

TeleChoice International Limited

Apple, mango or ice cream sandwich?

Recommendation: **BUY**

Price / Tgt. Price: S\$0.23/S\$0.26

Mkt. Cap: S\$104m

Board / Sector: Main / Telecoms

TLC SP

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- An apple a day, keeps the doctor away.** While an apple a day will keep the doctor away, it probably will make TeleChoice sick. Of the 26 staff in CIMB Research (Singapore), nearly two-thirds own an iPhone. That's bad news to TeleChoice and also explains the difficulty it faces in the handset business as it does not distribute Apple's iPhone. Given that 82% of FY10 sales were handphone related, this is a serious matter for TeleChoice.
- The droids fight back.** But not all is lost as Android based handphones have been making their presence felt. A notable example is Samsung (a principal of TeleChoice) whose Galaxy S2 was sold out in Singapore. Also, tablets running Android operating systems have been making their way into the market.
- A few tricks up its sleeves still.** TeleChoice is diversifying its revenue base, aided by the successful acquisition of a Company, S&I. Openet and cloud computing opens up new opportunities for the Group. In the handset business, there is room to add on new smartphone aspirants.
- Dividend yield key attraction.** Backed by a strong track record of generous dividend payment, net cash balance sheet, limited capex needs, under utilised debt capacity and conservative management, TeleChoice has an impeccable record as a high dividend yield stock. Initiating with a **BUY**, TP S\$0.26 perched on 8.3 CY12 P/E (historical average forward P/E). Total expected return works out to 22.6%, 13.1% from share price upside and 9.5% in expected dividend return.

Financial summary

| FYE Dec | 2009 | 2010 | 2011F | 2012F | 2013F |
|----------------------------|--------|----------|----------|----------|----------|
| Revenue (S\$ m) | 273.7 | 327.5 | 384.9 | 426.0 | 471.8 |
| yoy growth (%) | (22.7) | 19.6 | 17.5 | 10.7 | 10.7 |
| EBITDA (S\$ m) | 14.8 | 15.9 | 16.1 | 20.2 | 24.8 |
| EBITDA margins (%) | 5.4 | 4.9 | 4.2 | 4.7 | 5.3 |
| Pretax profit (S\$ m) | 13.6 | 14.7 | 13.6 | 17.6 | 22.2 |
| Net profit (S\$ m) | 11.4 | 12.4 | 10.8 | 14.2 | 18.0 |
| yoy growth (%) | (19.7) | 9.0 | (12.8) | 31.3 | 26.9 |
| EPS (S cts) | 2.5 | 2.7 | 2.4 | 3.1 | 4.0 |
| EPS growth (%) | (20.1) | 8.9 | (12.8) | 31.3 | 26.9 |
| P/E (x) | 9.1 | 8.4 | 9.6 | 7.3 | 5.8 |
| Gross DPS (S cts) | 1.8 | 1.8 | 1.7 | 2.2 | 2.8 |
| Dividend yield (%) | 7.6 | 7.8 | 7.3 | 9.5 | 12.1 |
| P/NTA (x) | 1.5 | 1.6 | 1.5 | 1.4 | 1.3 |
| ROE (%) | 16.8 | 17.3 | 14.3 | 17.9 | 21.4 |
| Net gearing (%) | | net cash | net cash | net cash | net cash |
| Net cash per share (S cts) | 9.6 | 5.6 | 7.5 | 7.8 | 8.6 |
| P/CF (x) | 8.4 | 7.7 | 7.7 | 6.2 | 5.0 |
| EV/EBITDA (x) | 5.0 | 4.7 | 4.6 | 3.7 | 3.0 |

Source: Company, CIMB Research

Market capitalisation & share price info

| | | | | | |
|------------------------|-----------------|-----------------------|--------|-------|-------|
| Market cap | S\$108.5m | Share price perf. (%) | 1M | 3M | 12M |
| 12-mth price range | S\$0.22/S\$0.27 | Relative | (4.3) | (5.6) | (1.3) |
| 3-mth avg daily volume | S\$0.01m | Absolute | (2.0) | (5.9) | 6.7 |
| # of shares (m) | 452.0 | Major shareholders | % held | | |
| Est. free float (%) | 29 | STT Communication | 50.7 | | |
| Wrts/ICULS o/s (m) | None | Leap Int'l | 19.5 | | |
| Conv. price (S\$) | None | | | | |

Source: Bloomberg

Analyst prescription

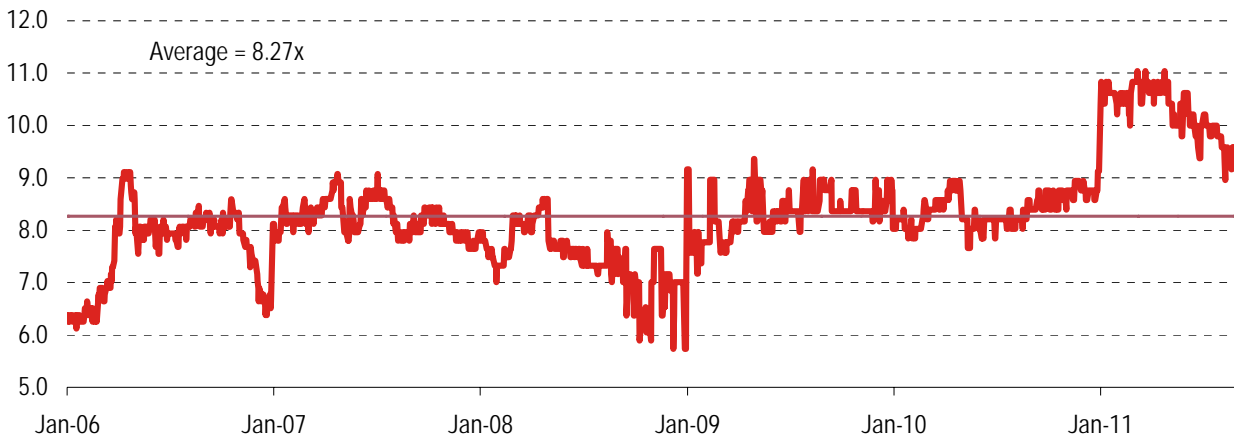
1. Initiate coverage, **BUY**, **TP S\$0.28** based on 8.3x CY12 P/E (historical 5 years average forward P/E). 26cts target price translates into a P/BV of 1.5x remains below its historical average forward P/BV of 1.67x.
2. Benchmarked against the three listed telcos in Singapore, an 8.3x P/E appears reasonable as this represents a 35% discount to the telco sector average CY12 P/E of 12.7x. TeleChoice's 7.3% dividend yield is even higher than that offered by all three listed telcos.
3. Inflation beating 7.3% to 12.1% projected dividend yields. Conservative management and a strong net cash balance sheet protect your dividend return.

