

TeleChoice International Limited

11 Nov 09

Results Review

Choosing the Path

Improving Result: On 9th Nov 2009, TeleChoice announced a slightly weaker year on year quarter with S\$70.0m revenue and 3.2m profit after tax, compared to 3Q 08's S\$85.8m revenue and 3.4m profit after tax.

However, we are seeing a recovery of margin, especially in the PCS (Personal Communications Service) segment which recorded a 5.49% profit before tax. This is partially due to an S\$576,000 one-off gain from the disposal of investment from associate. In addition, cost control policy remains in place with administrative cost falling 29.3% relative to the 18.4% reduction in revenue for the third quarter YoY.

Figure 1: Historical Performance



Source: Company; SIAS Research

Business as Usual: The topline for all three segments has lowered slightly due to the slowdown in general economy. Taking out the one-off gains for the PCS Segment, we observe a slight improvement in margins for PCS and Telecoms segments. On the other hand, the Engineering segment suffered an S\$299,000 loss in currency exchange, resulting in an abnormally lower than usual margin.

Fairly Valued

Target Price **S\$0.24**
Prev Closing Price **S\$0.21**

Main Activities

TeleChoice International Limited is engaged in offering a suite of services and solutions for the telecommunications industry. The Company has three divisions: Personal Communications Solutions Services, Telecommunications Services, and Network Engineering Services.

Financial Highlights

(Y/E Dec) S\$m	FY07	FY08	FY09F
Revenue	420.2	353.1	269.2
Gross Profit	39.5	36.3	25.5
Net Profit	14.2	14.2	10.8
EPS (S cts)	3.1	3.1	2.4

Source: Company, SIAS Research

Key ratios (FY09F)

PER	8.9
P/BV	1.4
ROA	9.8%
ROE	16.0%
Net Debt to Equity	Net Cash
Current ratio	2.5

Source: SIAS Research

Indexed Price Chart

Telechoice (wWhite)
FSSTI (Green)



Source: Bloomberg

52wks High-Low **S\$0.235/S\$0.165**
Number of Shares **454 m**
Market Capitalization **S\$95.2m**

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Promising Outlook: We foresee Starhub, Telechoice's main customer, to maintain its asset-light policy and continue to retain Telechoice as its upstream inventory supplier. We also look forward to the launch of the full suite of cloud computing solution by the Telecoms Services segment which will involve the use of communications-as-a-service (CAAS) and software-as-a-service (SAAS) for corporate clients.

Springboard, an IT market research firm, expects Enterprise spending on SaaS in Asia Pacific to grow at 46 per cent between 2008 and 2012, pushing the market to USD2.25 billion by 2012. On the other hand, Gartner, an information technology research and advisory firm, has forecasted CaaS to total USD2.3 billion in 2011 worldwide.

As an upcoming integrated provider of hosted voice solutions and cloud computing applications, Telechoice is poised to benefit from this demand due to increase corporate spending in software and strong infrastructure support following the NBN (National Broadband Network). This new division is likely to generate an additional stream of revenue for the company going forward.

Valuation: Telechoice continues to retain its stable business which is defensive and is looking for growth by exploring into new terrains, such as leveraging onto the NBN. As such, we continue to value the company at a 5% discount to its local telco peers, with a forward P/E of 10.2x.

However, we are conservative in our estimates and do not take into account the potential revenue stream and income from its upcoming cloud computing solution service. Hence, we continue to recommend Fairly Valued for Telechoice at S\$0.24 but may upgrade the call pending on the success of the cloud computing solution.

Figure 2: Peer Valuation

	P/E	P/B
SingTel	13.17	2.1
StarHub	10.14	26.85
MobileOne	10.54	7.22
Average	11.3	1.53

Source: Bloomberg; SIAS Research

Figure 3: Financial Forecast and Estimate			
Year End Dec	FY07	FY08	FY09F
Profit & Loss (\$m)			
Revenue	420.4	353.1	269.2
Gross Profit	39.5	36.3	25.5
Op Income	16.9	15.8	11.3
Pretax	17.8	18.2	12.5
Earnings	14.2	14.2	10.8
EPS (fully diluted – S cts)	3.1	3.1	2.4
Balance Sheet (\$m)			
Non Current Assets	14.7	3.2	3.0
Current Assets	135.1	105.7	107.1
Current Liabilities	85.0	42.8	42.4
Non Current Liabilities	0.2	0.1	0.2
Total Equity	64.6	65.9	67.4
Cash Flow (\$m)			
Operating Cash Flow	2.2	36.4	(7.1)
Investing Cash Flow	(11.2)	(0.8)	8.7
Financing Cash Flow	5.8	(17.8)	(6.8)
Net Cash Increase/(Decrease)	(3.3)	17.8	(5.2)
Cash	25.0	42.6	37.4
Financial Ratios			
Revenue Growth (%)	(8.6)	(16.0)	(23.8)
Earnings Growth (%)	(17.6)	0.1	(24.2)
EPS Growth (%)	(17.6)	(0.6)	(24.5)
Gross Margin (%)	9.4	10.3	9.5
Net Margin (%)	3.4	4.0	4.0
Current Ratio (x)	1.6	2.5	2.5
Book value per share (S cts)	14.3	14.6	14.8
Net Cash/(Debt) per sh (S cts)	2.9	8.3	6.6
Net Debt / Equity (%)	Cash	Cash	Cash
Dividend payout ratio (%)	79.5	63.8	87.9
Return on Equity (%)	21.9	21.5	16.0
Return on Asset (%)	9.5	13.0	9.8
Return on Invested Capital (%)	18.6	20.0	14.4
Debtor Days	53.9	46.5	59.0
Creditor Days	39.4	14.2	17.7
Inventory Days	24.7	23.3	16.2
CCC	39.3	55.6	57.5
Valuations			
Price to sales (x)	0.2	0.3	0.4
PER (x)	7.3	7.4	9.8
Price to book (x)	1.6	1.6	1.6
Dividend Yield (%)	10.9	8.7	9.0

Source: SIAS Research Estimate

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value of the firm. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

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