

Neutral 

Current Price	S\$0.235
Fair Value	S\$0.26
Up / (downside)	+11%

Stock Statistics

Market cap	S\$104.4m
52-low	S\$0.205
52-high	S\$0.260
Avg daily vol	119,555
No of share	452.2m
Free float	30%

Key Indicators

ROE 13F	14%
ROA 13F	6%
P/BK	1.59x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Historical Chart

Source: Bloomberg

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Good, but not great

- **Earnings below expectations.** Despite TeleChoice's 2Q13 sales being in line with expectation, net profit of S\$1.7m (+31% yoy and +47% qoq) was 43% below our expectation due to lower-than-expected gross profit margins (mainly attributed from disappointing performance on ICT segments), and higher-than-expected taxation.
- **Cut earnings forecasts.** We have trimmed our FY13-15 forecast by 9-18% to factor its worse-than-expected gross profit margins. As a result, our fair value has lowered by 3 cts to 26 cts, still pegged to 8x PER FY14. Given the near-term upside is limited, we downgrade the stock to **Neutral** for the time being but investors may accumulate on dips due to the attractive dividend yield of 7.0%.
- **Paving the way for nationwide deployment of 4G.** According to Infocomm Development Authority of Singapore (IDA), with more than 1.1m 4G customers as at end-May, Singapore's 4G penetration rate is around 13.5%. As such, we believe TeleChoice PCS segment still has room to grow in Singapore as more 4G handsets are launched. In addition, Singapore has taken another major step towards the nationwide deployment of 4G services with the provisional allocation of spectrum for 4G systems and services to M1, SingTel and StarHub. A total of 270 MHz of spectrum in the 1800 MHz and 2.5 GHz spectrum bands was made available for allocation through an auction. Three bidders submitted initial offers for spectrum, at the reserve prices set by the IDA, for the provision of 4G services until 2030. Winning bidders will be required to provide nationwide street-level coverage for 4G by 30 June 2016, and coverage for MRT underground stations/lines and road tunnels by 30 June 2018.
- **2Q13 revenues increased by 13% yoy to S\$138.3m**, led by PCS's sales which increased 13% yoy and ICT's revenues which were up 28% yoy mainly due to larger-scale projects recognized, and higher sales of enterprise solutions and new services. Engineering sales was down 3% yoy due to lower power supply sales.
- **Despite gross profit margins sliding 0.1% pt to 7.5% in 2Q13**, EBITDA margins were up 0.2% pts yoy to 2.4% after improving its operating expenses.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$15m this quarter after improving its working capital requirement. As a result cash conversion cycle dropped by 12 days qoq to 24 days. Including S\$7m dividend payout, net cash increased by S\$4.6m qoq to S\$21.7m as at end June-13.

Key Financial Data

(S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Sales	389.6	480.9	550.1	643.4	753.6
Gross Profit	41.6	41.6	46.8	57.9	67.8
Net Profit	6.6	8.2	10.3	14.9	17.6
EPS (cents)	1.5	1.8	2.3	3.3	3.9
EPS growth (%)	(47.1)	25.0	25.0	44.5	18.2
PER (x)	15.9	12.7	10.1	7.0	5.9
NTA/share (cents)	12.0	12.1	13.1	14.4	15.9
DPS (cents)	1.6	1.6	1.6	2.0	2.3
Div Yield (%)	7.0	7.0	7.0	8.5	10.1

Source: Company, NRA Capital estimates

TeleChoice Int'l

Results comparison

FYE Dec (\$\$ m)	2Q13	2Q12	yoy % chg	1Q13	qoq % chg	Prev. 2Q13F	Comments
Revenue	138.3	122.3	13	116.8	18	133.7	In line
Operating costs	(134.9)	(119.7)	13	(114.4)	18	(129.0)	Above, higher-than-expected COGS
EBITDA	3.3	2.6	26	2.4	37	4.8	Below, lower-than-expected GPM
EBITDA margin (%)	2.4	2.2		2.1		3.6	1.1% pts below expectation
Depn & amort.	(0.8)	(0.8)	8	(0.8)	5	(0.8)	In line
EBIT	2.5	1.9	33	1.7	52	4.0	Below, lower-than-expected GPM
Interest expense	(0.3)	(0.3)	nm	(0.3)	(8)	(0.3)	In line
Interest & invt inc	(0.0)	(0.1)	(70)	0.2	(107)	0.2	Below, lower-than-expected other incomes
Associates' contrib	0.0	0.1	(100)	0.0	0	0.0	
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	2.2	1.7	34	1.6	40	3.9	Below, lower-than-expected GPM
Tax	(0.7)	(0.5)	44	(0.5)	33	(1.0)	Below, lower-than-expected pretax
Tax rate (%)	29.4	27.4		31.1		25.0	
Minority interests	0.1	0.1	41	0.1	105	0.1	
Net profit	1.7	1.3	31	1.2	47	3.0	43% below expectation
EPS (cts)	0.4	0.3	31	0.3	47	0.7	

Source: NRA Capital estimates

Revenue

	2Q2013	2Q2012	Growth		1H2013	1H2012	Growth	
			\$	%			\$	%
S\$M								
Personal Communications Solutions Services ("PCS")	98.1	87.2	10.9	13%	181.3	157.0	24.3	15%
Info-Comm Technology Services ("ICT")	25.0	19.5	5.5	28%	45.6	41.8	3.8	9%
Network Engineering Services ("Engineering")	15.2	15.6	(0.4)	(3%)	28.2	25.5	2.7	11%
Total	138.3	122.3	16.0	13%	255.1	224.3	30.8	14%

