

OverweightCurrent Price **S\$0.235**Fair Value **S\$0.29**
Up / (downside) **+23%****Stock Statistics**

Market cap	S\$106.6m
52-low	S\$0.205
52-high	S\$0.260
Avg daily vol	52,706
No of share	452.2m
Free float	30%

Key Indicators

ROE 13F	16%
ROA 13F	7%
P/BK	1.49x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Historical Chart

Source: Bloomberg

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www.nracapital.com**The wait 4 the next Galaxy has arrived**

- **Earnings below expectations.** TeleChoice's 1Q13 net profit of S\$1.2m (-33% yoy) came in 7% below our expectation due mainly to lower-than-expected gross margins from its PCS and ICT segments, and higher-than-expected interest expenses from higher Rupiah borrowings to fund Engineering projects in Indonesia and from a S\$10m 3-year term loan. We have kept our forecast unchanged for the time being as we believe that the seasonally weak performance in 1Q is over and should see improvements from 2Q13 onwards. We maintain our fair value of S\$0.29, still pegged to 8x PER FY14 and **Overweight** rating.
- **Galaxy S4 leads the way for PCS.** Although PCS division was affected by lower fulfilment services charge from its Singapore customer, Starhub, its growing Malaysian operations helped offset the drop in profits. Going forward, the recent launch of the new Samsung Galaxy S4 in Singapore and Malaysia, together with other Android OS system mobile devices, should contribute positively to its PCS segment. As expected, its ICT was affected in 1Q13 due to the long festive season, however, we expect to see more significant contributions coming in 2Q13. Meanwhile, its Engineering division continued its good performance in Singapore and Indonesia, with the continued demand for radio network services and increasing regional network upgrading works strengthening its order book.
- **1Q13 revenues increased by 15% yoy to S\$116.8m,** led by PCS's sales which increased 19% yoy due mainly to higher sales from StarHub, retail management services retainer fees and handset sales in Malaysia. Engineering sales was up 31% yoy with strong orders from both Singapore and Indonesia. ICT's revenues dropped 8% yoy due to fewer projects delivered by both S&I and NxGen, and lower IDD usage.
- **EBITDA margins dropped 0.9% pt yoy to 2.1%** due to an overall lower gross margin as a result of reduction in rates from StarHub for its PCS division, competitive pricing under its ICT segment and overall revenue mix.
- **Balance sheet remains strong.** TeleChoice generated a negative free cash flow of S\$11.3m this quarter due mainly to higher inventories, work-in-progress and receivables. As a result cash conversion cycle increased by 12 days qoq to 36 days. Consequently, net cash decreased to S\$17.1m as at end Mar-13 from S\$29.5m as at end Dec-12.

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)	16.2	13.0	8.5	6.5	5.5
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 (%)	6.8	6.8	6.8	9.2	10.9

Source: Company, NRA Capital estimates

TeleChoice Int'l

Results comparison

FYE Dec (\$\$ m)	1Q13	1Q12	yoy % chg	4Q12	qoq % chg	Prev. 1Q13F	Comments
Revenue	116.8	102.0	15	137.7	(15)	115.8	In line
Operating costs	(114.4)	(99.0)	16	(132.3)	(14)	(113.4)	In line
EBITDA	2.4	3.0	(19)	5.5	(55)	2.4	In line
<i>EBITDA margin (%)</i>	<i>2.1</i>	<i>3.0</i>		<i>4.0</i>		<i>2.1</i>	In line
Depn & amort.	(0.8)	(0.7)	5	(0.8)	(2)	(0.8)	In line
EBIT	1.7	2.3	(27)	4.7	(64)	1.7	In line
Interest expense	(0.3)	(0.1)	<i>nm</i>	(0.4)	(29)	(0.2)	In line
Interest & invt inc	0.2	0.3	(30)	0.1	58	0.2	In line
Associates' contrib	0.0	(0.2)	(100)	(0.6)	(100)	0.0	Below
Exceptionals	0.0	0.0	<i>nm</i>	(0.2)	<i>nm</i>	0.0	
Pretax profit	1.6	2.3	(30)	3.6	(55)	1.7	In line
Tax	(0.5)	(0.6)	(13)	(0.1)	375	(0.4)	Above, Higher-than-expected tax from overseas entities
Tax rate (%)	31.1	25.0		2.9		25.0	
Minority interests	0.1	0.0	307	(0.1)	176	0.0	
Net profit	1.2	1.7	(33)	3.4	(66)	1.3	7% below expectation
EPS (cts)	0.3	0.4	(33)	0.7	(66)	0.3	

Source: NRA Capital estimates

TeleChoice Int'l

Profit & Loss (\$\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
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
Pretax profit	9.1	9.9	15.7	20.4	24.1
Tax	(2.1)	(1.7)	(3.1)	(4.1)	(4.8)
Minority interests	(0.4)	0.0	0.1	0.1	0.1
Net profit	6.6	8.2	12.6	16.4	19.4
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
Balance Sheet (\$\$ m, as at Dec)	2011	2012	2013F	2014F	2015F
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
Total non-current assets	22.8	21.3	19.7	18.3	17.0
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
Total current assets	147.6	155.5	170.7	191.0	209.4
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
Total current liabilities	90.0	86.1	96.3	111.5	127.7
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
Total long-term liabilities	6.7	18.1	16.1	15.9	10.9
Shareholders' funds	72.3	71.4	76.7	80.7	86.7
Minority interests	1.4	1.3	1.2	1.2	1.1
NTA/share (\$\$)	0.12	0.12	0.14	0.15	0.16
Total Assets	170.4	176.8	190.4	209.3	226.4
Total Liabilities + S'holders' funds	170.4	176.8	190.4	209.3	226.4
Cash Flow (\$\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
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
Cash flow from operations	1.4	32.2	9.8	8.8	11.5
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
Cash flow from investing	(3.0)	(8.3)	(2.4)	(2.3)	(2.4)
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)
Cash flow from financing	(2.4)	(2.7)	(9.5)	(6.7)	(15.3)
Change in cash	(4.0)	21.1	(2.1)	(0.2)	(6.1)
Change in net cash/(debt)	(11.1)	15.2	(0.8)	(1.8)	(1.5)
Ending net cash/(debt)	14.3	29.5	28.6	26.8	25.3
KEY RATIOS (FYE Dec)	2011	2012	2013F	2014F	2015F
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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