

TeleChoice Int'l

3Q09 results update

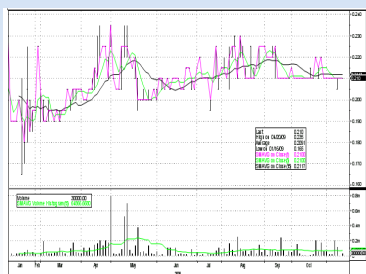
BUY

Current Price **S\$0.21**
11 November 2009

Fair Value **S\$0.25**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$95.2m
52-HI	S\$0.235
52-LOW	S\$0.165
Avg Vol (1 yr)	77,088
Shares Outstanding	453.2m
Free Float	134.9m

Key Indicators

ROE FY09	16.8%
ROA FY09	9.9%
P/BK	1.45x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.7%
Leap International	19.5%

Attractive yield expected

- **Above expectations.** 3Q09 net profit of S\$3.2m (-4% yoy) came in 39% above consensus and our expectations with the key variance being better-than-expected margins from personal communications solutions services (PSC) as well as better-than-expected cost control. 9M09 was respectively 72% of our full-year and consensus forecasts. Traditionally, TeleChoice's results are stronger in 4Q due mainly to year end festive season demand for handsets.
- **Sales dipped 18% yoy to S\$70m**, dragged by all segments - PSC (-20% yoy), Telecoms division (-29% yoy) and Engineering division (-1% yoy). However, these were slightly offset by additional revenue generated from sales of prepaid cards which commenced in April this year. We believe demand for prepaid cards will continue to grow due to an increase in foreign workers in Singapore as well as visitor arrivals.
- **EBITDA margins expended by 1.1 pts yoy to 5.2%** on the back of a shift in the demand of new smart phone products as well as efforts on cost control. Including the forex loss, job credit grants and lower effective tax rate, pretax and net profits decreased 13% and 4% yoy respectively.
- **Balance sheet remains strong.** TeleChoice generated S\$0.6m of negative free cash flow, slightly increasing its cash conversion cycle by 3 days to 51 days during the quarter. Net cash remained flat qoq at S\$29m for the quarter.
- **Smart phone market still growing**, despite the world-wide recession. Global unit shipments up 4.2% yoy to 43.3m in September quarter, according to research firm IDC. Following news that StarHub will be launching the iPhone soon, we believe TeleChoice will continue to benefit from this replacement cycle as a fulfillment contractor for StarHub. The group also transformed its telecom service into a next generation for consumers and enterprises, we will provide more information after we visit the group at the end of this month.
- **Raising FY09 forecast; maintain Buy.** We have raised our FY09 earnings forecast by 10% but kept our FY10-11 forecasts unchanged after factoring the better margins achieved and likely sustainable. Our fair value remains unchanged at S\$0.25, still pegged at 1.5x CY09 PBR. We maintain our Buy call. Given the outlook is getting better and its strong balance sheet, we expect the group will continue to payout at least 60% of its net profit (based on its last 4 years record). This implies an attractive yield of 7-8%.

Key Financial Data

(S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Sales	420.4	353.1	285.2	353.7	438.8
Gross Profit	39.5	36.3	27.6	42.4	52.7
Net Profit	14.2	14.2	11.9	14.3	17.8
EPS (cents)	3.1	3.1	2.6	3.1	3.9
EPS growth (%)	(18.2)	(0.3)	(16.5)	20.2	25.1
PER (x)	6.7	6.7	8.0	6.7	5.3
NTA/share (cents)	14.1	14.5	15.5	16.9	18.7
DPS (cents)	2.5	2.0	1.6	1.9	2.4
Div Yield (%)	11.9	9.5	7.5	9.0	11.2

