

**Overweight**

Current Price	S\$0.25
Fair Value	S\$0.28
Up / (downside)	+12%

**Stock Statistics**

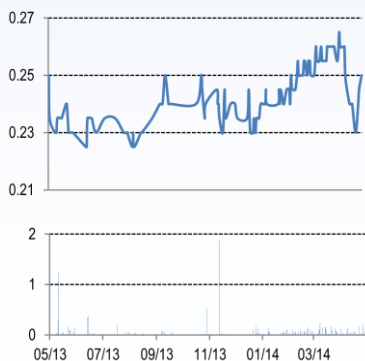
Market cap	S\$113.5m
52-low	S\$0.225
52-high	S\$0.265
Avg daily vol	100,557
No of share	454.0m
Free float	30%

**Key Indicators**

ROE 14F	17%
ROA 17F	7%
P/BK	1.6x
Net gearing	Net cash

**Major Shareholders**

Temasek Holdings	50.4%
Leap International	19.7%

**Historical Chart**

Source: Bloomberg

**Jacky Lee**

(+65) 6236-6887  
jacky.lee@nracapital.com  
[www.nracapital.com](http://www.nracapital.com)

**In good hands for the moment**

- **Earnings above expectations.** Despite TeleChoice's 1Q14 sales being 6% below our expectation, its net profit of S\$1.6m (+40% yoy) was 26% above forecast due to slightly better-than-expected gross profit margins and lower-than-expected operating expenses. 1Q only formed 13% of our full year forecast as traditionally its 1Q is the weakest quarter.
- **Maintain earnings forecasts and fair value.** Despite management lowering its FY2014 full year guidance statement from better than last year to maintained at last year's level as the group expects 2Q14 operating performance to be challenging compared to 1Q14, we have kept our FY14-16 net profit forecasts unchanged. Our fair value also remains at S\$0.28, still based on 8x PER FY15. Given the 12% potential upside coupled with its strong track record and attractive 6-9% yield, maintain **Overweight** rating.
- **1Q14 revenues increased by 7% yoy to S\$124.7m**, led by PCS's sales which increased 15% yoy. This was offset by ICT and Engineering divisions, where revenues reduced by 10% and 18% yoy, respectively. Management believes its PCS Services division will continue to forge a stronger retail footprint. Last year, the group added a Samsung Experience Store in Bedok Mall and a StarHub platinum outlet in Westgate. Last month, their fourth and fifth StarHub Platinum outlets have opened in Bugis Junction and Parkway Parade.
- **Samsung still a lead for its PCS division.** Samsung's co-chief executive said in an interview with the Wall Street Journal a few days ago that the sales of Samsung Galaxy S5 smartphone are outpacing that of its predecessor. More than 11m S5s have been shifted since its launch at the start of last month as compared with 10m units of the S4 smartphones in the same period last year. Meanwhile, according to the IDC, vendors shipped a total of 281.5m smartphones worldwide in 1Q14, up 28.6% yoy but down 2.8% qoq. The results beat IDC's forecast of 267.2m units by 5.3%. Samsung maintained its top spot with 89m units shipped despite its smartphone market share slipping slightly yoy from 32% to 31%, its first decline since the fourth quarter of 2009.
- **Gross profit margins slid 0.2% pts yoy to 7.7% in 1Q14.** However, EBITDA margins were up 0.3% pts to 2.4% after improving its operating cost, including higher other incomes and lower financial expenses, pre-tax and net profit increased by 46% and 40% yoy, respectively.
- **Balance sheet remains strong.** TeleChoice generated a negative free cash flow of S\$5.6m this quarter after increasing its working capital requirement. As a result cash conversion cycle extended by 10 days qoq to 26 days. Net cash decreased by S\$7m qoq to S\$22.3m as at end March-2014 or about 5 cents net cash per shares.

