

Analyse This...

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Telechoice International

 2nd half to be stronger

 TLC SP
 HOLD; TP: S\$0.21
 1Q12 Results Note

 Price @17/05/12: S\$0.205
 52-week range (\$): 0.205 – 0.255
 Market cap: S\$92.6m

Maintain HOLD.

- **Key positives in 1Q12:**
 - 1) Revenue of S\$102m (+8.5% yoy), came in 20% above our expectations from growth in its PCS and engineering divisions.
 - 2) New fulfillment contract with StarHub now includes the iPhone.
 - 3) Benefited from strong demand for Samsung handsets.
- **Key negatives:**
 - 1) Gross margin fell 2% pts yoy and 0.9% pts qoq.
 - 2) Profit before tax fell 40.5% due to higher operating expenses from newly acquired NxGen Communications.
 - 3) Fewer large scale projects from subsidiary S&I compared to last year.
 - 4) Effective tax rate increased to about 25% from 15.4% a year ago from higher taxes incurred by its Indonesian entity.
- **Management optimistic despite uncertain economic conditions.** With its recently renewed contract for integrated fulfillment and management services for StarHub, coupled with the strong demand and new handset launches that will hit Singapore's shores, management are now more optimistic about Telechoice's outlook for its PCS division. Based on the current conditions, management expects 1H12's operating performance to be lower than 1H11 but expects 2H12 to outperform 1H12.
- **Earnings reduced on higher effective tax rate. Maintain HOLD.** The spike in effective tax rate remains our main grouse despite management's optimism. After revising up our assumptions for this and some other minor housekeeping adjustments, we reduced projected earnings for FY12-14 by 13-14%. Our target price of S\$0.21 (S\$0.255 previously), still based on 8.3x CY13 P/E, is lowered accordingly. While dividend yield for FY12 at 7.8% might appear appealing, we struggle to see near term re-rating of share price.

1Q12 result at a glance

	1Q12	1Q11	Chng (%)
Sales (S\$ m)	102.0	94.0	8.5
Operating profit (S\$ m)	2.6	4.4	-41.3
Net profit (S\$ m)	1.7	3.0	-42.5
EPS (S\$ cts)	0.38	0.67	-43.3

Profit margin

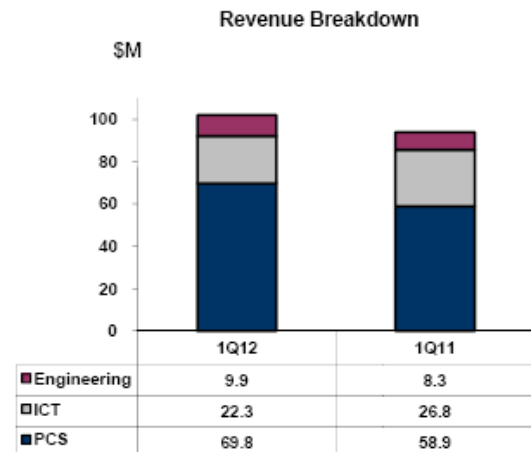
	1Q12	1Q11	Chng (% pts)
Gross profit margin (%)	9.9	11.9	-1.95
Operating profit margin (%)	2.5	4.7	-2.16
Net profit margin (%)	1.7	3.2	-1.51

Balance sheet ratios

	1Q12	1Q11
Net gearing (%)	Net Cash	Net Cash
ROE (%)	9.3	16.4
Current ratio (x)	1.8	1.6

Source: Company, CIMB

Revenue breakdown



Source: Company, CIMB

Financial summary

FYE Dec	2009	2010	2011	2012F	2013F	2014F
Revenue (S\$ m)	273.7	327.5	389.6	425.7	459.8	492.0
yoy growth (%)	(22.7)	19.6	19.0	9.3	8.0	7.0
EBITDA (S\$ m)	15.0	15.9	12.3	16.5	17.9	19.0
EBITDA margins (%)	5.5	4.9	3.2	3.9	3.9	3.9
Pretax profit (S\$ m)	13.6	14.7	9.1	13.5	14.9	16.6
Net profit (S\$ m)	11.4	12.4	6.6	10.4	11.5	12.9
yoy growth (%)	(19.7)	9.0	(47.1)	58.1	10.4	12.1
EPS (S cts)	2.5	2.7	1.5	2.3	2.5	2.8
EPS growth (%)	(20.1)	8.9	(47.0)	58.0	10.4	12.1
P/E (x)	8.2	7.5	14.1	8.9	8.1	7.2
Core EPS (S cts)	2.5	2.7	2.4	2.3	2.5	2.8
Core EPS growth (%)	(20.1)	8.9	(11.5)	(5.5)	10.4	12.1
Core P/E (x)	8.2	7.5	8.5	8.9	8.1	7.2
FD EPS (S cts)	2.5	2.7	1.4	2.3	2.5	2.8
FD P/E (x)	8.2	7.5	14.1	8.9	8.1	7.2
Gross DPS (S cts)	1.8	1.8	1.6	1.6	1.8	2.0
Dividend yield (%)	8.5	8.8	7.8	7.8	8.6	9.7
P/NTA (x)	1.3	1.5	1.7	1.6	1.5	1.4
NTA/sh (S cts)	15.3	14.0	12.0	13.0	13.9	14.9
BVPS (S cts)	15.4	16.4	15.9	16.7	17.5	18.3
ROE (%)	16.8	17.3	9.0	14.1	14.8	15.9
Net gearing (%)	net cash	net cash	net cash	net cash	net cash	net cash
Net cash per share (S cts)	9.6	5.6	3.2	5.7	6.0	6.7
P/CF (x)	7.5	6.8	9.3	7.1	6.5	6.2
EV/EBITDA (x)	5.2	4.9	6.4	4.8	4.4	4.1

Source: Company, CIMB

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