Figure 1: Peer comparisons

| | Bloomberg ticker | Recom. | Price (Local) | Target price (Local) | Mkt cap (US\$ m) | Core P/E (x) CY2011 | Core P/E (x) CY2012 | 3-yr EPS CAGR (%) | P/BV (x) CY2011 | ROE (%) CY2011 | Div yield (%) CY2011 |
|-------------------------------------|------------------|--------|---------------|----------------------|------------------|---------------------|---------------------|-------------------|-----------------|----------------|----------------------|
| TeleChoice International Ltd | TLC SP | BUY | 0.23 | 0.26 | 86.1 | 9.6 | 7.3 | 13.2 | 1.5 | 14.3 | 7.3 |
| M1 | M1 SP | N | 2.59 | 2.63 | 1,924.7 | 13.3 | 12.3 | 8.4 | 6.7 | 53.8 | 6.0 |
| SingTel | ST SP | U | 3.19 | 3.19 | 41,673.2 | 12.5 | 11.2 | 9.3 | 2.1 | 16.8 | 6.5 |
| StarHub | STH SP | U | 2.80 | 2.42 | 3,935.7 | 16.0 | 14.6 | 9.3 | 185.3 | 752.5 | 7.1 |
| Simple average excluding TeleChoice | | | | | | 13.9 | 12.7 | 9.0 | 64.7 | 274.4 | 6.5 |

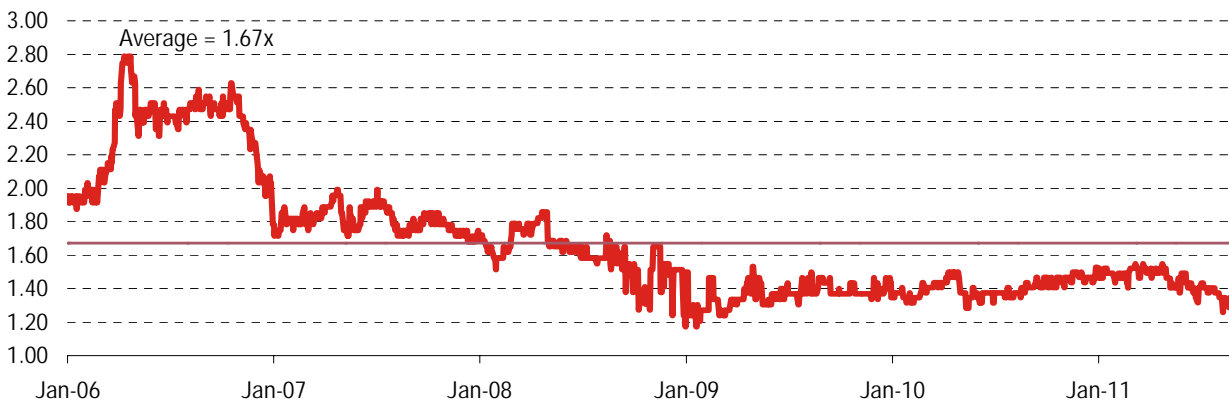
Source: Company, CIMB Research

Figure 2: 5 year historical average forward P/E



Source: Bloomberg, CIMB Research

Figure 3: 5 year historical average forward P/BV



Source: Bloomberg, CIMB Research

Background

TeleChoice International Limited (“TeleChoice”) was first incorporated in 1998 and was officially listed on the main board of the SGX-ST on 25 June 2004. It is a subsidiary of Singapore Technologies Telemedia Pte Ltd, a leading information-communications group with operations in the Americas, Europe, and Asia-Pacific.

Originally known as “TeleChoice International Pte Ltd, the Group changed its name to “TeleChoice International Limited” upon its conversion to a public company on 21 May 2004. TeleChoice initially established itself as a distributor of mobile handsets and accessories in Singapore, progressively expanding its range of principals to include Samsung, Nokia, Motorola, and Sony Ericsson and LG.

Today, the Group has evolved into a comprehensive provider of information and communications solutions for the telecommunications industry comprising of three main divisions: 1) Personal Communications Solutions (PCS) Services, 2) Info-Comm Technology (ICT) Services, and 3) Network Engineering Services.

Since its inception in 1998, TeleChoice has steadily established a strong corporate reputation for itself, particularly in Singapore. In 2001, TeleChoice entered into an agreement with StarHub Pte Ltd (“StarHub”) to provide fulfilment and supply chain management services.

Key divisions

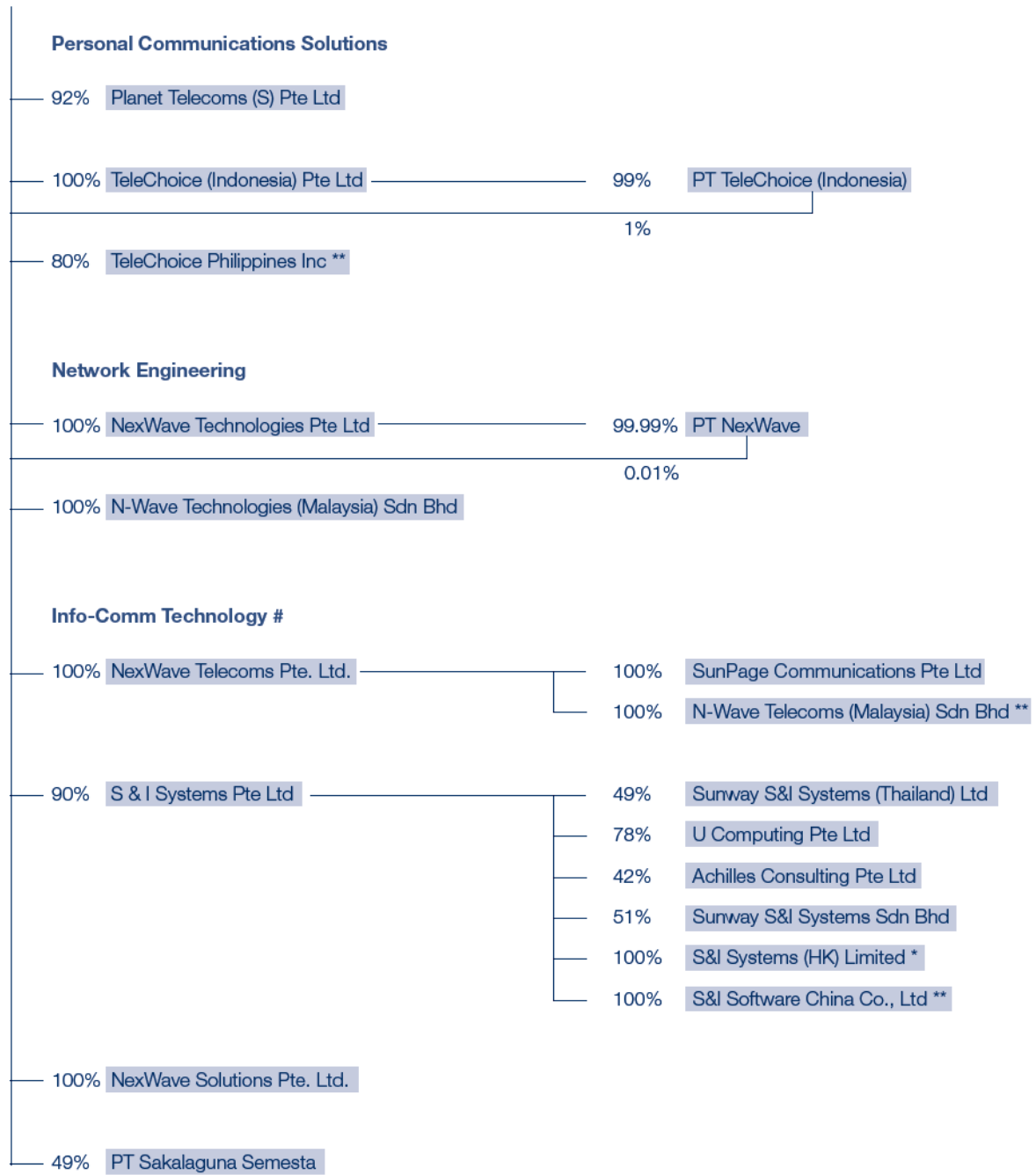
Personal Communications Solutions Services. The Group’s PCS Services division originated in mid-2009 and provides services mainly pertaining to distribution, sales and marketing support, fulfilment, and supply chain management. It is a distributor for major principals Nokia, Samsung, Sony Ericsson, Motorola and LG. Its distribution network comprises authorized dealers, local retailers and convenience stores. It manages retail distribution through its subsidiary, Planet Telecoms, and is responsible for the distribution of mobile handsets and accessories from major principals and StarHub prepaid cards at 16 stores island-wide. It also provides supply chain management services for its customers, including forecasting, purchasing, financing, logistics, warehousing and inventory support, road show management, stocks management, and after sales services. Planet Telecoms also manages concept stores for major mobile handset manufacturers and is the only StarHub Exclusive Partner to manage two StarHub Platinum shops. Regionally, TeleChoice has expanded its PCS Services business into Malaysia, where they are currently working with the fourth Malaysian mobile operator, U-Mobile.

