

Overweight

| | |
|-----------------|---------|
| Current Price | S\$0.21 |
| Fair Value | S\$0.26 |
| Up / (downside) | +23.8% |

Stock Statistics

| | |
|---------------|----------|
| Market cap | S\$95.2m |
| 52-low | S\$0.205 |
| 52-high | S\$0.25 |
| Avg daily vol | 87,054 |
| No of share | 451.98m |
| Free float | 30% |

Key Indicators

| | |
|-------------|----------|
| ROE 12F | 12% |
| ROA 12F | 5% |
| P/BK | 1.29x |
| Net gearing | Net cash |

Major Shareholders

| | |
|--------------------|-------|
| Temasek Holdings | 50.5% |
| Leap International | 19.5% |

Historical Chart

Source: Bloomberg

Not half bad

- **Earnings below expectation.** Despite TeleChoice's 2Q12 revenue coming in 31% above our expectation, its S\$1.3m net profit was 59% below our S\$3.1m expectation, due mainly to lower gross profit margins contribution from all segments. As such, we have cut our FY12 net profit forecasts by 22% but kept our FY13-14 estimates relatively unchanged. Our fair value remains at S\$0.26, still based on 8x PER FY13. Given the 24% potential upside coupled with its strong track record and attractive 6-10% yield, we maintain our **Overweight** rating.
- **4G on the way.** The first telco to bring 4G tablets here, Singtel announced yesterday its subscription plans for two models: ASUS Transformer Pad TF300TL and Samsung Galaxy Tab 8.9 (LTE). They will be available with the new Prestige 75 plans and will be launch Aug 28. Given the historical record, we believe TeleChoice's major customer, Starhub will soon follow in announcing its plans for 4G products. Although we don't think the 4G roll out will benefit TeleChoice in the near-term, we believe it will herald the next wave for the Smartphone demand cycle and I continue for two to three years.
- **Cloud computing is still in demand.** Despite its Info-Comm technology services (ICT) division performing below expectations, (partially also because its projects cycle are usually stronger at the year-end), we are still optimistic for the overall industry, given the Infocomm Development Authority (IDA) has produced a five-year roadmap flagging key technology trends in both the public and private sectors. Singapore has projected S\$1.2bn government IT spending in 2012, up from S\$1.12bn in 2011. However, the IT spending among Singapore's manufacturers could be affected by uncertainty in the world economy. IDC projects IT spending for Singapore's manufacturing sector to grow moderately from US\$1.014bn in 2012 to US\$1.274bn in 2016 or CAGR of 4.6% during this period.
- **2Q12 sales increased by 44% yoy to S\$122.3m** following big improved sales by PCS (+66% yoy) and Engineering Services (+48% yoy) divisions offset by a drop in revenue from ICT Services (-10% yoy) division. EBITDA margins contracted by 0.8% pt yoy to 2.2% due mainly to its lower rates for new Starhub contract and lower retainer fees from U-Mobile contract.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$14m this quarter after improved its working capital. Including the S\$7.3m dividend payout and S\$5m purchase of investment. Net cash remains at S\$19 as at end Jun-12.

| Key Financial Data (S\$ m, FYE Dec) | 2010 | 2011 | 2012F | 2013F | 2014F |
|--|-------|--------|-------|-------|-------|
| Sales | 327.5 | 389.6 | 520.9 | 607.2 | 709.0 |
| Gross Profit | 31.1 | 41.6 | 45.8 | 60.7 | 70.9 |
| Net Profit | 12.4 | 6.6 | 9.6 | 14.7 | 17.0 |
| EPS (cents) | 2.7 | 1.5 | 2.1 | 3.3 | 3.8 |
| EPS growth (%) | 9.0 | (47.1) | 46.1 | 53.4 | 15.6 |
| PER (x) | 7.7 | 14.5 | 9.9 | 6.5 | 5.6 |
| NTA/share (cents) | 14.1 | 12.0 | 13.5 | 14.4 | 15.9 |
| DPS (cents) | 1.8 | 1.6 | 1.3 | 2.0 | 2.3 |
| Div Yield (%) | 8.6 | 7.6 | 6.1 | 9.3 | 10.7 |

