

Neutral**Current Price** S\$0.235Fair Value S\$0.26
Up / (downside) +11%**Stock Statistics**

Market cap	S\$106.6m
52-low	S\$0.205
52-high	S\$0.260
Avg daily vol	127,588
No of share	452.2m
Free float	30%

Key Indicators

ROE 13F	13%
ROA 13F	5%
P/BK	1.6x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Historical Chart

Source: Bloomberg

Foot in the door

- **Earnings in line with expectations.** TeleChoice's 3Q13 net profit of S\$2.6m (+46% yoy and +53% qoq) were in line with our expectation, however the key variances were 1) better-than-expected revenue but offset by lower-than-expected margins; and 2) higher-than-expected other and finance expenses but offset by lower-than-expected taxation.
- **Earnings forecasts unchanged.** After fine-tuning our assumptions, our FY13-15 forecasts are relatively unchanged. As a result, our fair value has lowered by 3 cts to 26 cts, still pegged to 8x PER FY14. Despite its improving outlook, we maintain our **Neutral** for the time being given the near-term upside is limited but long-term investors may accumulate due to the attractive dividend yield of 7-9%.
- **Is the Singapore smartphone market saturated?** Research data from 2013 shows that among daily Internet users, Singapore smartphone penetration has increased from 74% in 2012 to 78% in 2013 while tablet penetration has increased from 31% in 2012 to 42% in 2013. Analysing the data, we believe the Singapore smartphone market will be saturated in 2015 and demand will mainly be from the replacement market. As TeleChoice has been changing its handset business model to partner with Telcos for fulfilment services, we believe the impact on margin erosion will be minimal.
- **Changing in leadership.** The group's new President-Designate, Vincent Lim, has joined the group since Oct-2013. Mr Lim brings with him more than 30 years' of information technology experience. We believe his vast experience dealing with government projects during his tenure with Singapore Computer Systems (SCS) and NCS Pte Ltd could strengthen its ICT division with more government projects. Mr. Lim will replace Mr. Andrew Loh as President on 1 Jan-2014 and Mr Loh will remain as the President of TeleChoice until the effective date of his retirement on 31 Dec-2013 to facilitate a smooth transition.
- **2Q13 revenues increased by 26% yoy to S\$149.4m**, led by ICT's sales which increased 34% yoy, PCS's revenues which were up 26% yoy and Engineering sales grew 14% yoy.
- **Gross profit margins slid 1.2% pt to 7.4% in 3Q13**, however EBITDA margins held at 2.9% after improving its operating expenses.
- **Balance sheet remains good.** TeleChoice generated a negative free cash flow of S\$8.6m this quarter after increasing its working capital requirement. As a result cash conversion cycle extended by 5 days qoq to 29 days. Net cash decreased by S\$9m qoq to S\$12.6m as at end September-2013.

Key Financial Data

(S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Sales	389.6	480.9	556.8	651.4	763.2
Gross Profit	41.6	41.6	44.0	58.6	68.7
Net Profit	6.6	8.2	9.9	14.5	17.1
EPS (cents)	1.5	1.8	2.2	3.2	3.8
EPS growth (%)	(47.1)	25.0	19.8	46.8	18.4
PER (x)	16.2	13.0	10.8	7.4	6.2
NTA/share (cents)	12.0	12.1	13.1	14.3	15.8
DPS (cents)	1.6	1.6	1.6	1.9	2.3
Div Yield (%)	6.8	6.8	6.8	8.1	9.6

