

Neutral

Current Price	S\$0.255
Fair Value	S\$0.223
Up / (downside)	(12%)

Stock Statistics

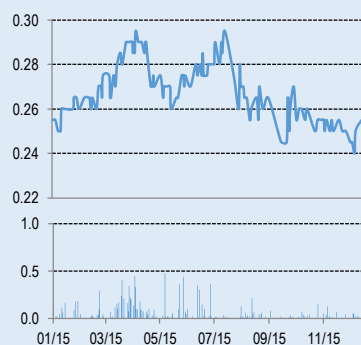
Market cap	S\$115.9m
52-low	S\$0.23
52-high	S\$0.30
Avg daily vol	46,326
No of share	454.4m
Free float	29.5%

Key Indicators

ROE 15F	10.4%
ROA 15F	4.1%
P/BK	1.68x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart

Source: Bloomberg

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Potential projects support outlook amid headwinds.

- **Adhoc briefing-cum-lunch with management.** The management of TeleChoice recently held a face-to-face group lunch-cum-briefing, following the conference call after its 3Q15 results announcement. The key messages from the briefing were generally positive and suggest more projects by TeleChoice in the later part of 2016.
- **Opportunities for Smart Nation Initiative projects in 2017.** According to the management, the 2015 results (9M15 net profit down 22% year-on-year) were partially due to certain projects that took time to commence. For instance, TeleChoice has secured the initial contract to supply basic internal IT infrastructure for the datacentre while more comprehensive projects will only be available when the construction is completed on 4Q16. Meanwhile, TeleChoice has made progress in the e-learning after having won the Proof of Concept in the public sector.
- **New telco brings potential opportunities.** The yet to be decided fourth telco in Singapore will also present opportunities for TeleChoice. We understand that the fourth telco will have to build its own infrastructure, and as such will require the services of companies such as TeleChoice. The likelihood of Singapore having a fourth telco is high, as demand for data has apparently maxed out existing bandwidth capacity. Telco hopeful MyRepublic has already begun 4G trials within the Jurong area.
- **Lower amortization costs to improve margins in 2016.** Other than new projects and products, we can expect margins to improve in 2016 as TeleChoice will soon fully amortize the intangible assets on its investment in S & I Systems Pte Ltd. Amortization expense is expected to drop from S\$1.2m/year to S\$0.25m/year from NxGen in 2016, which will also be fully amortization by the end of 2018.
- **Encouraging outlook, but risks remain.** The above factors point to a more optimistic outlook for TeleChoice with more potential projects going forward. In addition, the potential early release of a popular Samsung phone model in February or March may boost earnings in 1H16. We also expect the company to maintain its dividends for FY15 even though FY15 net profit will likely be lower. Nonetheless, we remain cautious as to the exact timing of any turnaround in growth. Net profit fell by 32.8% year-on-year to S\$1.5m in 3Q15. Moreover, risks remain as a result of slowing demand for smartphones in Asia.
- **Fair value and forecast remained mostly unchanged.** Hence, we maintained our fair value of S\$0.22, based on the industry average of 9.3x FY16 PER and also maintained our Neutral recommendation, with the intention of upgrading our rating when some of the above catalysts are progressively realized.

Key Financial Data					
(S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	556.3	516.8	575.2	605.7	636.0
Gross Profit	43.5	42.5	42.0	47.2	50.9
Net Profit	9.7	9.4	8.7	10.9	12.9
EPS (cents)	2.1	2.1	1.9	2.4	2.8
EPS growth (%)	17.4	(3.1)	(7.6)	25.7	18.4
PER (x)	11.7	12.1	13.1	10.4	8.8
NTA/share (cents)	11.9	12.8	13.8	14.8	15.8
DPS (cents)	1.6	1.6	1.3	1.4	1.7
Div Yield (%)	6.4	6.4	5.3	5.7	6.8

