

**Overweight**

Current Price	S\$0.255
Fair Value	S\$0.29
Up / (downside)	+14%

**Stock Statistics**

Market cap	S\$115.7m
52-low	S\$0.205
52-high	S\$0.255
Avg daily vol	96,432
No of share	453.8m
Free float	30%

**Key Indicators**

ROE 13F	16%
ROA 13F	7%
P/BK	1.62x
Net gearing	Net cash

**Major Shareholders**

Temasek Holdings	50.5%
Leap International	19.5%

**Historical Chart**

Source: Bloomberg

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**ICT business expected to go back on-track**

- **Earnings below expectation.** TeleChoice's 4Q12 net profit of S\$3.4m (+480% yoy) came in 10% below our expectation due to lower-than-expected revenue and higher-than-expected loss contributed from associates but slightly off-set by better-than-expected gross profit margins. After fine-tuning our forecasts, we have lowered our FY13 net profit estimates by 15% but kept our FY14 numbers relatively unchanged. However, we roll forward our fair value base from FY13 to FY14, still remain on 8x PER. As a result, our fair value has been raised by 3 cts to S\$0.29. Given the strong balance sheet with attractive 6-10% yields, we maintain our **Overweight** rating.
- **ICT making its way back.** After two years of barely breakeven operations for 2010 and 2011 (including exceptional item), its Info-Comm technology services (ICT) has shown an improvement for 4Q12 results. TeleChoice has transformed its ICT division in the past two years with two major acquisitions of S&I System and NxGen Communications. Management believes the transformation is on-track and will continue to focus on offering more enterprise solution and cloud computing services. Its consumer based IDDI (SunPage IDD 1521) continues to face a tough time, but New Services subscription for corporate IDD improved after tripling its subscribers to 4000. Though its order book for ICT projects remains healthy, management expects the contribution is likely to flow into 2Q13 as performance is typically affected during festive months in 1Q13.
- **4Q12 sales increased by 9% yoy to S\$137.7m**, led by PCS's sales which increased 34% yoy with higher contribution fulfilment contract services from StarHub and U-mobile, regional, local channel and retail sales. ICT's revenues dropped 33% yoy due to fewer large projects delivered by S&I. Engineering sales were up 9% yoy with strong orders from both Singapore and Indonesia.
- **EBITDA margins dropped 1.5% pt yoy to 4.0%** due to fewer large projects delivered by S&I. Including the higher losses contributed from JV, interest expenses, lower exceptional loss and taxation, pretax and net profit increased 157% and 480% yoy respectively.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$1.5m this quarter despite its cash conversion cycle remaining at 25 days. As a result, net cash has increased to S\$29.5m as at end Dec-12 from S\$28m as at end Sep-12. The board declared a final dividend of 1.6 cts, same as last year, but surpassing our projection of 1.25 cts.

Key Financial Data (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Sales	389.6	480.9	562.3	658.4	772.2
Gross Profit	41.6	41.6	51.7	62.5	73.4
Net Profit	6.6	8.2	12.6	16.4	19.4
EPS (cents)	1.5	1.8	2.8	3.6	4.3
EPS growth (%)	(47.1)	25.0	53.1	29.9	18.4
PER (x)	17.6	14.1	9.2	7.1	6.0
NTA/share (cents)	12.0	12.1	13.7	14.9	16.5
DPS (cents)	1.6	1.6	1.6	2.2	2.6
Div Yield (%)	6.3	6.3	6.3	8.5	10.1