Source: Company, NRA Capital

Results comparison

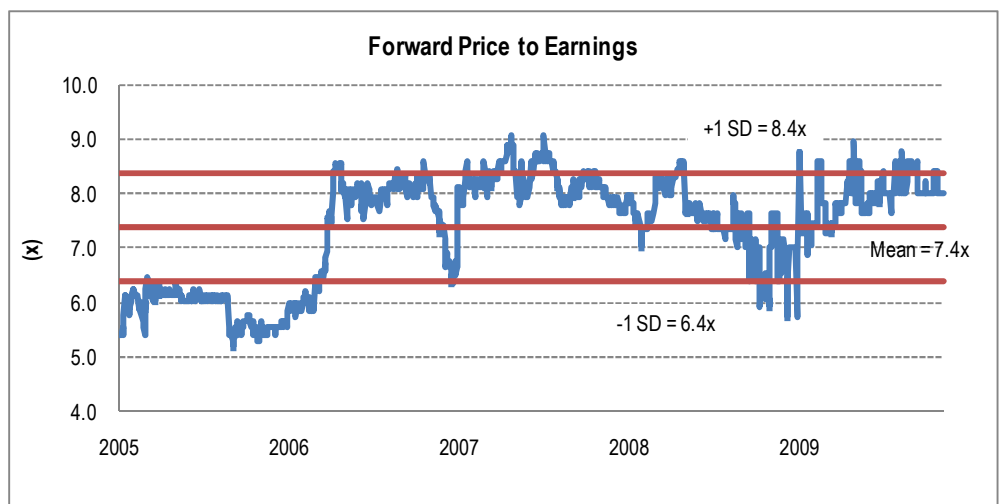
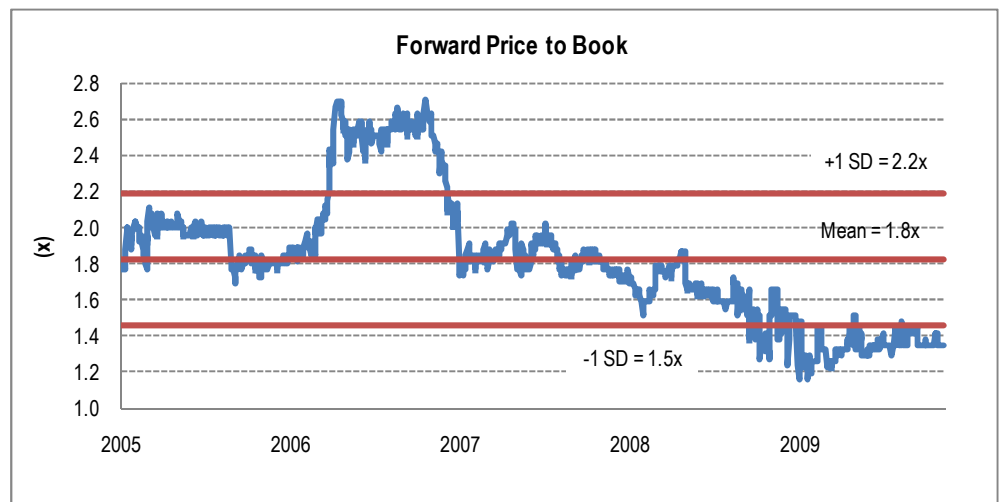
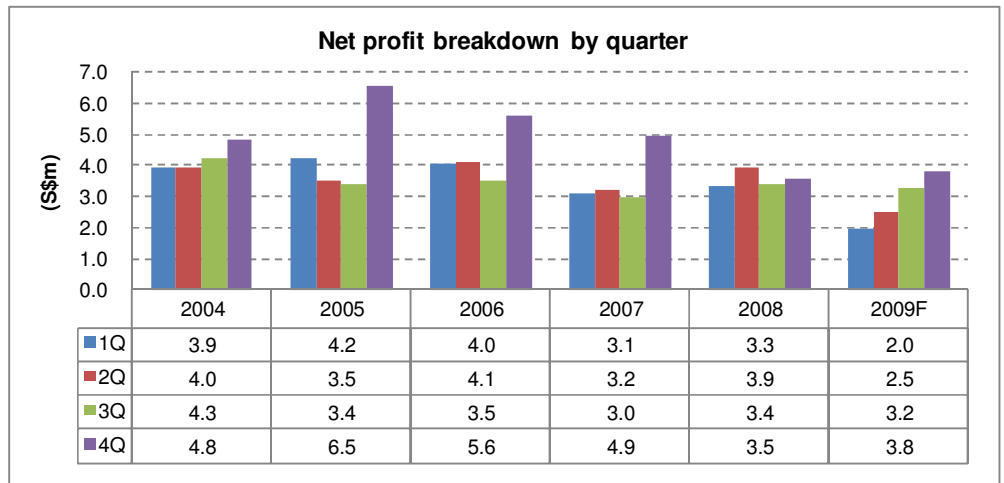
FYE Dec (\$ m)	3Q09	3Q08	yoy % chg	2Q09	qoq % chg	Prev. 3Q09F	Comments
Revenue	70.0	85.8	(18)	70.5	(1)	71.7	Within expectation
Operating costs	(66.3)	(82.3)	(19)	(67.4)	(2)	(69.0)	In line
EBITDA	3.6	3.5	4	3.1	19	2.8	Above, better-than-expected gross margins
EBITDA margin (%)	5.2	4.1		4.3		3.8	Above, better-than-expected gross margins
Depn & amort.	(0.3)	(0.4)	(18)	(0.4)	(15)	(0.4)	Below, retail business was fully amortised
EBIT	3.3	3.1	6	2.7	23	2.4	Above, better-than-expected margins
Interest expense	(0.1)	(0.0)	68	(0.0)	33	(0.0)	In line
Interest & invt inc	0.3	0.7	(51)	0.2	75	0.5	Below, affected by S\$0.3m forex loss
Associates' contrib	0.1	0.5	(86)	0.0	195	0.0	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.7	4.2	(13)	2.9	28	2.8	Above, better-than-expected margins
Tax	(0.4)	(0.8)	(50)	(0.3)	22	(0.5)	In line
Tax rate (%)	11.2	19.4		11.7		17.0	Lower-than-expected effective tax rate
Minority interests	0.0	0.0	0	0.0	0	0.0	
Net profit	3.2	3.4	(4)	2.5	29	2.3	Above, better-than-expected margins
EPS (cts)	0.7	0.8	(5)	0.6	29	0.5	