Profit before tax

S\$M	2Q2013	2Q2012	Growth		1H2013	1H2012	Growth	
			\$	%			\$	%
PCS	1.7	1.3	0.4	31%	2.9	2.8	0.1	4%
ICT	(0.2)	(0.3)	0.1	33%	(0.4)	-	(0.4)	nm
Engineering	0.7	0.7	-	-	1.3	1.2	0.1	8%
Group PBT	2.2	1.7	0.5	29%	3.8	4.0	(0.2)	(5%)

Source: Company

TeleChoice Int'l

Profit & Loss (\$\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue	389.6	480.9	550.1	643.4	753.6
Operating expenses	(373.5)	(466.8)	(532.9)	(621.2)	(728.2)
EBITDA	16.1	14.1	17.2	22.1	25.4
Depreciation & amortisation	(3.1)	(3.0)	(3.0)	(3.0)	(3.0)
EBIT	13.0	11.1	14.2	19.1	22.4
Net interest & invt income	0.8	(0.2)	(0.1)	(0.0)	0.2
Associates' contribution	(0.3)	(0.7)	0.0	0.0	0.0
Exceptional items	(4.4)	(0.2)	0.0	0.0	0.0
Pretax profit	9.1	9.9	14.1	19.1	22.6
Tax	(2.1)	(1.7)	(4.2)	(4.8)	(5.7)
Minority interests	(0.4)	0.0	0.4	0.5	0.6
Net profit	6.6	8.2	10.3	14.9	17.6
Wt. shares (m)	453.4	453.8	453.8	453.8	453.8
Shares at year-end (m)	453.4	453.8	453.8	453.8	453.8
Balance Sheet (\$\$ m, as at Dec)	2011	2012	2013F	2014F	2015F
Fixed assets	2.9	2.9	2.9	3.0	3.0
Intangible assets	18.0	16.4	14.8	13.3	12.0
Other long-term assets	1.9	2.0	2.0	2.0	2.0
Total non-current assets	22.8	21.3	19.7	18.3	17.0
Cash and equivalents	30.9	51.6	48.6	47.9	41.3
Stocks	37.0	39.2	45.0	52.3	61.3
Trade debtors	79.7	64.7	74.0	86.5	101.4
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	147.6	155.5	167.5	186.8	203.9
Trade creditors	60.9	67.8	75.5	87.8	102.9
Short-term borrowings	16.6	12.1	12.1	13.5	13.6
Other current liabilities	12.6	6.1	8.4	9.0	9.9
Total current liabilities	90.0	86.1	96.0	110.3	126.3
Long-term borrowings	0.0	10.0	8.3	8.4	3.8
Other long-term liabilities	6.7	8.1	7.7	7.3	7.0
Total long-term liabilities	6.7	18.1	15.9	15.7	10.8
Shareholders' funds	72.3	71.4	74.4	78.7	84.1
Minority interests	1.4	1.3	0.9	0.3	(0.3)
NTA/share (\$\$)	0.12	0.12	0.13	0.14	0.16
Total Assets	170.4	176.8	187.3	205.1	220.9
Total Liabilities + S'holders' funds	170.4	176.8	187.3	205.1	220.9
Cash Flow (\$\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	9.1	9.9	14.1	19.1	22.6
Depreciation & non-cash adjustments	8.5	4.6	4.2	0.7	0.6
Working capital changes	(12.7)	20.6	(6.6)	(6.8)	(8.2)
Cash tax paid	(3.5)	(3.0)	(1.9)	(4.2)	(4.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1.4	32.2	9.8	8.8	10.3
Capex	(3.3)	(2.0)	(2.6)	(2.6)	(2.6)
Net investments & sale of FA	0.0	(5.0)	0.0	0.0	0.0
Others	0.3	(1.4)	(0.2)	(0.2)	(0.2)
Cash flow from investing	(3.0)	(8.3)	(2.7)	(2.7)	(2.7)
Debt raised/(repaid)	7.1	5.9	(1.7)	1.5	(4.5)
Equity raised/(repaid)	(0.4)	(0.3)	0.0	0.0	0.0
Dividends paid	(8.1)	(7.3)	(7.3)	(7.3)	(8.9)
Cash interest & others	(0.9)	(1.1)	(1.0)	(1.0)	(0.8)
Cash flow from financing	(2.4)	(2.7)	(10.0)	(6.7)	(14.2)
Change in cash	(4.0)	21.1	(3.0)	(0.6)	(6.7)
Change in net cash/(debt)	(11.1)	15.2	(1.2)	(2.2)	(2.1)
Ending net cash/(debt)	14.3	29.5	28.2	26.1	23.9
KEY RATIOS (FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	19.0	23.4	14.4	17.0	17.1
EBITDA growth (%)	5.0	(12.5)	21.6	28.9	14.7
Pretax margins (%)	2.3	2.1	2.6	3.0	3.0
Net profit margins (%)	1.7	1.7	1.9	2.3	2.3
Interest cover (x)	30.1	11.0	15.4	21.3	31.4
Effective tax rates (%)	22.7	17.2	30.0	25.0	25.0
Net dividend payout (%)	110.3	88.2	70.6	60.0	60.0
Debtors turnover (days)	74.7	49.1	49.1	49.1	49.1
Stock turnover (days)	38.8	32.6	32.6	32.6	32.6
Creditors turnover (days)	63.8	56.3	54.8	54.8	54.8

Source: Company, NRA Capital estimates

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