Info-Comm Technology Services. Previously known as Telecommunications Services, Info-Comm Technology (ICT) Services was successfully transformed on 1 Nov 2010 with a S\$18m acquisition of S&I systems. ICT Services offers value-added voice and data services which are marketed under the established “Nexwave” and “SunPage” brands and is an integrated provider of hosted IP telephony, Comms-as-a-Service, and Cloud Computing applications. Through its S&I System Pte Ltd, it also offers Enterprise Infrastructure, Business Solutions & Integration and Managed Services Solutions.

Network Engineering Services. Operates primarily under its subsidiary, Nexwave Technologies. It is a regional provider of telecommunication network engineering services, mainly designing, building, and managing telecommunications networks for service operators and major equipment vendors such as StarHub, Maxis IndoSat, NSN and Huawei. Its network engineering solutions and services encompass radio network planning and optimisation, transmission network planning, network implementation, testing and commissioning, indoor coverage design and implementation, network benchmarking and audit, operations, maintenance and project management. Recent developments include the renewed regional CAPEX spending with significant amount of mobile network rollout activities undertaken in Indonesia. In Malaysia, TeleChoice is actively involved in 3 out of the 4 mobile operators in which they have won several new orders. They have increased their presence in Vietnam via the establishment of a representative office to serve the market there.

Figure 4: Group structure

TELECHOICE INTERNATIONAL LIMITED



* This subsidiary is in the process of deregistration

** These subsidiaries are in the process of liquidation

Info-Comm Technology was formerly known as Telecommunications

Source: Company

Figure 5: Planet Telecoms Touch-Points

NORTH

PLANET TELECOMS

Blk 713 Ang Mo Kio Ave 6 #01-4054 (S) 560713
Tel: 6457 4788
Fax: 6452 6705
Email: ak2@planet-telecoms.com.sg
Nearest MRT: NS16 Ang Mo Kio
Opening hours: 11am to 9pm daily

Blk 183 Toa Payoh Central #01-278 (S) 310183
Tel: 6356 5466
Fax: 6252 5477
Email: tp2@planet-telecoms.com.sg
Nearest MRT: NS19 Toa Payoh
Opening hours: 11am to 9pm daily

1 Woodlands Square #B1-08 Causeway Point (S) 738099
Tel: 6893 6558
Fax: 6893 5228
Email: cwp@planet-telecoms.com.sg
Nearest MRT: NS9 Woodlands
Opening hours: 11am to 9pm daily

SONY ERICSSON CONCEPT SHOP

Blk 190 Toa Payoh Central #01-568 (S) 310190
Tel: 6256 4788
Fax: 6256 5466
Email: tp1@planet-telecoms.com.sg
Nearest MRT: NS19 Toa Payoh
Opening hours: 11am to 9pm daily

STARHUB SEMBAWANG

11 Canberra Road #01-02 Sembawang MRT Station (S) 759775
Tel: 6499 8951
Fax: 6753 6628
Email: smbsh@planet-telecoms.com.sg
Nearest MRT: NS11 Sembawang
Opening hours: 11am to 9pm daily

CENTRAL

PLANET TELECOMS

90 Bras Basah Road #B1-07 Esplanade MRT Station (S) 189562
Tel: 6337 2128
Fax: 6337 2129
Email: espn@planet-telecoms.com.sg
Nearest MRT: CC3 Esplanade
Opening hours: 11am to 9pm daily

9 Raffles Boulevard #P3-21 Parco @ Millenia Walk (S) 039596
Tel: 6334 4409
Fax: 6334 4469
Email: parco@planet-telecoms.com.sg
Nearest MRT: NS25 EW13 City Hall
Opening hours: 11am to 9pm daily

201 Victoria Street #02-K13 Illuma (S) 188067
Tel: 6509 8325
Fax: 6509 3265
Email: illuma@planet-telecoms.com.sg
Nearest MRT: EW12 Bugis
Opening hours: 11am to 9pm daily

EAST

PLANET TELECOMS

80 Marine Parade Road #B1-37 Parkway Parade (S) 449269
Tel: 6346 2008
Fax: 6346 5008
Email: pwp@planet-telecoms.com.sg
Nearest MRT:
Opening hours: 11am to 9pm daily

799 New Upper Changi Road #03-20 Bedok Point (S) 467351
Tel: 6243 1712
Fax: 6243 1713
Email: bdk1@planet-telecoms.com.sg
Nearest MRT: EW5 Bedok
Opening hours: 11am to 9pm daily

2 Tampines Central 5 #03-22 Century Square (S) 529509
Tel: 6785 1118
Fax: 6784 1118
Email: cs1@planet-telecoms.com.sg
Nearest MRT: EW2 Tampines
Opening hours: 11am to 9pm daily

SAMSUNG MOBILE SHOP

799 New Upper Changi Road #03-20 Bedok Point (S) 467351
Tel: 6243 2235
Fax: 6243 2236
Email: bdk2@planet-telecoms.com.sg
Nearest MRT: EW5 Bedok
Opening hours: 11am to 9pm daily

SAMSUNG MOBILE WORLD

2 Tampines Central 5 #04-02A Century Square (S) 529509
Tel: 6786 5466
Fax: 6783 5477
Email: cs2@planet-telecoms.com.sg
Nearest MRT: EW2 Tampines
Opening hours: 11am to 9pm daily

WEST

PLANET TELECOMS

21 Choa Chu Kang Ave 4 #B1-01A Lot 1 Shoppers' Mall (S) 689812
Tel: 6762 1008
Fax: 6763 0338
Email: lot1@planet-telecoms.com.sg
Nearest MRT: NS4 BP1 Choa Chu Kang
Opening hours: 11am to 9pm daily

