

TeleChoice Int'l

2Q14 results update
20 August 2014

Overweight

Current Price	S\$0.245
Fair Value	S\$0.29
Up / (downside)	+18%

Stock Statistics

Market cap	S\$120.2m
52-low	S\$0.225
52-high	S\$0.265
Avg daily vol	81,591
No of share	453.6m
Free float	30%

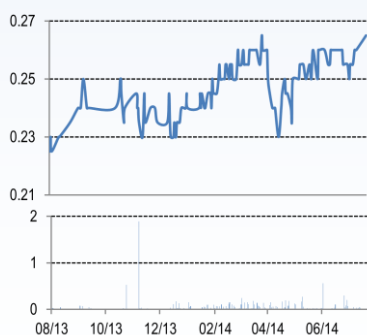
Key Indicators

ROE 14F	17.5%
ROA 17F	7%
P/BK	1.67x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart



Source: Bloomberg

Jacky Lee
 (+65) 6236-6887
 jacky.lee@nracapital.com
www.nracapital.com

ICT is the potential key driver

- **Earnings in line with expectations.** Despite TeleChoice's 2Q14 sales being 11% below our expectation, its net profit of S\$1.8m (+4% yoy) was in line with our S\$1.9m forecast due mainly to better-than-expected gross profit margins and lower-than-expected operating expenses. 1H only formed 27% of our full year forecast as traditionally its second half is the stronger quarter.
- **Maintain earnings forecasts.** After fine tuning our revenue projections and costing assumptions, our FY14-16 net profit forecasts are relatively unchanged. However, our fair value has risen by 1 ct to S\$0.29, still based on 8x PER FY15. Given the 18% potential upside coupled with its strong track record and attractive 6-9% yield, maintain **Overweight** rating.
- **Singapore ICT markets continue to get a boost from Productivity and Innovation Credit (PIC).** Since Singapore rolled out the Intelligent Nation 2015 Master Plan in 2005, the ICT industry is well-positioned to tap new business opportunities of the digital age. Singapore ranks as the second most network-ready country in the world and the first in Asia, according to the World Economic Forum's "Global Information Technology Report 2013". We believe Singapore ICT markets will continue to flourish over the next four years with the extension of Productivity and Innovation Credit (PIC) scheme till 2015 and with the new PIC+ scheme, more companies would be motivated to seek productivity improvement and Research & Development investment (refer appendix for more detail on PIC scheme).
- **2Q14 revenues decreased by 7% yoy to S\$129.2m,** PCS's sales declined 1% yoy due to lower prepaid card sales and less smartphone models launched during the quarter. ICT revenue dropped by 19% yoy on account of lower sales by S & I Systems and NxGen Communications Pte Ltd mitigated by higher wholesale revenue. Nevertheless, Engineering sales fell by 25% yoy due to lower transmission equipment sales in Singapore and lower revenue recognition from Indonesia as a result of weaker local currency (the Rupiah to Singapore dollar depreciated nearly 15% in 2Q14).
- **Gross profit margins up 0.2% pts yoy to 7.7% in 2Q14,** with slightly higher opex ratio, EBITDA margins were flat at 2.4%. Including lower financial expenses and taxation, net profit has increased by 5% yoy.
- **Balance sheet remains strong.** Despite increasing its capex spending (office and warehouse relocation). The group still generated a positive free cash flow of S\$0.7m. Cash conversion cycle remains at 26 days. Including S\$7.3m dividend payout, net cash decreased to S\$15m as at end June-2014 or about 3.3 cents net cash per shares.

Key Financial Data (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	480.9	556.3	589.0	647.9	735.6
Gross Profit	41.6	43.5	50.1	56.0	62.5
Net Profit	8.2	9.7	13.0	16.3	17.6
EPS (cents)	1.8	2.1	2.9	3.6	3.9
EPS growth (%)	25.0	17.4	34.5	25.2	8.0
PER (x)	14.6	12.5	9.3	7.4	6.8
NTA/share (cents)	12.1	11.9	13.3	14.6	16.2
DPS (cents)	1.6	1.6	1.7	2.2	2.3
Div Yield (%)	6.0	6.0	6.5	8.1	8.8

