

Analyse This...

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TeleChoice International Ltd

Reading between the lines

 TLC SP
 HOLD; TP: S\$0.255
 4QFY11 Results

 Price @25/02/12: S\$0.245
 52-week range (SGD): 0.205 - 0.265
 Market cap: S\$110.6m

Recommendation

- **Downgrade to HOLD** as the share price has caught up with our target price of S\$0.255. Rolling forward our valuation to 8.3x CY13 EPS gives us a target price of S\$0.255.
- Factoring in management's outlook, we maintain our assumptions on TeleChoice's PCS division but raise our forecasts for the ICT and network engineering divisions slightly in anticipation of contributions from newly acquired NxGen. The move by the telcos into LTE network will create opportunities for TeleChoice.
- Share price will be supported by its 8-9.8% forecast dividend yields and possibly share buy backs by the Company.

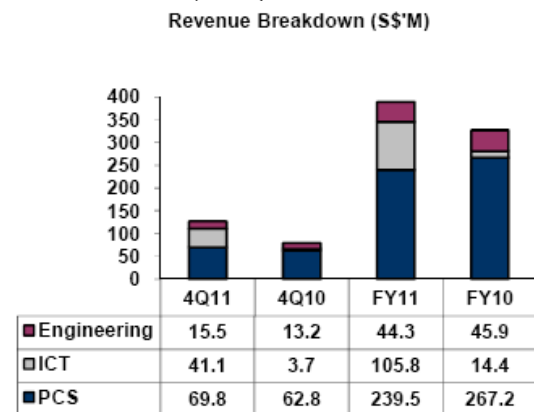
Results Review

- **Revenue** for 4Q11 was S\$126.4m (+58.5% yoy). Boosted by the 4Q surge, full year revenue increased 19% to S\$389.6m, which was 6.8% above our expectation. The increase was largely contributed by its earlier acquisition of S&I Systems and NxGen in its ICT division, which saw a 635% growth in revenue. Its PCS and Network Engineering divisions however saw a decline of 10% and 3% respectively.
- **Gross margin** for FY11 increased 1.2 ppts to 10.7% from 9.5% a year ago due to greater contribution from its higher margin ICT division.
- **Net profit** of S\$9.1m on the other hand was down 38.4% yoy. This was 28.3% below what we expected. This decline was largely due to an additional one-off contingent consideration of S\$4.4m deducted from profits (paid to the vendors of S&I) in accordance to a revision of the accounting standard, FRS 103, in June 2011. Adding the S\$4.4m back, net profit would have been S\$11m and a smaller yoy decline of 11.3%. At that level, net profit would also have been 19.6% above our expectation.

Outlook

- Due to the uncertain economic outlook, the group expects 1Q12 operating performance to be lower 1Q11.
- The group is also expecting a slowdown in consumer spending leading to weaker demand for mobile handsets. We are of the view that Apple's iPhone dominance will continue to exert pressure on the PCS division though non-Apple mobile offerings are improving.
- On the ICT front, the management explained that businesses may also delay or scale back on their expansion and upgrading plans which could affect the performance of ICT services. However, NxGen, which was acquired at the end of last year, is expected to increase its contribution to ICT revenue.
- The network engineering division should benefit from investments in network upgrading and expansion by telcos with the implementation of LTE network technology expected to continue.

Revenue Breakdown (\$\$ m)



Source: Company

4QFY11 result at a glance

FYE Dec (SGD m)	4QFY11	4QFY10	yoy % chg	qoq % chg	4QFY11 Cum	4QFY10 Cum	yoy % chg
Revenue	126.4	79.7	58.5	49.6	389.6	327.5	19.0
Operating costs	(8.1)	(4.4)	84.3	20.1	(28.6)	(17.0)	67.9
EBITDA	2.6	3.9	(33.0)	6.6	12.3	15.9	(22.6)
EBITDA margin (%)	2.1	4.9			3.2	4.9	
Deprn & amort.	(1.0)	(0.4)	145.7	44.6	(3.1)	(1.3)	143.2
EBIT	1.6	3.5	(53.9)	(8.4)	9.2	13.7	(33.2)
Interest expense	(0.2)	(0.0)	17,300.0	346.2	(0.3)	(0.0)	1,536.8
Interest & invt inc	(0.1)	0.0	(296.3)	(255.9)	0.2	0.1	110.6
Associates' contrib	(0.2)	(0.0)	nm	nm	(0.3)	0.1	nm
Exceptionals	(4.4)	-	nm	nm	(4.4)	-	nm
Pretax profit	1.4	3.5	(60.6)	(21.0)	9.1	14.7	(38.4)
Tax	(0.5)	(0.3)	45.5	(13.4)	(2.1)	(2.2)	(8.4)
Tax rate (%)	33.4	9.0			22.7	15.3	48.6
NCI	(0.3)	(0.0)	nm	nm	(0.4)	(0.0)	nm
Net profit	0.6	3.2	(81.8)	(55.2)	6.6	12.4	(47.1)
Core profit	5.0	3.2	55.9	283.1	11.0	12.4	(11.5)
EPS (SGD cts)	0.13	0.71	(81.8)	(55.2)	1.5	2.7	(47.1)
Core EPS (SGD cts)	1.10	0.71	55.8	282.8	2.4	2.7	(11.5)

Source: Company, CIMB

Financial summary

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (\$\$ m)	327.5	389.6	425.7	459.8	492.0
yoy growth (%)	19.6	19.0	9.3	8.0	7.0
EBITDA (\$\$ m)	15.9	12.3	18.6	20.2	21.5
EBITDA margins (%)	4.9	3.2	4.4	4.4	4.4
Pretax profit (\$\$ m)	14.7	9.1	15.7	17.2	19.1
Net profit (\$\$ m)	12.4	6.6	12.7	14.0	15.6
yoy growth (%)	9.0	(47.1)	93.5	10.0	11.4
EPS (S cts)	2.7	1.5	2.8	3.1	3.4
EPS growth (%)	8.9	(47.0)	93.4	10.0	11.4
P/E (x)	8.9	16.9	8.7	7.9	7.1
Core EPS (S cts)	2.7	2.4	2.8	3.1	3.4
Core EPS growth (%)	8.9	(11.5)	15.7	10.0	11.4
Core P/E (x)	8.9	10.1	8.7	7.9	7.1
Gross DPS (S cts)	1.8	1.6	2.0	2.2	2.4
Dividend yield (%)	7.3	6.5	8.0	8.8	9.8
P/N/A (x)	1.7	2.0	1.9	1.7	1.6
NTA/sh (S cts)	14.0	12.0	13.1	14.3	15.4
BVPS (S cts)	16.4	15.9	16.8	17.8	18.8
ROE (%)	17.3	9.0	17.2	17.8	18.8
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
Net cash per share (S cts)	5.6	3.2	6.2	6.6	7.6
P/CF (x)	8.2	11.1	7.2	6.6	6.2
EV/EBITDA (x)	6.1	7.9	5.2	4.8	4.5

Source: Company, CIMB

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SELL: The stock's total return is expected to be -15% or worse over the next three months.

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