Source: Company, NRA Capital estimates

Jacky Lee
 (+65) 6236-6887
 jacky.lee@nrcapital.com
www.nrcapital.com

TeleChoice Int'l

Results comparison

| FYE Dec (\$\$ m) | 2Q12 | 2Q11 | yoy % chg | 1Q12 | qoq % chg | Prev. 2Q12F | Comments |
|----------------------|------------|------------|--------------|------------|--------------|----------------|--------------------------------------|
| Revenue | 122.3 | 84.7 | 44 | 102.0 | 20 | 93.2 | 31% above expectation |
| Operating costs | (119.7) | (82.2) | 46 | (99.0) | 21 | (88.6) | Above, higher-than-expected sales |
| EBITDA | 2.6 | 2.5 | 6 | 3.0 | (13) | 4.6 | Below, lower-than-expected GPM |
| EBITDA margin (%) | 2.2 | 2.9 | | 3.0 | | 5.0 | 2.8% pts below expectation |
| Depn & amort. | (0.8) | (0.7) | 7 | (0.7) | 2 | (0.7) | In line |
| EBIT | 1.9 | 1.8 | 6 | 2.3 | (18) | 3.9 | Below, lower-than-expected GPM |
| Interest expense | (0.3) | (0.0) | <i>nm</i> | (0.1) | 174 | (0.0) | Above, higher debt borrowing |
| Interest & invt inc | (0.1) | 0.2 | (124) | 0.3 | (117) | 0.3 | Below, due to S\$0.2m forex loss |
| Associates' contrib | 0.1 | 0.1 | 64 | (0.2) | 148 | (0.1) | Above |
| Exceptionals | 0.0 | 0.0 | <i>nm</i> | 0.0 | <i>nm</i> | 0.0 | |
| Pretax profit | 1.7 | 2.0 | (17) | 2.3 | (27) | 4.0 | Below, lower-than-expected GPM |
| Tax | (0.5) | (0.5) | 1 | (0.6) | (20) | (0.9) | Above, higher-than-expected taxation |
| Tax rate (%) | 27.4 | 22.5 | | 25.0 | | 22.0 | |
| Minority interests | 0.1 | 0.1 | (2) | 0.0 | 493 | 0.0 | |
| Net profit | 1.3 | 1.7 | (22) | 1.7 | (25) | 3.1 | 59% below expectation |
| EPS (cts) | 0.3 | 0.4 | (22) | 0.4 | (25) | 0.7 | |

Source: NRA Capital estimates

Top Five Worldwide Smartphone Vendors, Shipments, and Market Share, Q2 2012 (Units in Millions)

| Vendor | 2Q12 Shipment Volumes | 2Q12 Market Share | 2Q11 Shipment Volumes | 2Q11 Market Share | Year Over Year Change |
|--------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
| Samsung | 50.2 | 33% | 18.4 | 17% | 173% |
| Apple | 26.0 | 17% | 20.4 | 19% | 28% |
| Nokia | 10.2 | 7% | 16.7 | 15% | -39% |
| HTC | 8.8 | 6% | 11.6 | 11% | -24% |
| ZTE | 8.0 | 5% | 2.0 | 2% | 300% |
| Others | 50.7 | 33% | 39.2 | 36% | 29% |
| Total | 153.9 | 100% | 108.3 | 100% | 42% |

Source: IDC

The worldwide mobile phone market grew 1% yoy in 2Q12, as Samsung and Apple shipped almost half of the world's smartphones. According to the International Data Corporation (IDC) Worldwide Quarterly Mobile Phone Tracker, the worldwide smartphone market grew at rates similar to the 42.1% yoy rate at which the market increased in 2Q12. This was the lowest growth rate since the 4Q09. Vendors shipped 153.9m smartphones in 2Q12 compared to 108.3m units in 2Q11. The 42.1% yoy growth was one percentage point lower than IDC's forecast of 43.1% for the quarter.

Smartphone Vendor Highlights

Samsung extended its lead over Apple during the second quarter, taking advantage of Apple's release schedule and launching its flagship Galaxy S III. In addition, Samsung experienced continued success of its smartphone/tablet hybrid device, the Galaxy Note. As a result, Samsung topped the 50m unit mark and reached a new quarterly smartphone shipment record in a single quarter. What remains to be seen is how the company's smartphones will fare against Apple's next-generation iPhone expected next month.

