

TeleChoice Int'l

2Q10 results update

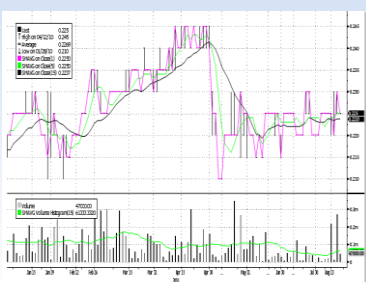
BUY

Current Price **S\$0.225**
20 August 2010

Fair Value **S\$0.28**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$102m
52-HI	S\$0.245
52-LOW	S\$0.205
Avg Vol (1 yr)	93,092
Shares Outstanding	453.16m
Free Float	135.9m

Key Indicators

ROE FY10	17.6%
ROA FY10	10.9%
P/BK	1.35x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Still offers attractive yield

- **Earnings slightly below expectations.** 2Q10 net profit of S\$3.0m (+20% yoy) was slightly below our net profit forecast of S\$3.2m due to higher-than-expected effective tax rate. 1H10 came in at 42% of our full year forecast. Traditionally, TeleChoice's results are strong in 2H due mainly to year end festive season demand for handsets.
- **Sales increased 38% yoy to S\$97.3m** as personal communications solutions services (PCS) division grew by 56% yoy mainly due to higher regional sales and prepaid cards, these however were slightly offset by an 18% drop in sales from Engineering division. While Telecoms division remains flat yoy as sales increased from enterprise segment, this was offset by the decline in the consumer segment.
- **EBITDA margins decreased by 63 basic pts yoy** to 4% which is 0.1% off of our expectation, because of greater-than-expected margins erosion from Telecoms division. Including the lower financial cost (zero debt now) and reduction in job credit granted by the government, pretax increased by 32% yoy, the higher effective tax rate blew its net profit to 20% yoy.
- **Balance sheet remains strong.** TeleChoice generated S\$1.8m of positive free cash flow in 2Q09 after improving its cash conversion cycle by 9 days qoq to 31 days. However, net cash reduced by S\$6.5m qoq to S\$38m as at end Jun10 after a S\$7.9m dividend payment.
- **Stable outlook.** We expect TeleChoice will revert to its normal seasonality, which is a stronger contribution from 2H (except in year 2008). The group is expanding more outlets in Parco Marina Bay, Esplanade MRT Station (these two started in May and Jun) and Bedok Point (pending). In spite of TeleChoice losing market share in the handphone market (as iPhones are sold exclusively by the three Telcos), we have seen the other handset manufacturers fighting back now, especially Samsung and Motorola with Android OS. We believe there will be more smartphone models in the 2H.
- **Trimming forecasts and maintain Buy.** We have trimmed our FY10-12 net profit forecast by 6-8% to factor in greater margins erosion from Telecom (This segment however provides a good cash flow for the group). Our fair value remains unchanged at S\$0.28, still pegged at 1.5x PBR FY11. We maintain our **Buy** recommendation. The current price also implies an attractive yield of 8-12%.