NOKIA SHOP

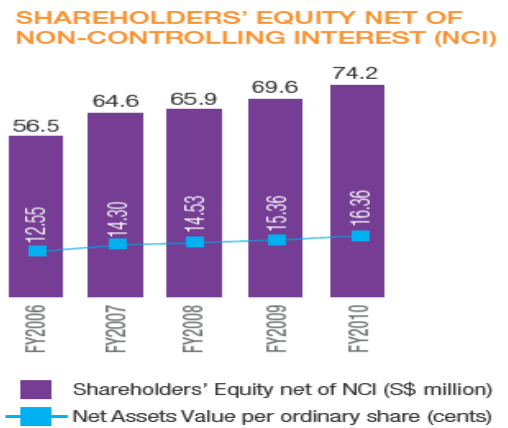
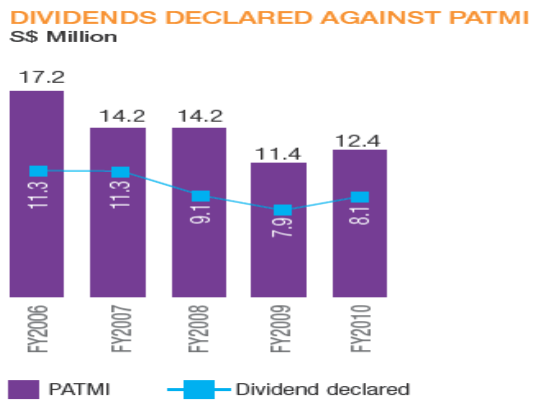
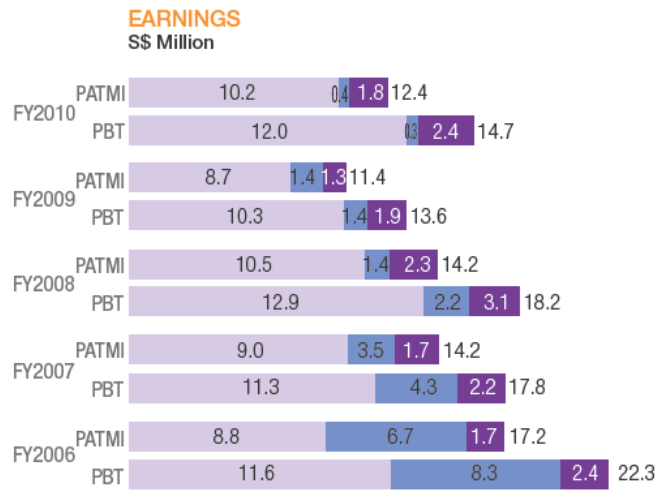
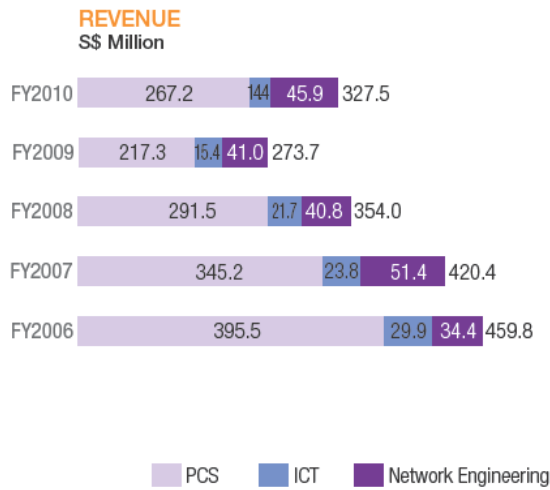
63 Jurong West Central 3 #B1-77 Jurong Point Shopping Centre (S) 648331
Tel: 6861 2539
Fax: 6861 2529
Email: jpn@planet-telecoms.com.sg
Nearest MRT: EW27 Boon Lay
Opening hours: 11am to 9pm daily

STARHUB IMM

2 Jurong East St 21 #01-60 to 62 IMM Building (S) 609604
Tel: 6720 2829
Fax: 6720 2827
Email: immsh@planet-telecoms.com.sg
Nearest MRT: NS1 Jurong East
Opening hours: 11am to 9pm daily

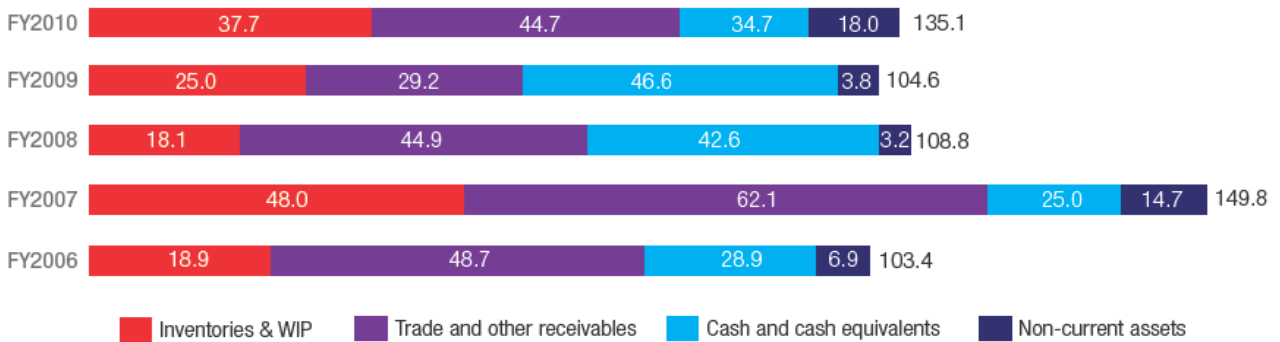
Source: Company

Figure 6: Strong track record



TOTAL ASSETS

S\$ Million



Source: Company

Major customers

TeleChoice's major principals and customers include StarHub Ltd, PT Indosat Tbk, IBM, Oracle, HP, SUN, SAP, Avaya, Aruba, Ericsson, L.G, Motorola, Nokia, Samsung, Sony Ericsson, Huawei and NSN.

For the PCS Services segment, Starhub is the major customer and the key handset principals are Nokia and Samsung.

Competitors

TeleChoice's businesses operate in a number of markets, providing a wide range of products and services that cater to different players in the telecommunications industry. As a result, in terms of direct competition, the group competes against various entities in its different business segments. It is difficult to draw a comparison as they compete with different players in all of these markets. Currently, there is also no similar competitor that offers the same range of products and services as TeleChoice.

Industry outlook

Opportunities for regional expansion. TeleChoice is in the midst of pursuing expansion into Malaysia and Vietnam, and exploring expansion opportunities in new markets such as Sri Lanka and the Philippines.

For Malaysia, opportunities for growth are present in all three business divisions. Overall demand for Telco services is on the rise, with telecommunication spending in Malaysia projected to increase by 5.3% to US\$7.3b in 2011. PCS Services recently initiated a partnership with U Mobile, a Malaysian mobile operator in the process of establishing itself as the nation's fourth mobile operator. Through the expansion of its 42 megabits-per-second wireless network service to cover central Peninsular Malaysia, U Mobile plans to increase its market share from 1% to 5% by 2011; consequently, we expect this would represent optimistic growth prospects for PCS Services in this market. ICT Services can also leverage on growth in the Malaysian market for cloud computing services, which will have 48% yoy growth in 2011. An increasing number of enterprises in Malaysia are looking to shift their infrastructure into the Cloud, primarily due to an increased awareness of the benefits available to companies, including a lower total cost of ownership and lower predictable costs. Network Engineering Services is, at present, conducting business with three out of four Malaysian mobile operators, and there are also plans to continue future expansion in this sector. Additionally, Network Engineering Services has established a representative office in Vietnam, and is looking to develop its relationship with the local mobile operators and increase its presence beyond Ho Chi Minh City.