Source: NRA Capital estimates

Top five converged mobile device vendors, shipments, and market share, Q3 2009 (units in millions)

Vendor	3Q09 Shipment Volume	3Q09 Market Share	3Q08 Shipment Volume	3Q08 Market Share	Year-over-Year Growth
Nokia	16.4	38%	15.4	37%	7%
Research In Motion	8.2	19%	6.0	15%	36%
Apple	7.4	17%	6.9	17%	7%
HTC	2.4	6%	2.1	5%	15%
Samsung	1.5	4%	1.5	4%	0%
Others	7.3	17%	9.5	23%	-24%
Total	43.3	100%	41.5	100%	4%

Source: IDC



Source: NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue	420.4	353.1	285.2	353.7	438.8
Operating expenses	(402.7)	(335.1)	(271.0)	(336.2)	(418.0)
EBITDA	17.7	18.0	14.2	17.6	20.9
Depreciation & amortisation	(2.2)	(2.0)	(2.0)	(2.0)	(2.0)
EBIT	15.5	16.0	12.2	15.5	18.8
Net interest & invt income	2.1	1.1	1.4	1.1	2.4
Associates' contribution	0.2	1.1	0.2	0.3	0.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	17.8	18.2	13.8	17.0	21.6
Tax	(3.6)	(4.0)	(1.9)	(2.7)	(3.8)
Minority interests	0.0	0.0	0.0	0.0	0.0
Net profit	14.2	14.2	11.9	14.3	17.8
Wt. shares (m)	450.9	452.4	453.2	453.2	453.2
Shares at year-end (m)	450.9	452.4	453.2	453.2	453.2

