

Analyse This...

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Telechoice International

Cautiously optimistic

 TLC SP
 HOLD; TP: S\$0.25
 4Q12 Results Note

 Price @26/02/13: S\$0.255
 52-week range (S\$): 0.205 – 0.255
 Market cap: S\$115m

Results above expectation. Maintain HOLD.

Key positives in FY12:

- 1) Gross margin declined 2% pts from a year ago to 8.7% but was 0.8% pts higher than our expectation. We believe the fall in overall gross margin came mainly from the lower margin iPhone procurement contract with Starhub that was re-signed earlier on in the year.
- 2) Headline net profit saw growth of 17% yoy. But core net profit, after stripping out exceptional expenses, was S\$8.0m vs. S\$11.0m from a year ago. This, however, still beat our initial expectation of S\$6.6m. We believe the key variance came from the higher-than-expected gross margin.
- 3) The balance sheet remains strong with Telechoice still maintaining its net cash position as cash flows from operations remain positive.
- 4) Dividend of 1.6 Scts was announced (same as last year in spite of lower core net profit). This is better than our expected 1.0 Scts, which was based on a 70% dividend payout assumption. Through our discussion with management, we concluded that 1.6 Scts will form the new floor for dividend payouts given Telechoice's strong net cash position.

Key negative:

- 1) Revenue was 6.2% below expectation despite growing 23.4% to S\$480.9m. We believe this variance was caused by lower-than-expected ICT and PCS sales.

- **Updates.** A contract extension was signed in 4Q12 with U-Mobile in Malaysia by the PCS division for services similar in scope to that Telechoice provides to Starhub but which also includes the management of all 19 retail outlets. The order book for the engineering division remains robust in Indonesia (with regional network expansion, swap and modernisation activities) and Singapore (with telcos still rolling out LTE projects at least till the middle of 2013, followed by downstream projects). ICT remains lacklustre; however, management is cautiously optimistic as its orderbook pipeline is strong going into 2013 vs. last year.

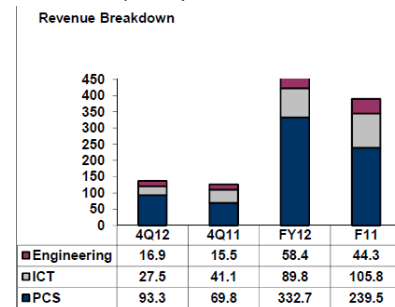
- **Forecasts increased; maintain HOLD.** After factoring in FY12 results, our estimates for FY13-14 fall slightly but we raise our gross margin assumptions to 8.5% from 8% previously. As a result, net profit estimates for FY13-14 are increased 18-20%. Our target price is raised accordingly to S\$0.25 (still based on 8.3x CY14 P/E) but given its recent run-up in share price, Telechoice remains a Hold in spite of the increase in our projections. We expect its share price to be supported by strong expected dividend yields.

4Q12 result at a glance

S\$'M	4Q12	4Q11 +/-	FY12	FY11 +/-
Revenue	137.7	126.4 8.9%	480.9	389.6 23.4%
Gross Profit	12.0	13.9 -13.8%	41.6	41.6 0.1%
Gross Margin	8.7%	11.0% -2.3 ppt	8.7%	10.7% -2.0 ppt
Profit Before Tax	3.6	1.4 157.1%	9.9	9.1 9.2%
Profit After Tax	3.5	0.9 274.5%	8.2	7.0 17.0%
Earnings Per Share (cents)	0.75	0.13 -	1.81	1.45 -

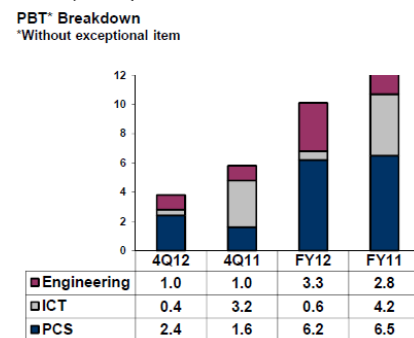
Source: Company

Revenue breakdown (S\$m)



Source: Company

PBT breakdown (S\$m)



Source: Company

Financial summary

FYE Dec	2011	2012	2013F	2014F	2015F
Revenue (S\$ m)	389.6	480.9	553.2	603.5	655.1
yoy growth (%)	19.0	23.4	15.0	9.1	8.5
EBITDA (S\$ m)	12.3	13.8	17.3	19.5	22.4
EBITDA margins (%)	3.2	2.9	3.1	3.2	3.4
Prelax profit (S\$ m)	9.1	9.9	14.0	16.7	19.5
Net profit (S\$ m)	6.6	8.2	11.3	13.4	15.6
yoy growth (%)	(47.1)	25.1	36.7	19.4	16.4
EPS (S cts)	1.5	1.8	2.5	3.0	3.4
EPS growth (%)	(47.0)	25.0	36.7	19.4	16.4
P/E (x)	17.6	14.1	10.3	8.6	7.4
Core EPS (S cts)	2.4	1.8	2.5	3.0	3.4
Core EPS growth (%)	(11.5)	(27.4)	40.9	19.4	16.4
Core P/E (x)	10.5	14.5	10.3	8.6	7.4
FD EPS (S cts)	1.4	1.8	2.5	3.0	3.4
FD P/E (x)	17.6	14.1	10.3	8.6	7.4
Gross DPS (S cts)	1.6	1.6	1.7	2.1	2.4
Dividend yield (%)	6.3	6.3	6.8	8.1	9.5
P/NTA (x)	2.1	2.1	1.9	1.8	1.6
NTA/sh (S cts)	12.0	12.1	13.6	14.6	15.7
BVPS (S cts)	15.9	15.7	17.0	17.9	18.9
ROE (%)	9.0	11.5	15.2	17.0	18.9
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
Net cash per share (S cts)	3.2	6.5	6.6	7.4	8.3
P/CF (x)	11.6	9.6	8.2	7.3	6.4
EV/EBITDA (x)	8.2	7.3	5.8	5.2	4.5

Source: Company, CIMB

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