Source: Company, NRA Capital estimates

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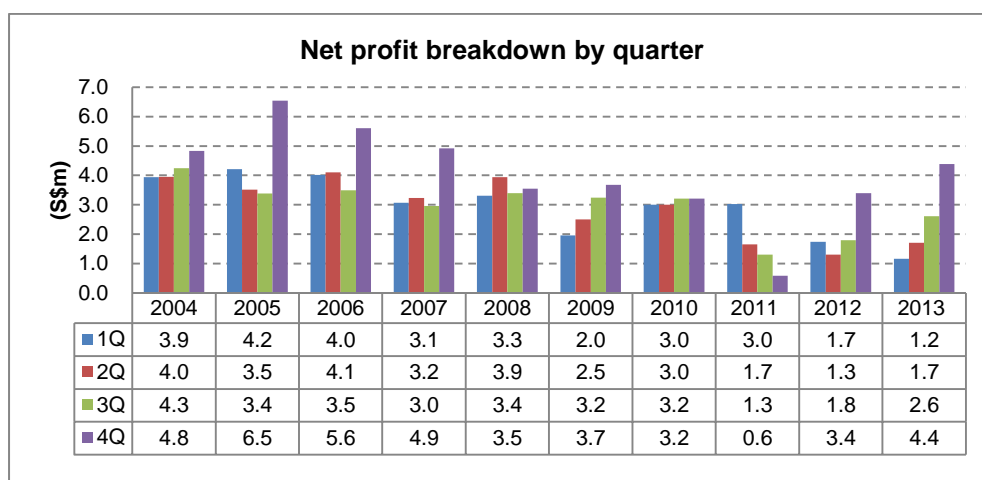
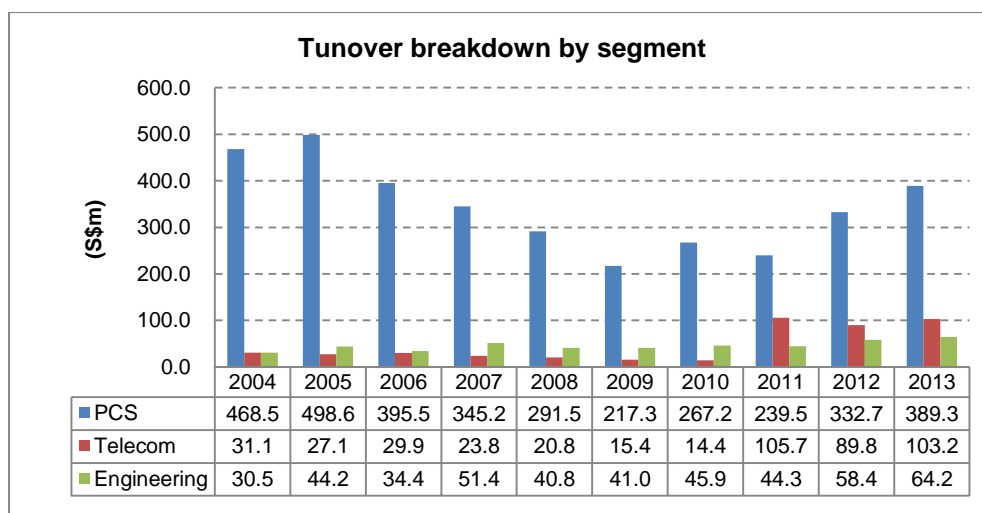
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TeleChoice Int'l

Results comparison

FYE Dec (\$\$ m)	3Q13	3Q12	yoy % chg	2Q13	qoq % chg	Prev. 3Q13F	Comments
Revenue	149.4	118.8	26	138.3	8	141.4	6% above expectation
Operating costs	(145.1)	(115.4)	26	(134.9)	8	(136.9)	Above, higher-than-expected sales
EBITDA	4.3	3.4	28	3.3	31	4.5	In line
EBITDA margin (%)	2.9	2.9		2.4		3.2	0.3% pts below expectation
Depn & amort.	(0.8)	(0.8)	5	(0.8)	(3)	(0.8)	In line
EBIT	3.6	2.6	35	2.5	41	3.7	In line
Interest expense	(0.3)	(0.3)	5	(0.3)	9	(0.3)	In line
Interest & invt inc	(0.1)	0.0	<i>nm</i>	(0.0)	831	0.2	Below due to S\$0.3m forex loss
Associates' contrib	0.0	(0.0)	(100)	0.0	0	0.0	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.1	2.3	34	2.2	39	3.6	Below due to forex loss
Tax	(0.4)	(0.6)	(20)	(0.7)	(32)	(1.1)	Below, lower-than-expected taxation
Tax rate (%)	14.3	24.1		29.4		30.0	
Minority interests	(0.1)	0.0	(432)	0.1	(162)	0.1	
Net profit	2.6	1.8	46	1.7	53	2.7	In line
EPS (cts)	0.6	0.4	45	0.4	53	0.6	