Source: Company, NRA Capital estimates

# TeleChoice Int'l

## Results comparison

FYE Dec (S\$ m)	4Q12	4Q11	yoy % chg	3Q12	qoq % chg	Prev. 4Q12F	Comments
Revenue	137.7	126.4	9	118.8	16	160.9	15% below expectation
Operating costs	(132.3)	(119.5)	11	(115.4)	15	(154.8)	Below, lower-than-expected sales
EBITDA	5.5	6.9	(21)	3.4	61	6.1	Below, lower-than-expected sales
<i>EBITDA margin (%)</i>	4.0	5.4		2.9		3.8	Slightly above expectation
Depn & amort.	(0.8)	(1.0)	(21)	(0.8)	5	(0.9)	In line
EBIT	4.7	5.9	(21)	2.6	77	5.3	Below, lower-than-expected sales
Interest expense	(0.4)	(0.2)	<i>nm</i>	(0.3)	47	(0.1)	Above, higher-than-expected debt
Interest & invt inc	0.1	0.3	(59)	0.0	1,843	0.0	In line
Associates' contrib	(0.6)	(0.2)	165	(0.0)	1,110	(0.0)	Below
Exceptionals	(0.2)	(4.4)	<i>nm</i>	0.0	<i>nm</i>	0.0	S\$0.2m provision for impairment of investment in a JV entity
<b>Pretax profit</b>	<b>3.6</b>	<b>1.4</b>	<b>157</b>	<b>2.3</b>	<b>53</b>	<b>5.1</b>	Below, lower-than-expected sales
Tax	(0.1)	(0.5)	(77)	(0.6)	(81)	(1.4)	Below, lower-than-expected taxation
Tax rate (%)	2.9	33.4		24.1		26.9	
Minority interests	(0.1)	(0.3)	(78)	0.0	(441)	0.0	
<b>Net profit</b>	<b>3.4</b>	<b>0.6</b>	<b>480</b>	<b>1.8</b>	<b>89</b>	<b>3.8</b>	10% below expectation
EPS (cts)	0.7	0.1	480	0.4	89	0.8	