Tapping on domestic growth. We expect Singapore's economy to grow 4.5% yoy in 2011. Domestic consumption was robust throughout FY10, with consumer spending growing by 6.6% yoy in 2Q11. Our economist expects full year domestic consumer spending to grow 3.2% yoy for 2011. Under Planet Telecoms, PCS Services has already expanded its number of domestic retail outlets to 16 and is well-placed to take advantage of the projected increase in consumer spending.

Next generation broadband services. The progressive rollout of next generation broadband services in Singapore and Malaysia will provide TeleChoice with a new host of opportunities in both markets. Network coverage for NGNBN in Singapore is targeted to reach 95% by mid-2010; it is envisioned that the NGNBN will eventually provide an ultra-high speed broadband access of 1Gbps to all physical addresses in Singapore. By the end of 2012, 1.3 million premises in Malaysia will have access to Telekom Malaysia's next generation High Speed Broadband (HSBB) services. TeleChoice is looking to make the most of the opportunities that will arise from the implementation of these next generation broadband services.

Network engineering services. 3.5G rollout is complete in Singapore and completion of LTE is expected in 2012. The division will continue to pursue product opportunities such as fibre optics, as well as manage costs and expand beyond Telcos. In Indonesia, the good cellular rollout in 2010 is expected to continue in 2011. There has been positive growth in RNP/RNO services, where TeleChoice is now ranked first in the market. Network Engineering Services has plans to diversify its cost base, expand into fixed transmission services, and broaden product and international activities.

Company outlook

Strengthen networks and provide innovative, value-added services for customers. PCS Services will focus on providing principals, vendors, corporate customers and retail consumers with more value-added services such as integrated fulfilment and retail management services. To strengthen its retail network, the company plans to make use of the retail assets under its subsidiary, Planet Telecoms, to improve customer service and strengthen partnerships with principals through innovative retail concepts and joint marketing and promotional activities. It aims to work closely with its major principal, StarHub, to secure fulfilment for new handset brands and consolidate TeleChoice's leadership position in the prepaid card business. Looking forward, demand for tablets and smartphones is projected to increase significantly, and the division consequently has plans to expand its product portfolio to include more Android smartphones and tablets. ICT Services will also continue to deliver innovative and high performance solutions such as cloud services, wireless network and communications services, or managed and hosted solutions, while Network Engineering Services has plans to add more niche solutions and services to its portfolio in order to offer its customers complete turnkey and value-added solutions.

Partnerships, mergers and acquisitions, and joint ventures. Following the acquisition of S & I Systems in 2010, the Group intends to continue to invest in the opportunities presented in the dynamic telecommunications industry, as well as welcome new products and technologies through commercial collaborations, partnerships with technology principals, mergers and acquisitions, partnership arrangements, and joint ventures where feasible. Cloud computing and Opennet could prove interesting for Telechoice.

Seek new opportunities regionally. The Group plans to leverage on the strong market opportunities in some of the regional developing countries and will focus on expanding its regional reach in the coming years. It plans to do so by actively seeking out potential cross-border ventures or new distributorship opportunities, as well as leveraging on its technical capabilities and substantial experience in network building to break into these markets. PCS Services recently initiated a partnership with U Mobile, a Malaysian mobile operator in the process of establishing itself as the nation's fourth mobile operator.

Android phones gaining acceptance. Since TeleChoice does not carry Apple products, the strong inroad made by Apple's iPhone has hurt its PCS business. However, Android based phones have made their presence felt and the latest Android phone, the Samsung Galaxy S2 has been selling well in Singapore. We expect the PCS business fortune to improve as non-Apple phone brands fight back with new products.

A handphone is not good enough. We believe TeleChoice cannot buck the convergence trend in the communications industry. As such, we believe that non-handphone such as tablets and possibly other devices will be another area that TeleChoice will have to do more in.

Figure 7: SWOT analysis

| | |
|---|--|
| <p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> ● Strong customer relations with major customers such as StarHub ● Proven track record in the industry ● Experienced and prudent management ● Diverse range of products and geographical base ● Services rendered vital to the utility of Telcos and many other customers ● Few competitors with as much breadth | <p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ● Indonesia, Thailand, Vietnam and China has huge potential for expansion ● Rapidly developing technologies provide opportunities or product innovation ● Thailand seeks to implement a mass data network in 2012 ● Increased demand for data services as smartphone penetration increases ● Expansion of mobile internet based services |
| <p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> ● Dependent on major customers for revenue ● Strong reliance on the IT and Telco industry ● Small size and limited growth in the Singapore market | <p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> ● Rapidly evolving technologies may quickly render current services obsolete ● Regulatory risk in overseas markets |

Source: CIMB Research

Competitive Strengths

Strong customer relations. Through its innovative marketing concepts, value-added integrated services, and close collaboration with principals, TeleChoice has progressively established firm relationships with customers such as StarHub and principals LG, Motorola, Nokia, Samsung, and Sony Ericsson. As a distributor, reseller and solutions provider, TeleChoice provides value-added and integrated services. They also offer innovative marketing concepts and closely collaborate with their customers on joint sales and promotional programmes.

Established track record and diversity of products. Over time, TeleChoice has developed a track record of profitability and a reputation for being a market leader in all three of its business divisions. The Group also has a wide range of product offerings within each division that is currently unmatched by any other company in Singapore. PCS services strongly supports its principals and their products for optimum market penetration through the provision of a diverse range of services ranging from customer order fulfillment and supply chain management services to retail operations. On the other hand, ICT Services has also expanded into the enterprise space to provide IT infrastructure and business application solutions as well as innovative and cost effective communication and application solutions such as telephony, unified communications, comms-as-a-service (Nexwave One Voice) and a range of innovative cloud services and utility computing solutions. , while Network Engineering Services offers a wide range of products that provide Telco operators effective and unique solutions. There are few customers regionally with as much breadth as TeleChoice.

Economies of scale. All three divisions operate on a sizeable scale. As such, the company can leverage on the large volume of handsets and accessories purchased and the extensive international long distance call traffic generated to negotiate with principals and carriers in order to gain the most favorable terms. The company also enjoys economies of scale in its network engineering operations. Through partnerships with equipment manufacturers and principals, it is able to bring together a diversity of services and solutions.

Experienced executive management, with in-depth knowledge of the telecommunications industry. The company has an established and qualified executive management team with significant experience with the markets in which the Group operates. The team's ability to identify industry trends and its relevant expertise in marketing and branding have been key, crucial factors enabling it to thrive in a competitive environment and penetrate different markets.

Increasingly diversified geographical base. TeleChoice has operations in Singapore, Malaysia, Indonesia, Thailand, and Vietnam, while ICT Services is also looking towards opportunities in other markets. Expansion beyond the domestic market presents new opportunities for growth for TeleChoice and provides diversification that would allow the company to weather the storms should any of its business face headwinds.

Risks

Technology risk. The telco industry is rapidly evolving. To keep up with rapid technological advances requires an astute management and a skilful pool of engineers to constantly revise services incorporating new technologies to meet customer needs. The company has to continually keep itself updated on industry developments and evaluate their potential impact on its businesses. Failure to do so could quickly render current services and products obsolete and cause TeleChoice to lose significant customers.

High degree of dependence on one customer. Starhub remains the largest customer but with the growth of its other businesses, Starhub's contribution to TeleChoice revenue pie while still significant, has declined.