Key Financial Data (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	480.9	556.3	631.7	740.5	841.9
Gross Profit	41.6	43.5	53.7	62.9	71.6
Net Profit	8.2	9.7	12.5	15.8	17.0
EPS (cents)	1.8	2.1	2.8	3.5	3.7
EPS growth (%)	25.0	17.4	29.4	26.7	7.2
PER (x)	13.5	11.5	8.9	7.0	6.6
NTA/share (cents)	12.1	11.9	13.3	14.5	16.2
DPS (cents)	1.6	1.6	1.7	2.1	2.2
Div Yield (%)	6.5	6.5	6.7	8.5	9.2

Source: Company, NRA Capital forecasts

# TeleChoice Int'l

## Results comparison

FYE Dec (\$\$ m)	1Q14	1Q13	yoy % chg	4Q13	qoq % chg	Prev. 1Q14F	Comments
Revenue	124.7	116.8	7	151.8	(18)	132.7	6% below expectation
Operating costs	(121.6)	(114.4)	6	(146.9)	(17)	(130.1)	Below, lower-than-expected revenue
EBITDA	3.1	2.4	25	4.9	(37)	2.6	In line
EBITDA margin (%)	2.4	2.1		3.2		2.0	0.4% pts above expectation
Depn & amort.	(0.8)	(0.8)	1	(0.8)	3	(0.8)	In line
EBIT	2.3	1.7	37	4.1	(45)	1.8	Above, better-than-expected margins
Interest expense	(0.2)	(0.3)	(29)	(0.3)	(37)	(0.3)	Below
Interest & invt inc	0.3	0.2	<i>nm</i>	0.3	(5)	0.2	Above
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
<b>Pretax profit</b>	<b>2.3</b>	<b>1.6</b>	<b>46</b>	<b>4.1</b>	<b>(43)</b>	<b>1.8</b>	Above, better-than-expected margins
Tax	(0.8)	(0.5)	52	0.1	(647)	(0.5)	Above
Tax rate (%)	32.4	31.1		(3.4)		30.0	
Minority interests	0.0	0.1	(35)	(0.0)	206	0.1	
<b>Net profit</b>	<b>1.6</b>	<b>1.2</b>	<b>40</b>	<b>4.2</b>	<b>(61)</b>	<b>1.3</b>	26% above expectation
EPS (cts)	0.4	0.3	40	0.9	(61)	0.3	

Source: NRA Capital estimates

## Top Five Worldwide Smartphone Vendors, Shipments, and Market Share, Q1 2014 (Units in Millions)

Vendor	1Q14 Shipment Volumes	1Q14 Market Share	1Q13 Shipment Volumes	1Q13 Market Share	Year-Over-Year Change
Samsung	85.0	30%	69.7	32%	22%
Apple	43.7	16%	37.4	17%	17%
Huawei	13.7	5%	9.3	4%	47%
Lenovo	12.9	5%	7.9	4%	63%
LG	12.3	4%	10.3	5%	19%
Others	113.9	41%	84.2	39%	35%
<b>Total</b>	<b>281.5</b>	<b>100%</b>	<b>218.8</b>	<b>100%</b>	<b>29%</b>