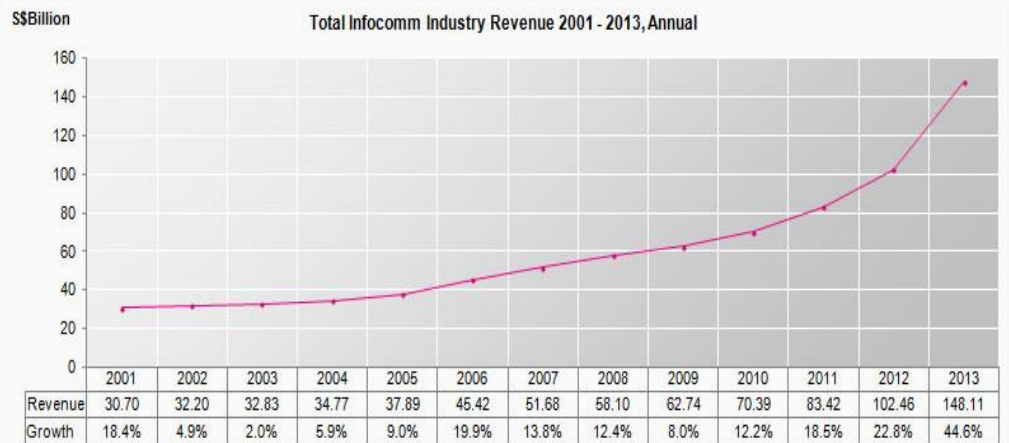
Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (\$\$ m)	2Q14	2Q13	yoy % chg	1Q14	qoq % chg	Prev. 2Q14F	Comments
Revenue	129.2	138.3	(7)	124.7	4	145.2	11% below expectation
Operating costs	(126.0)	(134.9)	(7)	(121.6)	4	(142.1)	Below, lower-than-expected revenue
EBITDA	3.2	3.3	(5)	3.1	3	3.1	In line
EBITDA margin (%)	2.4	2.4		2.4		2.2	0.2% pts above expectation
Depn & amort.	(0.8)	(0.8)	2	(0.8)	6	(0.8)	In line
EBIT	2.3	2.5	(7)	2.3	2	2.3	In line
Interest expense	(0.2)	(0.3)	(27)	(0.2)	(6)	(0.2)	In line
Interest & invt inc	0.1	(0.0)	<i>nm</i>	0.3	(75)	0.2	Below
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	2.2	2.2	(2)	2.3	(6)	2.4	Below, better-than-expected other income
Tax	(0.5)	(0.7)	(26)	(0.8)	(35)	(0.6)	Below
Tax rate (%)	22.2	29.4		32.4		26.0	
Minority interests	0.1	0.1	(45)	0.0	73	0.1	
Net profit	1.8	1.7	5	1.6	10	1.9	In line
EPS (cts)	0.4	0.4	5	0.4	10	0.4	

Source: NRA Capital estimates



Source: IDA's Annual Survey on Infocomm Industry.