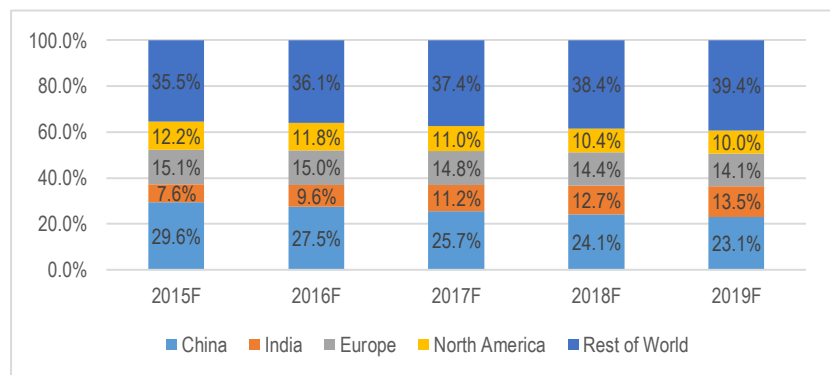
Source: Company, NRA Capital forecasts

TeleChoice International Ltd

New Samsung model may give TeleChoice an early boost. There is a possibility that Samsung may release its new flagship mobile phone Galaxy S7 ahead of its usual release in April as the phone will be unveiled at the Barcelona's Mobile World Congress to be held in February 2016. Samsung shipped 6.1% more phones year-on-year or 84.5m smartphones globally in 3Q15. The Personal Communications Solutions Services (PCS) business accounted for S\$109.7m or about 76% of group revenue in 3Q15. Hence, the early release of new models will likely have a positive impact on TeleChoice in 1H16.

But smartphone demand is slowing in Asia. Recently, IDC published new forecasts to reflect slowing growth in the Asia Pacific, mainly due to market giant China. The forecasts highlight that 2015 would be the first full year of single digit growth of 9.8% or 1.43bn units of smartphone shipments and slower growth is expected to intensify over the next five years. Hence, opportunities in relation to the smartphone business may be limited, unless TeleChoice were to enter a new market such as Myanmar.

Worldwide Smartphone Market Share by Geography, 2015 - 2019



Source: IDC

Results Review

FYE Dec (S\$ m)	3Q15	3Q14	yoy % chg	2Q15	qoq % chg	Prev. 3Q15F	Comments
Revenue	145.2	131.5	10	146.9	(1)	152.2	In line
Operating costs	(142.2)	(127.6)	11	(143.5)	(1)	(148.8)	In line
EBITDA	2.9	3.9	(26)	3.4	(15)	3.5	Below, lower-than-expected gross profit margins
EBITDA margin (%)	2.0	3.0		2.3		2.3	0.3% pts below expectation due to reduction in ICT revenue
Depn & amort.	(0.7)	(0.9)	(17)	(0.7)	1	(0.7)	In line
EBIT	2.2	3.0	(28)	2.7	(20)	2.7	0.3% pts below expectation due to reduction in ICT revenue
Interest expense	(0.2)	(0.3)	(24)	(0.2)	(21)	(0.2)	
Interest & invt inc	0.2	0.2	(10)	0.2	(9)	0.2	
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	2.1	2.9	(27)	2.6	(19)	2.7	Below, lower-than-expected gross profit margins from ICT
Tax	(0.7)	(0.8)	(12)	(0.6)	18	(0.5)	Above due to higher tax
Tax rate (%)	31.6	26.0		21.7		20.0	
Minority interests	0.1	0.1	(33)	0.1	1	0.0	
Net profit	1.5	2.3	(33)	2.1	(28)	2.1	28.1% below expectation due to low profit margin from ICT
EPS (cts)	0.3	0.5	(33)	0.5	(28)	0.5	28.1% below expectation due to low profit margin from ICT

Source: NRA Capital estimates

TeleChoice International Ltd

Industry comparison

Name	Bloomberg Code	Price (Local)	MktCap (S\$ m)	T12M PER (x)	FY15 PER (x)	FY16 PER (x)	PBR (x)	ROE (%)	Yield (%)	YTD (%)
TeleChoice International Ltd	TLC SP	0.26	115.88	14.25	13.42	10.63	8.22	1.67	13.23	6.04
CSE Global Ltd	CSE SP	0.45	229.7	6.3	7.0	7.3	28.7	1.5	17.5	5.4
Nera Telecommunications Ltd	NERT SP	0.64	229.8	16.9	15.9	15.9	33.1	4.7	25.5	5.1
OCC Group Bhd	OCC MK	0.73	187.5	17.8	13.7	11.9	26.1	2.4	12.1	0.4
Lantrovision Singapore Ltd	LANT SP	2.31	124.6	11.8	NA	NA	29.0	1.2	9.4	6.1
Declout Ltd	DLL SP	0.21	113.1	38.9	NA	NA	26.5	1.9	3.0	0.0
Global Invacom Group Ltd	RAD SP	0.15	35.3	NA	NA	4.6	23.7	1.4	9.7	1.2
Captii Ltd	CAP SP	0.53	16.8	5.4	NA	NA	50.9	0.4	6.3	4.8
CMC Infocomm Ltd	CMC SP	0.06	9.7	NA	NA	NA	23.2	NA	-6.9	NA
Average		0.26	115.88	14.25	13.42	10.63	8.22	1.67	13.23	6.04