Apple posted an expected sequential decline last quarter, similar to years past. The quarter-over-quarter shipment decline came six months after it unveiled its latest iPhone. The decline is not unusual as iPhone shipment volume is highest in the first two quarters after its release. The company's once-a-year release cycle usually results in two quarters of lower volumes leading up to the next-generation model

introduction. Nonetheless, Apple made significant inroads into new markets and segments, including smaller regional carriers and prepaid service providers.

Nokia's smartphone business underwent another quarter of transition. Demand for Symbian and MeeGo units declined, reaching levels not seen since 2005 though the company almost doubled its Windows Phone shipments from the previous quarter. Nokia's Lumia sales were not terribly affected by Microsoft's Windows Phone 8 announcement, which will prevent current Lumia owners from upgrading to the new mobile operating system. However, Lumia sales have remained steady and key enhancements available on the new platform will eventually become available to current Lumia owners. Nokia, however, has a long path to travel before it can reclaim previous volume levels and challenge Apple and Samsung for smartphone supremacy.

HTC rebounded from its struggles in the two previous quarters to reclaim the number 4 spot in the smartphone vendor rankings. Its relatively strong performance in the Asia/Pacific region allowed it to climb back up the rank order as did the correction of its channel inventory issues. The company's streamlined portfolio means future share gains will be predicated upon the success of its One products.

ZTE climbed into the smartphone Top 5 for the first time thanks primarily to shipments of its lower-cost entry-level smartphones in China, where it's based. However, the vendor has also grown its international smartphone sales, particularly in the U.S. where its smartphones can be found under other brands. Latin America is another source of significant smartphone growth for the vendor. Despite impressive gains last quarter, brand equity may prove to be an issue for ZTE in future. Strong brand recognition is a necessity if high-growth smartphone sales abroad are a priority for the company.