Source: IDC

# TeleChoice Int'l

<b>Profit &amp; Loss</b> (\$\$ m, FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue	480.9	556.3	631.7	740.5	841.9
Operating expenses	(466.8)	(541.6)	(612.4)	(717.3)	(817.2)
EBITDA	14.1	14.7	19.3	23.2	24.7
Depreciation & amortisation	(3.0)	(3.1)	(3.1)	(3.1)	(3.1)
EBIT	11.1	11.5	16.2	20.1	21.7
Net interest & invt income	(0.2)	(0.5)	(0.5)	(0.2)	(0.3)
Associates' contribution	(0.7)	0.0	0.0	0.0	0.0
Exceptional items	(0.2)	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>9.9</b>	<b>11.1</b>	<b>15.7</b>	<b>19.9</b>	<b>21.3</b>
Tax	(1.7)	(1.5)	(3.1)	(4.0)	(4.3)
Minority interests	0.0	0.1	(0.1)	(0.1)	(0.1)
<b>Net profit</b>	<b>8.2</b>	<b>9.7</b>	<b>12.5</b>	<b>15.8</b>	<b>17.0</b>
Wt. shares (m)	453.8	453.9	454.0	454.0	454.0
Shares at year-end (m)	453.8	453.9	454.0	454.0	454.0
<b>Balance Sheet</b> (\$\$ m, as at Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Fixed assets	2.9	2.4	2.4	2.4	2.4
Intangible assets	16.4	15.6	14.0	12.6	11.4
Other long-term assets	2.0	1.8	1.8	1.8	1.8
<b>Total non-current assets</b>	<b>21.3</b>	<b>19.8</b>	<b>18.2</b>	<b>16.8</b>	<b>15.5</b>
Cash and equivalents	51.6	48.9	57.5	54.7	60.1
Stocks	39.2	39.1	44.1	51.7	58.8
Trade debtors	64.7	63.4	72.0	84.4	96.0
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>155.5</b>	<b>151.5</b>	<b>173.6</b>	<b>190.8</b>	<b>214.8</b>
Trade creditors	67.8	74.5	86.7	101.6	115.6
Short-term borrowings	12.1	9.9	13.3	13.3	15.2
Other current liabilities	6.1	6.5	8.4	9.2	9.5
<b>Total current liabilities</b>	<b>86.1</b>	<b>90.8</b>	<b>108.4</b>	<b>124.2</b>	<b>140.2</b>
Long-term borrowings	10.0	10.0	8.2	3.7	4.2
Other long-term liabilities	8.1	0.7	0.7	0.7	0.7
<b>Total long-term liabilities</b>	<b>18.1</b>	<b>10.7</b>	<b>8.9</b>	<b>4.4</b>	<b>4.9</b>
<b>Shareholders' funds</b>	<b>71.4</b>	<b>69.5</b>	<b>74.3</b>	<b>78.6</b>	<b>84.7</b>
Minority interests	1.3	0.3	0.3	0.4	0.5
NTA/share (\$\$)	0.12	0.12	0.13	0.15	0.16
<b>Total Assets</b>	<b>176.8</b>	<b>171.3</b>	<b>191.9</b>	<b>207.6</b>	<b>230.3</b>
<b>Total Liabilities + S'holders' funds</b>	<b>176.8</b>	<b>171.3</b>	<b>191.9</b>	<b>207.6</b>	<b>230.3</b>
<b>Cash Flow</b> (\$\$ m, FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Pretax profit	9.9	11.1	15.7	19.9	21.3
Depreciation & non-cash adjustments	4.6	(4.3)	4.4	0.6	3.1
Working capital changes	20.6	9.1	(0.3)	(4.2)	(3.8)
Cash tax paid	(3.0)	(2.5)	(1.3)	(3.1)	(4.0)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>32.2</b>	<b>13.3</b>	<b>18.5</b>	<b>13.1</b>	<b>16.7</b>
Capex	(2.0)	(2.2)	(2.6)	(2.6)	(2.6)
Net investments & sale of FA	(5.0)	0.0	0.0	0.0	0.0
Others	(1.4)	(1.4)	(0.1)	(0.1)	(0.1)
<b>Cash flow from investing</b>	<b>(8.3)</b>	<b>(3.6)</b>	<b>(2.7)</b>	<b>(2.7)</b>	<b>(2.7)</b>
Debt raised/(repaid)	5.9	(2.3)	1.6	(4.4)	2.3
Equity raised/(repaid)	(0.3)	(0.3)	(0.1)	0.0	0.0
Dividends paid	(7.3)	(7.4)	(7.3)	(7.5)	(9.5)
Cash interest & others	(1.1)	(2.6)	(1.5)	(1.3)	(1.4)
<b>Cash flow from financing</b>	<b>(2.7)</b>	<b>(12.5)</b>	<b>(7.2)</b>	<b>(13.2)</b>	<b>(8.6)</b>
<b>Change in cash</b>	<b>21.1</b>	<b>(2.7)</b>	<b>8.6</b>	<b>(2.8)</b>	<b>5.4</b>
<b>Change in net cash/(debt)</b>	<b>15.2</b>	<b>(0.4)</b>	<b>7.0</b>	<b>1.6</b>	<b>3.1</b>
<b>Ending net cash/(debt)</b>	<b>29.5</b>	<b>29.0</b>	<b>36.0</b>	<b>37.6</b>	<b>40.7</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2012</b>	<b>2013</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>
Revenue growth (%)	23.4	15.7	13.6	17.2	13.7
EBITDA growth (%)	(12.5)	3.8	32.0	20.1	6.5
Pretax margins (%)	2.1	2.0	2.5	2.7	2.5
Net profit margins (%)	1.7	1.7	2.0	2.1	2.0
Interest cover (x)	11.0	11.0	14.1	21.9	20.7
Effective tax rates (%)	17.2	13.3	20.0	20.0	20.0
Net dividend payout (%)	88.2	75.2	60.0	60.0	60.0
Debtors turnover (days)	49.1	41.6	41.6	41.6	41.6
Stock turnover (days)	32.6	27.9	27.9	27.9	27.9
Creditors turnover (days)	56.3	53.0	54.8	54.8	54.8

Source: Company, NRA Capital forecasts

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.