Execution risks in new markets. TeleChoice recently unveiled plans to further expand into the Malaysian and Vietnam markets. Given that Vietnam has a relatively underdeveloped infrastructure, there are both opportunities and concomitant risks.

Financials

Higher sales supported by S&I acquisition. We expect revenue to grow 17.5% yoy in FY11 driven by its S&I acquisition. Performance of its key PCS business would depend on Android hand phone models. Samsung Galaxy S2 has seen a successful launch and in the second half, there could also be contributions from the Android tablets.

Figure 8: Revenue growth trend

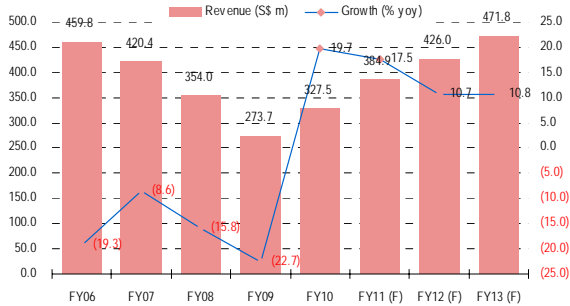
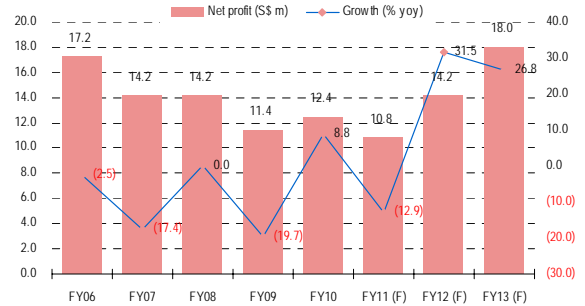


Figure 9: Net profit and net margin trend



Source: Company, CIMB Research

Strong dividend payment track record. If you are worried about your dividends, don't be. TeleChoice has an impeccable track record as a dividend paymaster. Over FY06-FY10, the average payout ratio has been nearly 69%. This is sustainable given its established operations as well as the low capex nature of its business. We have assumed 70% payout ratio over FY11-FY13. Note that the balance sheet remains strong with the Group in net cash position for the past five years. Any regional expansion ambition can be easily met by debt if necessary.

Figure 10: Payout ratio (%) trend

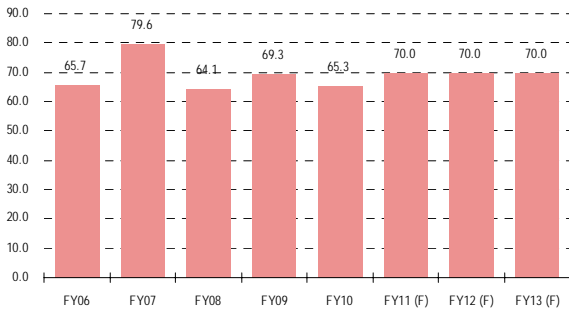
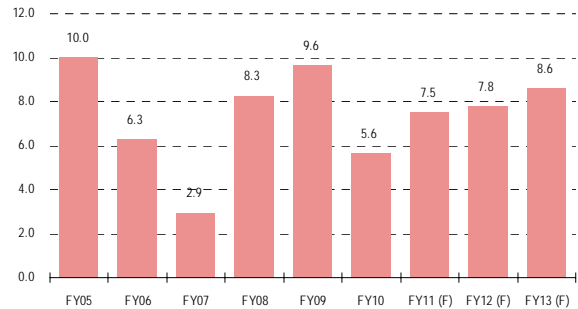


Figure 11: Likely to remain net cash (S cts) still



Source: Company, CIMB Research

Board of Directors

Bertie Cheng
Chairman and Independent Director

Mr Cheng is the Chairman of the Board, as well as the Executive Committee and the Remuneration Committee. He holds directorships in both listed and unlisted companies, including Hong Leong Finance Limited, Singapore Petroleum Company Ltd, Pacific Andes (Holdings) Limited, Thomson Medical Centre Limited, CFM Holdings Limited, and Westech Electronics Limited. He is also the Non-Executive Chairman of Tee International Limited, and retired as Chief Executive Officer of POSBank in July 1997. His major appointments and past directorships in listed companies include ST Teleport Pte Ltd, Mobile Solutions and Payment Services Pte Ltd, SHC Capital Ltd, Grand Pacific Properties Limited, and Singapore Petroleum Company Limited. He holds a Bachelor of Arts Degree in Economics (Honors) from the University of Malaya in Singapore. He also received the Public Administration Medal (Silver) in 1984, the Public Service Medal in 2001, and the Friend of Labor Award from NTUC in 2008.

Yap Boh Pin
Independent Director

Mr Yap is the Chairman of the Audit Committee, and is a member of the Nominating Committee. Currently, he also serves as the Managing Director of B.P.Y Private Limited. Between July 1975 and January 1999, Mr Yap was senior partner at Yap Boh Pin & Co, and is also a director of Leren Bio-Chem Ltd, serving as Chairman of its Nominating Committee and member of its Audit Committee. Past directorships in public companies include Singapore Land Limited, L&M Investments Limited, and Pan Pacific Public Company Limited. Additionally, Mr Yap was appointed director of Asia Mobile Holdings Pte. Ltd in March 2007. He enjoys activities beyond the corporate sector, and is actively involved in various nonprofit, educational, and social welfare organizations, and is also a member of the Board of Governors of the Singapore Hokkien Huay Kuan. In January 2008, Mr Yap was appointed a Director of ACS (International), and is also a member of the Board of Trustees of the Chinese Development Assistance Council. In July 2009, Mr Yap was appointed member of the Board of Directors and Chairman of Finance Committee of Singapore Heart Foundation. As far as academic qualifications are concerned, Mr Yap qualified as a Chartered Accountant from the Institute of Chartered Accountants in England and Wales in 1966.

Stewart Yen Se-Hua
Independent Director

Mr Yen is the Chairman of the Nominating Committee and currently also serves as a member of the Remuneration Committee and the Executive Committee. He is the Chief Executive Officer of SECOM (Singapore) Pte Ltd, and has held past directorships or major appointments in listed companies that include Norfolk Development Group (Norfolk Hotel) Ltd, Norfolk Hotel Joint Venture Company Limited, Semhotel Management Pte Ltd, Bintan Resort Management Pte Ltd, Regional Hotel Pte Ltd, and Ventura Development (Myanmar) Pte Ltd. He is currently also an independent director and member of the Audit Committee and Chairman of Remuneration Committee of Hersing Corporation Ltd. Mr Yen obtained a Bachelor Degree in Engineering from McMaster University in 1972 and also holds a Diploma in Financial Management from New York University.

Jackson Tang Yew Kay
Independent Director

Mr Tang is a member of the Audit Committee and began his career in the Singapore Government Administrative Service. After three years, Mr Tang spent the next 28 years in the banking and financial services industry and held senior management positions at Continental Illinois National Bank, N.M Rothschild & Sons (Singapore) Ltd, ST Capital Limited and Vertex Management Limited. He retired from full-time employment in January 2005. Mr Tang has held a directorship in Singapore Food Industries Limited, where he served as a member of the Audit Committee. Academic qualifications include a Bachelor of Social Sciences (Economics) (Honors) in 1970, as well as a post-graduate Diploma in Business Administration in 1975.

