

Overweight

Current Price	S\$0.245
Fair Value	S\$0.28
Up / (downside)	+14%

Stock Statistics

Market cap	S\$113.5m
52-low	S\$0.205
52-high	S\$0.260
Avg daily vol	117,694
No of share	452.2m
Free float	30%

Key Indicators

ROE 13F	17%
ROA 13F	7%
P/BK	1.6x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Historical Chart

Source: Bloomberg

Back to growth

- **Earnings in line with expectations.** TeleChoice's 4Q13 net profit of S\$4.2m (+23% yoy and +60% qoq) were in line with our expectation. However the key variances were higher-than-expected selling, general & administrative expense (SG&A) but offset by higher tax incentives qualified under the Productivity and Innovation Credit (PIC) scheme for the Singapore entities.
- **Cut earnings forecasts but raise fair value by 2 cts.** Despite maintaining our sales forecasts, after factoring in higher SG&A expenses, our FY14-15 estimates have been lowered by 14% and 8% respectively. Nevertheless, we roll forward our base from 8x PER FY14 to FY15 or implied to ex-net cash PER of 5.3x PER. As a result, our fair value has increased by 2 cts to 28 cts. Given the potential re-rating catalyst and attractive dividend yield of 6-9%, we upgrade our recommendation from Neutral to **Overweight**. The group expects 1Q14 earnings to be lower than the same period last year, but the full year 2014 operating performance is expected to be better than FY2013.
- **Tied up more fulfilment services with its larger customer.** TeleChoice is the first exclusive partner to manage full-fledged StarHub Platinum Shops in Singapore, which started in 2007. Currently there are three Starhub Platinum Shops at IMM shopping mall, Causeway Point and Westgate shopping mall. To combat escalating labour and rental costs, management will continue looking for new opportunities to expand its scope of services to Starhub, as such, we expect more Platinum Shop to be open. ICT performance expected to continue to improve this year with entry into new business and customer segments. Network Engineering Service will continue to benefit from the demand of network upgrading and expansion by the regional Telecom.
- **4Q13 revenues increased by 10% yoy to S\$151.8m**, led by PCS's sales which increased 20% yoy. This was offset by ICT and Engineering divisions, where revenues reduced by 11% and 8% yoy, respectively.
- **Gross profit margins slid 0.2% pts to 8.5% in 4Q13.** Including higher selling, general & administrative expense, EBITDA margins were off 0.8% pts to 3.2%.
- **Strong free cash flow generated in 4Q13.** TeleChoice generated a positive free cash flow of S\$16m after improving its working capital requirement. As a result cash conversion cycle reduced by 13 days qoq to 16 days. Net cash increased from S\$12.6m in the previous quarter to S\$29m as at end December-2013. The board declared an unchanged final dividend of 1.6 cts.

Key Financial Data (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	480.9	556.3	631.7	740.5	841.9
Gross Profit	41.6	43.5	53.7	62.9	71.6
Net Profit	8.2	9.7	12.5	15.8	17.0
EPS (cents)	1.8	2.1	2.8	3.5	3.7
EPS growth (%)	25.0	17.4	29.4	26.6	7.1
PER (x)	13.8	11.7	9.1	7.2	6.7
NTA/share (cents)	12.1	11.9	13.3	14.5	16.1
DPS (cents)	1.6	1.6	1.7	2.1	2.2
Div Yield (%)	6.4	6.4	6.6	8.4	9.0