TeleChoice Int'l

| Profit & Loss (\$\$ m, FYE Dec) | 2010 | 2011 | 2012F | 2013F | 2014F |
|---|---------------|---------------|--------------|--------------|---------------|
| Revenue | 327.5 | 389.6 | 520.9 | 607.2 | 709.0 |
| Operating expenses | (312.1) | (373.5) | (505.5) | (585.0) | (684.4) |
| EBITDA | 15.4 | 16.1 | 15.4 | 22.2 | 24.7 |
| Depreciation & amortisation | (1.3) | (3.1) | (3.1) | (3.1) | (3.0) |
| EBIT | 14.1 | 13.0 | 12.3 | 19.2 | 21.7 |
| Net interest & invt income | 0.5 | 0.8 | 0.2 | (0.0) | 0.4 |
| Associates' contribution | 0.1 | (0.3) | 0.1 | 0.1 | 0.1 |
| Exceptional items | 0.0 | (4.4) | 0.0 | 0.0 | 0.0 |
| Pretax profit | 14.7 | 9.1 | 12.6 | 19.2 | 22.3 |
| Tax | (2.2) | (2.1) | (3.3) | (4.8) | (5.6) |
| Minority interests | (0.0) | (0.4) | 0.3 | 0.3 | 0.4 |
| Net profit | 12.4 | 6.6 | 9.6 | 14.7 | 17.0 |
| Wt. shares (m) | 453.4 | 453.4 | 453.4 | 453.4 | 453.4 |
| Shares at year-end (m) | 453.4 | 453.4 | 453.4 | 453.4 | 453.4 |
| Balance Sheet (\$\$ m, as at Dec) | 2010 | 2011 | 2012F | 2013F | 2014F |
| Fixed assets | 2.8 | 2.9 | 3.0 | 3.1 | 3.2 |
| Intangible assets | 10.5 | 18.0 | 16.5 | 15.1 | 13.6 |
| Other long-term assets | 4.7 | 1.9 | 1.9 | 1.9 | 1.9 |
| Total non-current assets | 18.0 | 22.8 | 21.4 | 20.0 | 18.7 |
| Cash and equivalents | 34.7 | 30.9 | 24.9 | 22.4 | 13.5 |
| Stocks | 37.7 | 37.0 | 57.0 | 65.6 | 76.6 |
| Trade debtors | 44.7 | 79.7 | 83.3 | 97.2 | 113.4 |
| Other current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total current assets | 117.1 | 147.6 | 165.3 | 185.2 | 203.6 |
| Trade creditors | 39.3 | 60.9 | 76.0 | 87.4 | 102.1 |
| Short-term borrowings | 8.5 | 16.6 | 13.0 | 14.6 | 16.3 |
| Other current liabilities | 9.9 | 12.6 | 6.6 | 8.4 | 9.1 |
| Total current liabilities | 57.7 | 90.0 | 95.6 | 110.4 | 127.5 |
| Long-term borrowings | 0.8 | 0.0 | 5.2 | 6.1 | 7.1 |
| Other long-term liabilities | 1.1 | 6.7 | 7.0 | 7.5 | 1.2 |
| Total long-term liabilities | 1.9 | 6.7 | 12.3 | 13.5 | 8.3 |
| Shareholders' funds | 74.2 | 72.3 | 77.6 | 80.4 | 85.9 |
| Minority interests | 1.3 | 1.4 | 1.2 | 0.9 | 0.5 |
| NTA/share (\$\$) | 0.14 | 0.12 | 0.13 | 0.14 | 0.16 |
| Total Assets | 135.1 | 170.4 | 186.7 | 205.2 | 222.2 |
| Total Liabilities + S'holders' funds | 135.1 | 170.4 | 186.7 | 205.2 | 222.2 |
| Cash Flow (\$\$ m, FYE Dec) | 2010 | 2011 | 2012F | 2013F | 2014F |
| Pretax profit | 14.7 | 9.1 | 12.6 | 19.2 | 22.3 |
| Depreciation & non-cash adjustments | 7.4 | 8.4 | 0.8 | (2.4) | (6.1) |
| Working capital changes | (16.6) | (12.6) | (8.3) | (10.8) | (12.4) |
| Cash tax paid | (2.4) | (3.5) | (3.1) | (3.3) | (4.8) |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 3.1 | 1.4 | 2.0 | 2.8 | (1.1) |
| Capex | (8.8) | (3.3) | (1.7) | (1.7) | (1.7) |
| Net investments & sale of FA | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 |
| Cash flow from investing | (8.7) | (3.0) | (1.5) | (1.5) | (1.5) |
| Debt raised/(repaid) | 6.1 | 7.1 | 1.7 | 2.4 | 2.8 |
| Equity raised/(repaid) | (0.1) | (0.4) | 0.0 | 0.0 | 0.0 |
| Dividends paid | (7.9) | (8.1) | (7.3) | (5.8) | (8.8) |
| Cash interest & others | (4.7) | (0.9) | (0.9) | (0.5) | (0.3) |
| Cash flow from financing | (6.6) | (2.4) | (6.5) | (3.8) | (6.4) |
| Change in cash | (12.1) | (4.0) | (5.9) | (2.5) | (8.9) |
| Change in net cash/(debt) | (18.2) | (11.1) | (7.6) | (4.9) | (11.7) |
| Ending net cash/(debt) | 25.4 | 14.3 | 6.7 | 1.8 | (9.9) |
| KEY RATIOS (FYE Dec) | 2010 | 2011 | 2012F | 2013F | 2014F |
| Revenue growth (%) | 19.6 | 19.0 | 33.7 | 16.6 | 16.8 |
| EBITDA growth (%) | 12.8 | 5.0 | (4.3) | 44.1 | 11.1 |
| Pretax margins (%) | 4.5 | 2.3 | 2.4 | 3.2 | 3.1 |
| Net profit margins (%) | 3.8 | 1.7 | 1.8 | 2.4 | 2.4 |
| Interest cover (x) | 774.3 | 30.1 | 16.4 | 47.9 | 109.5 |
| Effective tax rates (%) | 15.3 | 22.7 | 26.0 | 25.0 | 25.0 |
| Net dividend payout (%) | 65.7 | 110.3 | 60.0 | 60.0 | 60.0 |
| Debtors turnover (days) | 49.8 | 74.7 | 58.4 | 58.4 | 58.4 |
| Stock turnover (days) | 46.4 | 38.8 | 43.8 | 43.8 | 43.8 |
| Creditors turnover (days) | 48.4 | 63.8 | 58.4 | 58.4 | 58.4 |

Source: Company, NRA Capital estimates

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.