Board of Directors

Sio Tat Hiang
Non-Executive Director

Mr Sio serves as a member of the Audit Committee, and has over 20 years of financial and management experience. He is currently the Executive Vice-President of Singapore Technologies Telemedia Pte Ltd, a position he has held since November 1995. Mr Sio joined Singapore Technologies Holdings Pte Ltd in 1991 as Vice-President of Corporate Finance, overseeing the treasury and investment management functions of the Singapore Technologies group. Between 1993 and 1997, Mr Sio held the position of Director of Strategic Investment and Group Treasurer and was part of the team which formed Singapore Technologies Telemedia Pte Ltd as the telecommunications branch of the Singapore Technologies group. Mr Sio obtained a Bachelor Degree in Business Administration from the then University of Singapore in 1970, and attended the Senior Management Program at the London Business School.

Lee Theng Kiat
Non-Executive Director

Mr Lee serves as a member of the Executive Committee, Remuneration Committee and Nominating Committee, and is currently the President and Chief Executive Officer of Singapore Technologies Telemedia Pte Ltd. Mr Lee began his career as an officer with the Singapore Legal Service where he served for more than eight years. He obtained a Bachelor of Laws Degree from the then University of Singapore in 1976. In 1985, he joined the Singapore Technologies group of companies and held senior positions overseeing legal and strategic business development. In 1994, he spearheaded the creation of Singapore Technologies Telemedia Pte Ltd as a new business area for the Singapore Technologies group. Under his leadership, Singapore Technologies Telemedia Pte Ltd has evolved into a leading info-comm company, with operations and investments in Asia-Pacific, the Americas, and Europe.

Clive Lim
Non-Executive Director

Non-Executive Director Mr Lim serves as a member of the Executive Committee. He is credited with having successfully spearheaded the strategic development and growth of the Group since its inception in 1998 into a regional diversified provider and enabler of innovative communications today. Following his retirement as Group President in November 2006, Mr Lim continues to contribute his extensive industry experience and expertise to the Group, as a Non-Executive Director and a member of the Executive Committee. Mr Lim has over 13 years of experience in the telecommunications industry, including establishing Cellstar Pacific Pte Ltd. Prior to undertaking his appointment as Group President in January 2004, he held the position of Managing Director from March 1999 to December 2003. Mr Lim is currently the Managing Director of Leap International Pte Ltd, a private investment holding company. He holds an MBA from the Asian Institute of Management, Manila, and a Master of Arts (Christian Studies) from Regent College, Vancouver.

Kwek Buck Chye
Alternate Director to Lee Theng Kiat

Mr Kwek joined the Singapore Technologies group in 1992. He has served as Chief Financial Officer in various major operating units within the group. Prior to joining the Singapore Technologies group, Mr Kwek spent 10 years at United Technologies Carrier Asia Pacific Operation, and is currently the Chief Financial Officer of StarHub Ltd, a position he has held since September 2002. He obtained a Bachelor Degree in Accountancy from the then University of Singapore in 1975. He also attended the Advanced Management Program at Harvard Business School in 1997.

Source: Company

Executive Management

Andrew Loh
President

Mr Loh joined TeleChoice in November 2005 as Senior Vice-President of Personal Communications Solutions Services (then known as Distribution Services) and was appointed as Group President in December 2006. He is responsible for the overall management and growth of TeleChoice. Prior to joining the Group, Mr Loh was Senior Vice-President, International Operations of Singapore Technologies Telemedia Pte Ltd where his responsibilities included overseeing the business integration of Singapore Technologies Telemedia Pte Ltd's global investments. This followed a 22-year career at United Technologies Carrier where he held several senior management positions both in Singapore and internationally. Mr Loh holds a Bachelor of Engineering (Electrical) Degree from the University of Western Australia, Australia and a MBA from Michigan State University, USA.

Wong Loke Mei
Chief Financial Officer

Ms Wong was appointed Chief Financial Officer in 2007, having been Vice-President, Finance since 2005. Ms Wong oversees the financial affairs and reporting for the Group and supports the Group's investor relations and risk management activities. Ms Wong has over 20 years' of experience in finance and accounting, most of which were with the Singapore Technologies Telemedia Pte Ltd group of companies. She joined our Group in June 1995 as an Accountant. She participated in the listing of TeleChoice on the Main-Board of the SGX-ST in June 2004. Ms Wong holds a Bachelor of Accountancy Degree from the National University of Singapore and a Master in Business Administration from Heriot Watt University, Edinburgh, United Kingdom. Ms Wong is also a member of the Institute of Certified Public Accountants of Singapore.

Steven Ng
*Senior Vice-President
Info-Comm Technology Services*

Mr Ng joined TeleChoice in March 2008. He is responsible for the overall management of the business unit, including setting strategy, identifying new market opportunities and developing new Info-Comm products and services. Mr Ng has over 23 years of experience in the Info-Comm Technology industry. He has held senior management positions in AT&T, Gartner and other leading high-tech companies covering the Asia Pacific markets. At AT&T, he was Managing Director for ASEAN Business Markets. He was later seconded to Concert Global Networks (an AT&T and BT Global Joint Venture) as Managing Director and Vice-President, Sales for Global Services Asia Pacific, becoming one of the pioneer leaders in the formation of this venture. Mr Ng subsequently joined Gartner as Managing Director and Regional Vice-President, overseeing its research and consulting business across Asia. With his combined industry experience, Mr Ng has a very broad base of knowledge and depth across IT, telecoms, networks and application solutions. Mr Ng holds a Graduate Diploma in Marketing and a MBA from University of Dubuque, USA.

Lee Yoong Kin
*Senior Vice-President
Network Engineering Services*

Mr Lee joined TeleChoice in December 2006, assuming responsibility for the overall growth and strategic direction of the Network Engineering Services division. He has more than 20 years of senior business and operational experience in the IT and telecommunications industry, having worked with Singapore Technologies Telemedia Pte Ltd, ST Electronics (Infocomm Systems) Pte Ltd and CSE Global Ltd. His previous positions include Managing Director of Equinix Singapore Pte. Ltd. which he co-founded in 1999 and General Manager and Board member of ST Teleport Pte Ltd, a company which he set up in 1994. Mr Lee holds a Bachelor of Engineering Degree (First Class Honours) and a MBA from the National University of Singapore.

Pauline Wong
*Senior Vice-President
Personal Communications
Solutions Services*

Ms Wong was appointed to lead Personal Communications Solutions ("PCS") Services in 2006. She oversees the overall management of the business unit, including its regional and retail operations. She is also responsible for developing strategies and identifying new market opportunities to grow the business. Ms Wong joined our Group in December 1999 as Operations Manager for PCS Services (then known as Distribution Services) and has been a key contributor to the significant growth and success of the division's business. She was previously Area Manager for Telecom Equipment Pte Ltd (a subsidiary of Singapore Telecommunications Ltd). Ms Wong graduated with a Bachelor of Business Degree (Distinction) from the Royal Melbourne Institute of Technology University, Victoria, Australia, and holds an Executive MBA (Honours) from the University of Chicago Booth School of Business.

Executive Management

Goh Song Puay
Vice-President
Human Resource

Mr Goh is responsible for the management of local and regional human resource functions for the Group, including human capital development, leadership and organisational development. Mr Goh has more than 15 years human resource experience across a broad spectrum of industries. Prior to joining the Group in 2004, Mr Goh held various senior positions including Assistant Vice-President (HR) at StarHub Pte Ltd (now known as StarHub Ltd) and Director (HR) at i-STT Pte Ltd, a subsidiary of Singapore Technologies Telemedia Pte Ltd. He was also Director (HR) for the National University Hospital. Mr Goh holds a Bachelor of Mechanical Engineering Degree from the National University of Singapore.