Source: Company, NRA Capital estimates

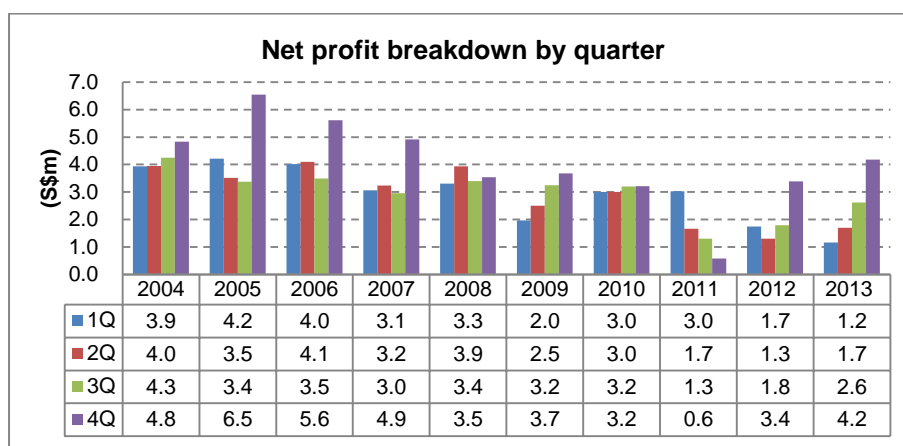
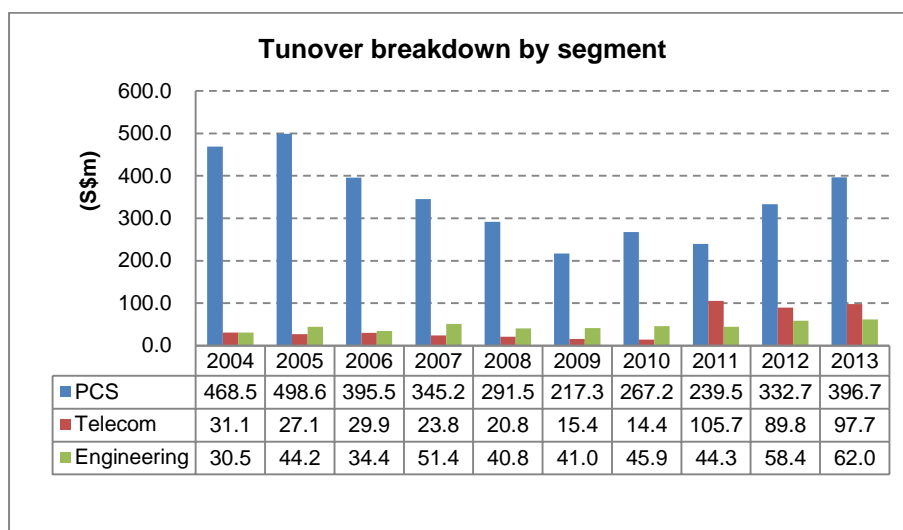
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TeleChoice Int'l

Results comparison

FYE Dec (\$\$ m)	4Q13	4Q12	yoy % chg	3Q13	qoq % chg	Prev. 4Q13F	Comments
Revenue	151.8	137.7	10	149.4	2	152.3	In line
Operating costs	(146.9)	(132.3)	11	(145.1)	1	(145.9)	In line
EBITDA	4.9	5.5	(11)	4.3	12	6.3	Below, higher-than-expected SG&A expenses
EBITDA margin (%)	3.2	4.0		2.9		4.1	0.9% pts below expectation
Depn & amort.	(0.8)	(0.8)	(4)	(0.8)	(4)	(0.6)	Above
EBIT	4.1	4.7	(12)	3.6	16	5.7	Below, higher-than-expected SG&A expenses
Interest expense	(0.3)	(0.4)	(20)	(0.3)	12	(0.2)	In line
Interest & invt inc	0.3	0.1	nm	(0.1)	287	0.6	Below, lower-than-expected interest and other incomes
Associates' contrib	0.0	(0.6)	(100)	0.0	0	0.0	
Exceptionals	0.0	(0.2)	(100)	0.0	0	0.0	
Pretax profit	4.1	3.6	14	3.1	30	6.1	Below, higher-than-expected SG&A expenses
Tax	0.1	(0.1)	232	(0.4)	131	(1.6)	Higher tax incentives qualified under the PIC scheme
Tax rate (%)	(3.4)	2.9		14.3		26.2	
Minority interests	(0.0)	(0.1)	(53)	(0.1)	(52)	(0.1)	
Net profit	4.2	3.4	23	2.6	60	4.4	In line
EPS (cts)	0.9	0.7	23	0.6	60	1.0	