Balance Sheet (S\$ m, as at Dec)	2007	2008	2009F	2010F	2011F
Fixed assets	2.1	1.7	1.3	0.8	0.3
Intangible assets	1.0	0.3	0.3	0.3	0.3
Other long-term assets	11.6	1.1	1.1	1.1	1.1
Total non-current assets	14.7	3.2	2.7	2.2	1.7
Cash and equivalents	25.0	42.6	40.7	39.1	44.0
Stocks	38.5	18.1	30.9	37.4	46.3
Trade debtors	71.6	44.9	45.8	56.8	62.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	135.1	105.6	117.4	133.3	152.6
Trade creditors	41.1	19.6	28.5	35.4	43.9
Short-term borrowings	11.8	5.0	4.3	5.3	6.6
Other current liabilities	32.1	18.2	16.6	17.7	19.0
Total current liabilities	85.0	42.8	49.4	58.4	69.4
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.2	0.1	0.1	0.1	0.1
Total long-term liabilities	0.2	0.1	0.1	0.1	0.1
Shareholders' funds	64.6	65.9	70.6	77.0	84.8
Minority interests	0.0	0.0	0.0	0.0	0.0
NTA/share (S\$)	0.14	0.14	0.16	0.17	0.19
Total Assets	149.8	108.8	120.1	135.5	154.4
Total Liabilities + S'holders' funds	149.8	108.8	120.1	135.5	154.4

Cash Flow (S\$ m, FYE Dec)	2007	2008	2009F	2010F	2011F
Pretax profit	17.8	18.2	13.8	17.0	21.6
Depreciation & non-cash adjustments	2.6	9.7	4.0	0.5	0.0
Working capital changes	(12.8)	12.2	(4.0)	(9.7)	(5.0)
Cash tax paid	(5.4)	(3.7)	(3.4)	(1.1)	(1.4)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2.2	36.4	10.4	6.8	15.2
Capex	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)
Net investments & sale of FA	(9.7)	0.1	0.0	0.0	0.0
Others	0.0	0.7	(0.6)	(0.3)	(1.0)
Cash flow from investing	(11.2)	(0.8)	(2.2)	(1.9)	(2.5)
Debt raised/(repaid)	11.2	(6.8)	(0.7)	1.0	1.3
Equity raised/(repaid)	0.3	0.3	0.0	0.0	0.0
Dividends paid	(5.6)	(11.3)	(9.0)	(7.1)	(8.6)
Cash interest & others	(0.7)	(0.2)	(0.4)	(0.4)	(0.5)
Cash flow from financing	5.1	(18.0)	(10.1)	(6.5)	(7.8)
Change in cash	(3.9)	17.6	(1.9)	(1.6)	4.9
Change in net cash/(debt)	(15.1)	24.4	(1.2)	(2.6)	3.7
Ending net cash/(debt)	13.2	37.6	36.4	33.8	37.5

KEY RATIOS (FYE Dec)	2007	2008	2009F	2010F	2011F
Revenue growth (%)	(8.6)	(16.0)	(19.2)	24.0	24.1
EBITDA growth (%)	(16.9)	2.1	(21.2)	23.7	18.7
Pretax margins (%)	4.2	5.2	4.8	4.8	4.9
Net profit margins (%)	3.4	4.0	4.2	4.0	4.1
Interest cover (x)	89.0	106.8	81.6	81.0	83.1
Effective tax rates (%)	20.3	22.0	14.0	16.0	17.5
Net dividend payout (%)	79.6	63.8	60.0	60.0	60.0
Debtors turnover (days)	52.2	60.2	58.0	52.9	49.5
Stock turnover (days)	27.5	32.6	34.7	40.0	39.6
Creditors turnover (days)	28.6	31.4	30.8	33.0	33.0

Source: Company, NRA Capital Estimates

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