Source: Company

Financial tables

| PROFIT & LOSS (\$\$ m, FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|--|-------------|-------------|--------------|--------------|--------------|
| Revenue | 273.7 | 327.5 | 384.9 | 426.0 | 471.8 |
| Operating expenses | (258.8) | (311.6) | (368.8) | (405.9) | (447.0) |
| EBITDA | 14.8 | 15.9 | 16.1 | 20.2 | 24.8 |
| Depreciation & amortisation | (1.3) | (1.3) | (2.6) | (2.6) | (2.7) |
| EBIT | 13.8 | 14.7 | 13.6 | 17.6 | 22.2 |
| Net interest & invt income & Others | (0.5) | (0.1) | - | - | - |
| Associates' contribution | 0.3 | 0.1 | (0.1) | (0.1) | (0.1) |
| Exceptional items | - | - | - | - | - |
| Pretax profit | 13.6 | 14.7 | 0.1 | 0.1 | 0.1 |
| Tax | (2.2) | (2.2) | (2.4) | (3.0) | (3.8) |
| Minority interests | (0.0) | (0.0) | (0.4) | (0.4) | (0.4) |
| Net profit | 11.4 | 12.4 | 10.8 | 14.2 | 18.0 |
| Wt. shares (m) | 453.2 | 453.6 | 453.7 | 453.7 | 453.7 |
| Shares at year-end (m) | 453.2 | 453.6 | 453.7 | 453.7 | 453.7 |

| BALANCE SHEET (\$\$ m, FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|--|--------------|--------------|--------------|--------------|--------------|
| Fixed assets | 2.3 | 2.8 | 2.7 | 2.6 | 2.4 |
| Intangible assets | 0.1 | 10.5 | 9.5 | 8.5 | 7.5 |
| Other long-term assets | 1.4 | 4.7 | 2.5 | 2.4 | 2.3 |
| Total non-current assets | 3.8 | 18.0 | 14.7 | 13.5 | 12.2 |
| Cash and equivalents | 46.6 | 34.7 | 38.8 | 42.5 | 45.9 |
| Stocks | 25.0 | 37.7 | 37.6 | 41.6 | 45.9 |
| Trade debtors | 29.2 | 44.7 | 52.7 | 58.4 | 64.6 |
| Other current assets | - | - | - | - | - |
| Total current assets | 100.9 | 117.1 | 129.2 | 142.4 | 156.4 |
| Trade creditors | 27.8 | 42.3 | 52.7 | 58.4 | 64.6 |
| Short-term borrowings | 3.0 | 8.3 | 4.4 | 6.8 | 6.8 |
| Other current liabilities | 3.9 | 7.1 | 6.3 | 5.8 | 6.4 |
| Total current liabilities | 34.8 | 57.7 | 63.5 | 71.0 | 77.8 |
| Long-term borrowings | - | 0.8 | 0.2 | 0.1 | 0.1 |
| Other long-term liabilities | 0.2 | 1.1 | 1.0 | 1.0 | 1.0 |
| Total long-term liabilities | 0.2 | 1.9 | 1.2 | 1.1 | 1.1 |
| Shareholders' funds | 69.6 | 74.2 | 77.5 | 81.7 | 87.1 |
| Minority interests | 0.0 | 1.3 | 1.7 | 2.1 | 2.5 |
| NTA/share (\$\$) | 0.15 | 0.14 | 0.15 | 0.16 | 0.18 |

| CASH FLOW (\$\$ m, FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|-------------------------------------|---------------|---------------|---------------|--------------|---------------|
| Pretax profit | 13.6 | 14.7 | 13.6 | 17.6 | 22.2 |
| Depreciation & non-cash adjustments | 1.3 | 1.3 | 2.6 | 2.6 | 2.7 |
| Working capital changes | (5.7) | (10.5) | 2.5 | (3.9) | (4.3) |
| Cash tax paid | (3.5) | (2.4) | (2.7) | (2.2) | (2.4) |
| Others | (0.0) | (0.1) | 2.1 | (3.6) | (3.4) |
| Cash flow from operations | 5.7 | 3.1 | 18.2 | 10.4 | 14.8 |
| Capex | (1.6) | (1.1) | (1.5) | (1.5) | (1.5) |
| Net investments & sale of FA | 10.8 | (7.4) | - | - | - |
| Others | 0.2 | (0.2) | 0.1 | 0.0 | 0.1 |
| Cash flow from investing | 9.4 | (8.7) | (1.4) | (1.5) | (1.4) |
| Debt raised/(repaid) | (2.0) | 1.5 | (4.5) | 2.3 | - |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (9.1) | (7.9) | (8.2) | (7.6) | (10.0) |
| Cash interest & others | (0.2) | (0.0) | - | - | - |
| Cash flow from financing | (11.2) | (6.5) | (12.7) | (5.3) | (10.0) |
| Change in cash | 3.8 | (12.1) | 4.1 | 3.7 | 3.4 |
| Translation & others | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Ending net cash/(debt) | 43.6 | 25.6 | 34.2 | 35.6 | 39.0 |

| KEY RATIOS (FYE Dec) | 2009 | 2010 | 2011F | 2012F | 2013F |
|-------------------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue growth (%) | (22.7) | 19.6 | 17.5 | 10.7 | 10.7 |
| EBITDA growth (%) | (26.1) | 7.1 | 1.4 | 25.1 | 23.0 |
| Pretax margins (%) | 5.0 | 4.5 | 3.5 | 4.1 | 4.7 |
| Net profit margins (%) | 4.2 | 3.8 | 2.8 | 3.3 | 3.8 |
| Interest cover (x) | 78.1 | 774.3 | net cash | net cash | net cash |
| Effective tax rates (%) | 16.3 | 15.3 | 17.5 | 17.0 | 17.0 |
| Net dividend payout (%) | 69.6 | 65.7 | 70.0 | 70.0 | 70.0 |
| Ave Debtors turnover (days) | 49 | 41 | 46 | 48 | 48 |
| Ave Stock turnover (days) | 32 | 39 | 40 | 38 | 38 |
| Ave Creditors turnover (days) | 41 | 39 | 45 | 48 | 48 |

Source: Company, CIMB Research

More than just Apple



- Samsung Galaxy S2
- Runs Android 2.3 Gingerbread
- Sold out in Singapore over its launch weekend two weeks ago, selling 10,000 units here in its first week alone. More than 3 million units were sold worldwide.



- LG Optimus Black (also in white and pink), as well as LG Optimus 2x
- Runs Android 2.2 Froyo. Possible upgrade to Android 2.3 Gingerbread



- Motorola Atrix
- Runs Android 2.2 Froyo
- Transforms into a stripped-down laptop with its Lapdock, which has an 11.6-inch screen, full-sized Qwerty keyboard and a trackpad



- Sony Ericsson Xperia Ray
- Runs Android 2.3 Gingerbread

More than just Apple

- Nokia N9
- Runs MeeGo



Source: www.cnetasia.com

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BUY: The stock's total return is expected to be +15% or better over the next three months.

HOLD: The stock's total return is expected to range between +15% and -15% over the next three months.

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

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next three months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next three months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next three months.