Source: Bloomberg

TeleChoice International Ltd

Profit & Loss (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	556.3	516.8	575.2	605.7	636.0
Operating expenses	(541.6)	(501.8)	(561.3)	(589.8)	(617.8)
EBITDA	14.7	15.0	14.0	15.9	18.2
Depreciation & amortisation	(3.1)	(3.4)	(2.9)	(2.6)	(2.6)
EBIT	11.5	11.6	11.0	13.3	15.6
Net interest & invt income	(0.5)	(0.2)	0.3	0.5	0.5
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	(0.4)	0.0	0.0
Pretax profit	11.1	11.4	11.0	13.8	16.1
Tax	(1.5)	(2.2)	(2.5)	(2.9)	(3.2)
Minority interests	0.1	0.2	0.2	0.0	0.0
Net profit	9.7	9.4	8.7	10.9	12.9
Shares at year-end (m)	453.9	454.4	454.4	454.4	454.4
Balance Sheet (S\$ m, as at Dec)	2013	2014	2015F	2016F	2017F
Fixed assets	2.4	3.3	4.0	4.6	5.1
Intangible assets	15.6	14.0	13.3	12.7	12.0
Other long-term assets	1.8	7.0	7.0	7.0	7.0
Total non-current assets	19.8	24.3	24.3	24.2	24.1
Cash and equivalents	48.9	38.0	41.3	41.0	43.9
Stocks	39.1	32.7	36.8	38.6	40.4
Trade debtors	63.4	91.7	92.0	96.9	101.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	151.5	162.4	170.2	176.5	186.0
Trade creditors	74.5	85.6	90.7	94.9	99.5
Short-term borrowings	9.9	20.0	11.5	9.1	9.5
Other current liabilities	6.5	5.8	7.5	7.9	8.3
Total current liabilities	90.8	111.4	109.7	111.9	117.3
Long-term borrowings	10.0	0.0	5.8	6.1	6.4
Other long-term liabilities	0.7	3.1	3.0	2.8	2.7
Total long-term liabilities	10.7	3.1	8.7	8.9	9.1
Shareholders' funds	69.5	72.1	76.1	79.9	83.8
Minority interests	0.3	0.2	(0.0)	(0.0)	(0.0)
NTA/share (S\$)	0.12	0.13	0.14	0.15	0.16
Total Assets	171.3	186.7	194.5	200.7	210.1
Total Liabilities + S'holders' funds	171.3	186.7	194.5	200.7	210.1
Cash Flow (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	11.1	11.4	11.0	13.8	16.1
Depreciation & non-cash adjustments	(4.3)	1.8	7.0	3.3	2.1
Working capital changes	9.1	(10.0)	0.9	(2.1)	(1.9)
Cash tax paid	(2.5)	(1.9)	(0.8)	(2.5)	(2.9)
Cash flow from operations	13.3	1.3	18.1	12.5	13.4
Capex	(2.2)	(3.0)	(3.3)	(3.3)	(3.3)
Net investments & sale of FA	0.0	0.0	0.0	0.0	0.0
Others	(1.4)	(1.3)	(0.6)	(0.6)	(0.7)
Cash flow from investing	(3.6)	(4.3)	(3.9)	(3.9)	(4.0)
Debt raised/(repaid)	(2.3)	0.1	(2.7)	(2.1)	0.8
Equity raised/(repaid)	(0.3)	(0.2)	0.0	0.0	0.0
Dividends paid	(7.4)	(7.3)	(7.3)	(6.0)	(6.5)
Cash interest & others	(2.6)	(0.6)	(0.9)	(0.8)	(0.8)
Cash flow from financing	(12.5)	(7.9)	(10.8)	(8.9)	(6.6)
Change in cash	(2.7)	(10.9)	3.4	(0.3)	2.8
Change in net cash/(debt)	(0.4)	(11.0)	6.1	1.8	2.1
Ending net cash/(debt)	29.0	18.0	24.1	25.9	28.0
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	15.7	(7.1)	11.3	5.3	5.0
EBITDA growth (%)	3.8	2.2	(6.7)	13.9	14.4
Pretax margins (%)	2.0	2.2	1.9	2.3	2.5
Net profit margins (%)	1.7	1.8	1.5	1.8	2.0
Effective tax rates (%)	13.3	19.3	22.8	21.0	20.0
Net dividend payout (%)	75.2	77.6	68.9	60.0	60.0
ROE (%)	13.9	13.0	11.4	13.6	15.4
Free cash flow yield (%)	9.8	(1.5)	13.0	8.1	8.9

Source: Company, NRA Capital forecasts

TeleChoice International Ltd

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