Key Financial Data

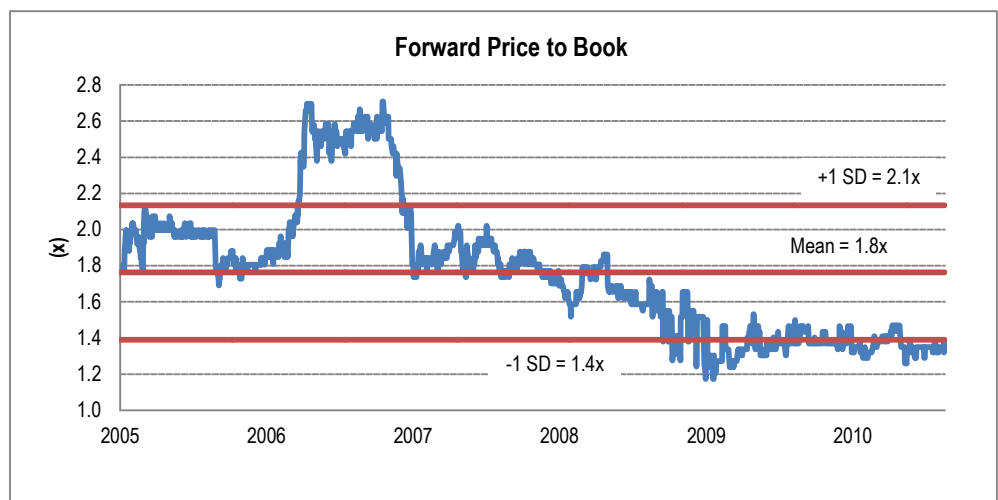
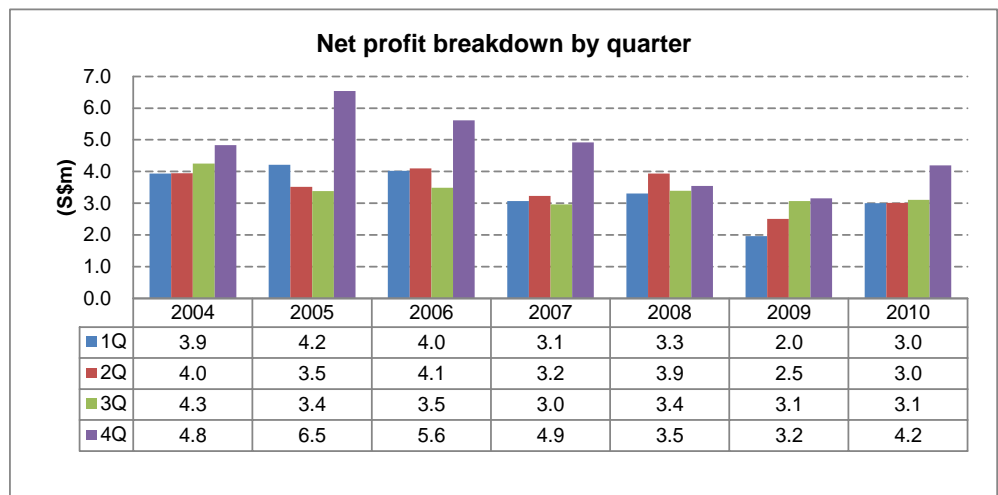
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	354.0	273.7	380.0	469.4	580.4
Gross Profit	37.2	28.6	35.7	44.6	55.1
Net Profit	14.2	11.4	13.3	16.4	20.3
EPS (cents)	3.1	2.5	2.9	3.6	4.5
EPS growth (%)	(0.3)	(19.8)	16.7	23.5	23.6
PER (x)	7.2	8.9	7.7	6.2	5.0
NTA/share (cents)	14.5	15.3	16.7	18.3	20.3
DPS (cents)	2.0	1.8	1.8	2.2	2.7
Div Yield (%)	8.9	7.8	7.8	9.7	12.0

Source: Company, NRA Capital

Results comparison

FYE Dec (\$ m)	2Q10	2Q09	yoy % chg	1Q10	qoq % chg	Prev. 2Q10F	Comments
Revenue	97.3	70.7	38	75.3	29	87.2	12% above expectation
Operating costs	(93.5)	(67.4)	39	(71.8)	30	(83.6)	Above, higher-than-expected sales
EBITDA	3.9	3.2	19	3.6	9	3.6	Above, higher-than-expected sales
EBITDA margin (%)	4.0	4.6		4.7		4.1	In line
Depn & amort.	(0.3)	(0.4)	(22)	(0.2)	34	(0.3)	In line
EBIT	3.6	2.9	24	3.3	7	3.3	Above, higher-than-expected sales
Interest expense	(0.0)	(0.0)	(86)	(0.0)	(50)	(0.0)	In line
Interest & invt inc	0.1	(0.0)	1,044	0.1	(10)	0.3	Below
Associates' contrib	0.1	0.0	286	(0.0)	1,044	(0.0)	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.7	2.8	32	3.4	10	3.6	In line
Tax	(0.7)	(0.3)	114	(0.4)	83	(0.4)	Above, higher-than-expected effective tax rate
Tax rate (%)	19.2	11.8		11.5		10.8	Above
Minority interests	(0.0)	0.0	nm	(0.0)	(13)	0.0	
Net profit	3.0	2.5	20	3.0	0	3.2	Slightly below due higher effective tax rate
EPS (cts)	0.7	0.6	20	0.7	0	0.7	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	354.0	273.7	380.0	469.4	580.4
Operating expenses	(335.1)	(260.1)	(361.9)	(447.3)	(553.5)
EBITDA	18.9	13.6	18.1	22.0	26.9
Depreciation & amortisation	(2.0)	(1.3)	(1.3)	(1.3)	(1.3)
EBIT	16.9	12.3	16.7	20.7	25.6
Net interest & invt income	0.2	1.1	(1.2)	(1.5)	(1.8)
Associates' contribution	1.1	0.3	0.3	0.4	0.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	18.2	13.6	15.8	19.6	24.2
Tax	(4.0)	(2.2)	(2.5)	(3.1)	(3.9)
Minority interests	0.0	(0.0)	0.0	0.0	0.0
Net profit	14.2	11.4	13.3	16.4	20.3
Wt. shares (m)	452.4	453.1	453.3	453.3	453.3
Shares at year-end (m)	452.4	453.1	453.3	453.3	453.3

Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	1.7	2.3	2.6	2.9	1.6
Intangible assets	0.3	0.1	0.1	0.1	0.1
Other long-term assets	1.1	1.4	1.4	1.4	1.4
Total non-current assets	3.2	3.8	4.1	4.4	3.0
Cash and equivalents	42.6	46.6	50.0	48.4	53.8
Stocks	18.1	25.0	31.0	38.2	47.3
Trade debtors	44.9	29.2	37.4	46.2	57.2
Other current assets	0.0	(0.0)	0.0	0.0	0.0
Total current assets	105.6	100.9	118.4	132.9	158.2
Trade creditors	12.3	11.9	26.6	32.9	46.4
Short-term borrowings	5.0	3.0	0.0	0.0	0.0
Other current liabilities	25.5	19.9	19.9	21.1	22.6
Total current liabilities	42.8	34.8	46.5	54.0	69.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.1	0.2	0.2	0.2	0.2
Total long-term liabilities	0.1	0.2	0.2	0.2	0.2
Shareholders' funds	65.9	69.6	75.7	83.0	91.9
Minority interests	0.0	0.0	0.0	0.0	0.0
NTA/share (S\$)	0.14	0.15	0.17	0.18	0.20
Total Assets	108.8	104.6	122.5	137.3	161.3
Total Liabilities + S'holders' funds	108.8	104.6	122.5	137.3	161.3

Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	18.2	13.6	15.8	19.6	24.2
Depreciation & non-cash adjustments	9.7	(8.7)	0.8	(0.3)	0.6
Working capital changes	12.2	3.7	1.5	(8.8)	(5.4)
Cash tax paid	(3.7)	(2.9)	(2.1)	(1.5)	(1.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	36.4	5.7	16.0	8.9	17.6
Capex	(1.6)	(1.8)	(1.6)	(1.6)	(1.6)
Net investments & sale of FA	0.1	10.8	0.0	0.0	0.0
Others	0.7	0.2	(0.3)	(1.0)	(1.0)
Cash flow from investing	(0.8)	9.2	(1.9)	(2.6)	(2.6)
Debt raised/(repaid)	(6.8)	(2.0)	(3.0)	0.0	0.0
Equity raised/(repaid)	0.3	0.0	0.1	0.0	0.0
Dividends paid	(11.3)	(9.1)	(7.9)	(8.0)	(9.9)
Cash interest & others	(0.2)	0.2	0.1	0.1	0.2
Cash flow from financing	(18.0)	(10.9)	(10.7)	(7.8)	(9.7)
Change in cash	17.6	4.0	3.3	(1.6)	5.3
Change in net cash/(debt)	24.4	6.0	6.3	(1.6)	5.3
Ending net cash/(debt)	37.6	43.6	50.0	48.4	53.8

KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	(15.8)	(22.7)	38.8	23.5	23.7
EBITDA growth (%)	7.1	(28.0)	32.7	21.9	22.3
Pretax margins (%)	5.1	5.0	4.2	4.2	4.2
Net profit margins (%)	4.0	4.2	3.5	3.5	3.5
Interest cover (x)	106.8	78.1	677.9	1,673.5	4,136.8
Effective tax rates (%)	22.0	16.3	16.0	16.0	16.0
Net dividend payout (%)	63.8	69.6	60.0	60.0	60.0
Debtors turnover (days)	60.0	49.4	32.0	32.5	32.5
Stock turnover (days)	32.6	32.1	29.7	29.7	29.7
Creditors turnover (days)	27.5	16.1	18.5	23.1	24.9

Source: Company, NRA Capital Estimates

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