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Profit & Loss (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue	480.9	556.3	589.0	647.9	735.6
Operating expenses	(466.8)	(541.6)	(569.6)	(624.6)	(710.7)
EBITDA	14.1	14.7	19.4	23.3	24.9
Depreciation & amortisation	(3.0)	(3.1)	(3.1)	(3.1)	(3.1)
EBIT	11.1	11.5	16.3	20.2	21.8
Net interest & invt income	(0.2)	(0.5)	0.0	0.2	0.2
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	16.3	20.4	22.1
Tax	(1.7)	(1.5)	(3.3)	(4.1)	(4.4)
Minority interests	0.0	0.1	(0.1)	(0.1)	(0.1)
Net profit	8.2	9.7	13.0	16.3	17.6
Wt. shares (m)	453.8	453.9	453.6	453.6	453.6
Shares at year-end (m)	453.8	453.9	453.6	453.6	453.6
Balance Sheet (\$\$ m, as at Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	2.9	2.4	2.4	2.4	2.4
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	18.2	16.8	15.5
Cash and equivalents	51.6	48.9	58.0	57.0	62.9
Stocks	39.2	39.1	41.1	45.2	51.4
Trade debtors	64.7	63.4	67.1	73.8	83.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	155.5	151.5	166.3	176.0	198.2
Trade creditors	67.8	74.5	80.8	88.8	101.0
Short-term borrowings	12.1	9.9	12.4	11.7	13.2
Other current liabilities	6.1	6.5	8.5	9.3	9.6
Total current liabilities	86.1	90.8	101.7	109.8	123.8
Long-term borrowings	10.0	10.0	7.7	3.2	3.7
Other long-term liabilities	8.1	0.7	0.7	0.7	0.7
Total long-term liabilities	18.1	10.7	8.3	3.9	4.3
Shareholders' funds	71.4	69.5	74.2	78.7	85.0
Minority interests	1.3	0.3	0.3	0.4	0.5
NTA/share (\$\$)	0.12	0.12	0.13	0.15	0.16
Total Assets	176.8	171.3	184.6	192.8	213.6
Total Liabilities + S'holders' funds	176.8	171.3	184.6	192.8	213.6
Cash Flow (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	9.9	11.1	16.3	20.4	22.1
Depreciation & non-cash adjustments	4.6	(4.3)	4.1	1.0	3.3
Working capital changes	20.6	9.1	1.1	(2.5)	(3.7)
Cash tax paid	(3.0)	(2.5)	(1.3)	(3.3)	(4.1)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	32.2	13.3	20.3	15.6	17.6
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)	(0.3)	(0.3)	(0.3)
Cash flow from investing	(8.3)	(3.6)	(2.9)	(2.9)	(2.9)
Debt raised/(repaid)	5.9	(2.3)	0.2	(5.1)	2.0
Equity raised/(repaid)	(0.3)	(0.3)	(0.1)	0.0	0.0
Dividends paid	(7.3)	(7.4)	(7.3)	(7.8)	(9.8)
Cash interest & others	(1.1)	(2.6)	(1.1)	(0.9)	(1.0)
Cash flow from financing	(2.7)	(12.5)	(8.2)	(13.8)	(8.7)
Change in cash	21.1	(2.7)	9.1	(1.1)	6.0
Change in net cash/(debt)	15.2	(0.4)	9.0	4.0	4.0
Ending net cash/(debt)	29.5	29.0	38.0	42.1	46.0
KEY RATIOS (FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	23.4	15.7	5.9	10.0	13.5
EBITDA growth (%)	(12.5)	3.8	32.5	19.9	7.0
Pretax margins (%)	2.1	2.0	2.8	3.2	3.0
Net profit margins (%)	1.7	1.7	2.2	2.5	2.4
Interest cover (x)	11.0	11.0	22.4	37.1	35.3
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 forecasts

Appendix: Productivity and Innovation Credit

400% tax deductions/allowances on up to \$400,000 expenditure per year in each of the 6 activities (Training of Employees, Purchase/Leasing of PIC IT and Automation Equipment, Acquisition/In-licensing of Intellectual Property, Registration of Intellectual Property, Research & Development and Approved Design Project)

To allow max PIC benefits, the spending cap across YAs for each activity is as shown below:

Years of Assessment	Expenditure Cap per Activity	Tax Deduction per Activity
2011 and 2012 (Combined)	\$800,000	\$3,200,000 (400% x \$800,000)
2013 to 2015 (Combined)	\$1,200,000	\$4,800,000 (400% x \$1,200,000)
2016 to 2018* (Combined)	\$1,200,000	\$4,800,000 (400% x \$1,200,000)

* Budget 2014 Enhancement

Potential Maximum Benefits for YA2013, YA2014 & 2015 combined Deduct up to \$28.8M (400% x \$1.2M x 6 activities)

PIC+ Scheme:

From YA2015, qualifying SMEs that invest in excess of the combined cap of S\$1.2m in any of the 6 qualifying activities will enjoy enhanced deductions / allowances on an additional amount of \$200,000 for each qualifying activity per YA

Maximum combined expenditure cap applicable for each 3 Maximum combined expenditure cap applicable for each 3-year period: year period:

YA	2013	2014	2015	2016	2017	2018
Max. annual cap	400,000	400,000	600,000	600,000	600,000	600,000
Max. combined cap*	\$1,400,000#			\$1,800,000		

* only if you are carrying on a trade or business for the relevant YAs. Otherwise, the combined cap is reduced accordingly.

the combined expenditure cap of \$1,400,000 is only applicable for YA2015 as the additional expenditure cap of \$200,000 (\$600,000 - \$400,000) is not available for YA2013 and YA2014

Qualifying SMEs:

Where the business is not part of a group

- Revenue not more than \$100 million; or
- Employment size not more than 200 employees

Where the business is part of a group

- Group revenue not more than \$100 million; or
- Group employment size not more than 200 employees

Expenditure conversion cap under the cash payout option remains unchanged, at \$100,000 for all 6 activities per YA.

Sources: 2014 IRAS Singapore

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