Source: NRA Capital estimates

# TeleChoice Int'l

<b>Profit &amp; Loss</b> (\$\$ m, FYE Dec)	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Revenue	389.6	480.9	562.3	658.4	772.2
Operating expenses	(373.5)	(466.8)	(543.6)	(635.2)	(745.4)
EBITDA	16.1	14.1	18.6	23.2	26.7
Depreciation & amortisation	(3.1)	(3.0)	(3.0)	(3.0)	(3.0)
EBIT	13.0	11.1	15.6	20.3	23.8
Net interest & invt income	0.8	(0.2)	(0.0)	(0.0)	0.2
Associates' contribution	(0.3)	(0.7)	0.1	0.2	0.2
Exceptional items	(4.4)	(0.2)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>9.1</b>	<b>9.9</b>	<b>15.7</b>	<b>20.4</b>	<b>24.1</b>
Tax	(2.1)	(1.7)	(3.1)	(4.1)	(4.8)
Minority interests	(0.4)	0.0	0.1	0.1	0.1
<b>Net profit</b>	<b>6.6</b>	<b>8.2</b>	<b>12.6</b>	<b>16.4</b>	<b>19.4</b>
Wt. shares (m)	453.4	453.8	453.8	453.8	453.8
Shares at year-end (m)	453.4	453.8	453.8	453.8	453.8
<b>Balance Sheet</b> (\$\$ m, as at Dec)	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Fixed assets	2.9	2.9	2.9	3.0	3.0
Intangible assets	18.0	16.4	14.8	13.3	12.0
Other long-term assets	1.9	2.0	2.0	2.0	2.0
<b>Total non-current assets</b>	<b>22.8</b>	<b>21.3</b>	<b>19.7</b>	<b>18.3</b>	<b>17.0</b>
Cash and equivalents	30.9	51.6	49.4	49.2	43.1
Stocks	37.0	39.2	45.6	53.2	62.4
Trade debtors	79.7	64.7	75.6	88.6	103.9
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>147.6</b>	<b>155.5</b>	<b>170.7</b>	<b>191.0</b>	<b>209.4</b>
Trade creditors	60.9	67.8	76.6	89.4	104.8
Short-term borrowings	16.6	12.1	12.4	13.8	13.9
Other current liabilities	12.6	6.1	7.3	8.3	9.0
<b>Total current liabilities</b>	<b>90.0</b>	<b>86.1</b>	<b>96.3</b>	<b>111.5</b>	<b>127.7</b>
Long-term borrowings	0.0	10.0	8.4	8.6	3.9
Other long-term liabilities	6.7	8.1	7.7	7.3	7.0
<b>Total long-term liabilities</b>	<b>6.7</b>	<b>18.1</b>	<b>16.1</b>	<b>15.9</b>	<b>10.9</b>
<b>Shareholders' funds</b>	<b>72.3</b>	<b>71.4</b>	<b>76.7</b>	<b>80.7</b>	<b>86.7</b>
Minority interests	1.4	1.3	1.2	1.2	1.1
NTA/share (\$\$)	0.12	0.12	0.14	0.15	0.16
<b>Total Assets</b>	<b>170.4</b>	<b>176.8</b>	<b>190.4</b>	<b>209.3</b>	<b>226.4</b>
<b>Total Liabilities + S'holders' funds</b>	<b>170.4</b>	<b>176.8</b>	<b>190.4</b>	<b>209.3</b>	<b>226.4</b>
<b>Cash Flow</b> (\$\$ m, FYE Dec)	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Pretax profit	9.1	9.9	15.7	20.4	24.1
Depreciation & non-cash adjustments	8.4	5.4	4.4	(0.9)	0.3
Working capital changes	(12.6)	19.9	(8.4)	(7.5)	(8.9)
Cash tax paid	(3.5)	(3.0)	(1.9)	(3.1)	(4.1)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>1.4</b>	<b>32.2</b>	<b>9.8</b>	<b>8.8</b>	<b>11.5</b>
Capex	(3.3)	(2.0)	(2.6)	(2.6)	(2.6)
Net investments & sale of FA	0.0	(5.0)	0.0	0.0	0.0
Others	0.3	(1.4)	0.2	0.2	0.2
<b>Cash flow from investing</b>	<b>(3.0)</b>	<b>(8.3)</b>	<b>(2.4)</b>	<b>(2.3)</b>	<b>(2.4)</b>
Debt raised/(repaid)	7.1	5.9	(1.3)	1.6	(4.6)
Equity raised/(repaid)	(0.4)	(0.3)	0.0	0.0	0.0
Dividends paid	(8.1)	(7.3)	(7.3)	(7.3)	(9.8)
Cash interest & others	(0.9)	(1.1)	(1.0)	(1.0)	(0.8)
<b>Cash flow from financing</b>	<b>(2.4)</b>	<b>(2.7)</b>	<b>(9.5)</b>	<b>(6.7)</b>	<b>(15.3)</b>
<b>Change in cash</b>	<b>(4.0)</b>	<b>21.1</b>	<b>(2.1)</b>	<b>(0.2)</b>	<b>(6.1)</b>
<b>Change in net cash/(debt)</b>	<b>(11.1)</b>	<b>15.2</b>	<b>(0.8)</b>	<b>(1.8)</b>	<b>(1.5)</b>
<b>Ending net cash/(debt)</b>	<b>14.3</b>	<b>29.5</b>	<b>28.6</b>	<b>26.8</b>	<b>25.3</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>
Revenue growth (%)	19.0	23.4	16.9	17.1	17.3
EBITDA growth (%)	5.0	(12.5)	31.9	24.9	15.0
Pretax margins (%)	2.3	2.1	2.8	3.1	3.1
Net profit margins (%)	1.7	1.7	2.2	2.5	2.5
Interest cover (x)	30.1	11.0	17.8	22.2	32.6
Effective tax rates (%)	22.7	17.2	20.0	20.0	20.0
Net dividend payout (%)	110.3	88.2	57.6	60.0	60.0
Debtors turnover (days)	74.7	49.1	49.1	49.1	49.1
Stock turnover (days)	38.8	32.6	32.6	32.6	32.6
Creditors turnover (days)	63.8	56.3	54.8	54.8	54.8

Source: Company, NRA Capital estimates

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