Source: NRA Capital estimates



Source: NRA Capital estimates

TeleChoice Int'l

Profit & Loss (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue	389.6	480.9	556.8	651.4	763.2
Operating expenses	(373.5)	(466.8)	(540.5)	(629.0)	(737.5)
EBITDA	16.1	14.1	16.2	22.4	25.7
Depreciation & amortisation	(3.1)	(3.0)	(3.0)	(3.0)	(3.0)
EBIT	13.0	11.1	13.2	19.4	22.7
Net interest & invt income	0.8	(0.2)	(0.1)	(0.1)	0.2
Associates' contribution	(0.3)	(0.7)	0.0	0.0	0.0
Exceptional items	(4.4)	(0.2)	0.0	0.0	0.0
Pretax profit	9.1	9.9	13.1	19.3	22.9
Tax	(2.1)	(1.7)	(3.2)	(4.8)	(5.7)
Minority interests	(0.4)	0.0	(0.0)	(0.0)	(0.0)
Net profit	6.6	8.2	9.9	14.5	17.1
Wt. shares (m)	453.4	453.8	454.0	454.0	454.0
Shares at year-end (m)	453.4	453.8	454.0	454.0	454.0
Balance Sheet (S\$ 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	47.5	48.2	41.9
Stocks	37.0	39.2	45.8	53.0	62.0
Trade debtors	79.7	64.7	74.9	87.6	102.7
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	147.6	155.5	168.2	188.8	206.6
Trade creditors	60.9	67.8	76.9	88.9	104.2
Short-term borrowings	16.6	12.1	12.2	13.7	13.7
Other current liabilities	12.6	6.1	7.4	9.0	9.9
Total current liabilities	90.0	86.1	96.6	111.6	127.8
Long-term borrowings	0.0	10.0	8.4	8.5	3.8
Other long-term liabilities	6.7	8.1	7.7	7.3	7.0
Total long-term liabilities	6.7	18.1	16.0	15.8	10.8
Shareholders' funds	72.3	71.4	74.0	78.4	83.6
Minority interests	1.4	1.3	1.3	1.3	1.3
NTA/share (S\$)	0.12	0.12	0.13	0.14	0.16
Total Assets	170.4	176.8	187.9	207.1	223.6
Total Liabilities + S'holders' funds	170.4	176.8	187.9	207.1	223.6
Cash Flow (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	9.1	9.9	13.1	19.3	22.9
Depreciation & non-cash adjustments	8.5	4.6	4.1	1.1	0.6
Working capital changes	(12.7)	20.6	(6.8)	(7.1)	(8.3)
Cash tax paid	(3.5)	(3.0)	(1.9)	(3.2)	(4.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1.4	32.2	8.4	10.1	10.4
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)	(0.1)	(0.1)	(0.1)
Cash flow from investing	(3.0)	(8.3)	(2.7)	(2.7)	(2.7)
Debt raised/(repaid)	7.1	5.9	(1.5)	1.5	(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)	(8.7)
Cash interest & others	(0.9)	(1.1)	(1.0)	(1.0)	(0.8)
Cash flow from financing	(2.4)	(2.7)	(9.8)	(6.7)	(14.1)
Change in cash	(4.0)	21.1	(4.1)	0.7	(6.4)
Change in net cash/(debt)	(11.1)	15.2	(2.6)	(0.8)	(1.8)
Ending net cash/(debt)	14.3	29.5	26.9	26.1	24.3
KEY RATIOS (FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	19.0	23.4	15.8	17.0	17.2
EBITDA growth (%)	5.0	(12.5)	15.0	37.9	14.8
Pretax margins (%)	2.3	2.1	2.3	3.0	3.0
Net profit margins (%)	1.7	1.7	1.8	2.2	2.2
Interest cover (x)	30.1	11.0	14.2	21.3	31.3
Effective tax rates (%)	22.7	17.2	24.5	25.0	25.0
Net dividend payout (%)	110.3	88.2	73.6	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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