	(1.6)	(1.9)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	36.4	5.7	2.0	15.3	18.0
Capex	(1.6)	(1.8)	(1.6)	(1.6)	(1.6)
Net investments & sale of FA	0.1	10.8	0.0	0.0	0.0
Others	0.7	0.2	(0.3)	(1.0)	(1.0)
Cash flow from investing	(0.8)	9.2	(1.9)	(2.6)	(2.6)
Debt raised/(repaid)	(6.8)	(2.0)	0.4	(1.3)	(0.5)
Equity raised/(repaid)	0.3	0.0	0.0	0.0	0.0
Dividends paid	(11.3)	(9.1)	(7.9)	(8.5)	(10.6)
Cash interest & others	(0.2)	0.2	0.0	0.1	0.1
Cash flow from financing	(18.0)	(10.9)	(7.5)	(9.7)	(11.1)
Change in cash	17.6	4.0	(7.4)	3.0	4.3
Change in net cash/(debt)	24.4	6.0	(7.8)	4.2	4.8
Ending net cash/(debt)	37.6	43.6	35.8	40.1	44.9
KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	(15.8)	(22.7)	24.0	24.0	24.0
EBITDA growth (%)	7.1	(28.0)	19.5	22.1	22.5
Pretax margins (%)	5.1	5.0	5.0	5.0	5.0
Net profit margins (%)	4.0	4.2	4.2	4.2	4.2
Interest cover (x)	106.8	78.1	125.4	251.2	421.4
Effective tax rates (%)	22.0	16.3	16.0	16.0	16.0
Net dividend payout (%)	63.8	69.6	60.0	60.0	60.0
Debtors turnover (days)	60.0	49.4	45.0	49.0	43.8
Stock turnover (days)	32.6	32.1	36.9	39.6	39.0
Creditors turnover (days)	27.5	16.1	24.6	33.0	33.0

Source: Company, NRA Capital Estimates

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