Source: NRA Capital estimates



Source: NRA Capital estimates

TeleChoice Int'l

Profit & Loss (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue	480.9	556.3	631.7	740.5	841.9
Operating expenses	(466.8)	(541.6)	(612.4)	(717.3)	(817.2)
EBITDA	14.1	14.7	19.3	23.2	24.7
Depreciation & amortisation	(3.0)	(3.1)	(3.1)	(3.1)	(3.1)
EBIT	11.1	11.5	16.2	20.1	21.7
Net interest & invt income	(0.2)	(0.5)	(0.5)	(0.2)	(0.3)
Associates' contribution	(0.7)	0.0	0.0	0.0	0.0
Exceptional items	(0.2)	0.0	0.0	0.0	0.0
Pretax profit	9.9	11.1	15.7	19.9	21.3
Tax	(1.7)	(1.5)	(3.1)	(4.0)	(4.3)
Minority interests	0.0	0.1	(0.1)	(0.1)	(0.1)
Net profit	8.2	9.7	12.5	15.8	17.0
Wt. shares (m)	453.8	453.9	453.9	453.9	453.9
Shares at year-end (m)	453.8	453.9	453.9	453.9	453.9
Balance Sheet (S\$ m, as at Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	2.9	2.4	2.5	2.6	2.7
Intangible assets	16.4	15.6	14.0	12.6	11.4
Other long-term assets	2.0	1.8	1.8	1.8	1.8
Total non-current assets	21.3	19.8	18.3	17.0	15.8
Cash and equivalents	51.6	48.9	57.4	54.4	59.7
Stocks	39.2	39.1	44.1	51.7	58.8
Trade debtors	64.7	63.4	72.0	84.4	96.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	155.5	151.5	173.5	190.6	214.5
Trade creditors	67.8	74.5	86.7	101.6	115.6
Short-term borrowings	12.1	9.9	13.3	13.3	15.2
Other current liabilities	6.1	6.5	8.4	9.2	9.5
Total current liabilities	86.1	90.8	108.4	124.2	140.2
Long-term borrowings	10.0	10.0	8.2	3.7	4.2
Other long-term liabilities	8.1	0.7	0.7	0.7	0.7
Total long-term liabilities	18.1	10.7	8.9	4.4	4.9
Shareholders' funds	71.4	69.5	74.2	78.6	84.7
Minority interests	1.3	0.3	0.3	0.4	0.5
NTA/share (S\$)	0.12	0.12	0.13	0.15	0.16
Total Assets	176.8	171.3	191.8	207.5	230.3
Total Liabilities + S'holders' funds	176.8	171.3	191.8	207.5	230.3
Cash Flow (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	9.9	11.1	15.7	19.9	21.3
Depreciation & non-cash adjustments	4.6	(4.3)	4.2	0.5	3.0
Working capital changes	20.6	9.1	(0.3)	(4.2)	(3.7)
Cash tax paid	(3.0)	(2.5)	(1.3)	(3.1)	(4.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	32.2	13.3	18.4	13.0	16.6
Capex	(2.0)	(2.2)	(2.6)	(2.6)	(2.6)
Net investments & sale of FA	(5.0)	0.0	0.0	0.0	0.0
Others	(1.4)	(1.4)	(0.1)	(0.1)	(0.1)
Cash flow from investing	(8.3)	(3.6)	(2.7)	(2.7)	(2.7)
Debt raised/(repaid)	5.9	(2.3)	1.6	(4.4)	2.3
Equity raised/(repaid)	(0.3)	(0.3)	0.0	0.0	0.0
Dividends paid	(7.3)	(7.4)	(7.3)	(7.5)	(9.5)
Cash interest & others	(1.1)	(2.6)	(1.5)	(1.3)	(1.4)
Cash flow from financing	(2.7)	(12.5)	(7.2)	(13.2)	(8.6)
Change in cash	21.1	(2.7)	8.5	(2.9)	5.3
Change in net cash/(debt)	15.2	(0.4)	6.8	1.5	2.9
Ending net cash/(debt)	29.5	29.0	35.9	37.4	40.3
KEY RATIOS (FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	23.4	15.7	13.6	17.2	13.7
EBITDA growth (%)	(12.5)	3.8	32.0	20.1	6.5
Pretax margins (%)	2.1	2.0	2.5	2.7	2.5
Net profit margins (%)	1.7	1.7	2.0	2.1	2.0
Interest cover (x)	11.0	11.0	14.1	21.9	20.7
Effective tax rates (%)	17.2	13.3	20.0	20.0	20.0
Net dividend payout (%)	88.2	75.2	60.0	60.0	60.0
Debtors turnover (days)	49.1	41.6	41.6	41.6	41.6
Stock turnover (days)	32.6	27.9	27.9	27.9	27.9
Creditors turnover (days)	56.3	53.0	54.8	54.8	54.8

Source: Company, NRA Capital estimates

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