

**Overweight**

Current Price	<b>S\$0.250</b>
Fair Value	S\$0.340
Up / (downside)	36.0%

**Stock Statistics**

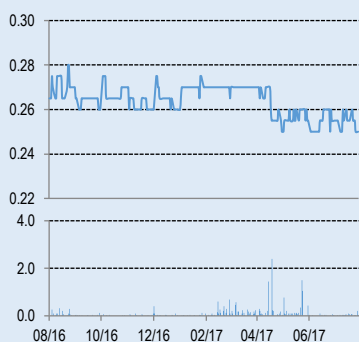
Market cap	S\$113.6m
52-low	S\$0.245
52-high	S\$0.280
Avg daily vol	142,119
No of share	454.4m
Free float	29%

**Key Indicators**

ROE 17F	5.9%
ROA 17F	2.4%
P/BV	1.64x
Net gearing	Net cash

**Major Shareholders**

STT Communications Ltd	50.4%
Leap International	19.7%

**Historical Chart**

Source: Bloomberg

**Liu Jinshu**

(+65) 6236-6887  
jinshu.liu@nrcapital.com  
[www.nrcapital.com](http://www.nrcapital.com)

**More M&A/JVs to Follow**

- 1H FY17 results dragged higher by lower expenses at ICT segment.** TeleChoice reported a strong set of 1H17 results with revenue growing by 20.5% year-on-year in 2Q17. Consequently, net profit attributable to shareholders (PATMI) rose by 236.4% year-on-year to S\$1.71m in 2Q17, bringing 1H17 PATMI to S\$2.1m or 23.1% higher year-on-year. The higher profitability was mainly driven by improved profitability at the ICT segment whose losses narrowed from S\$1.4m in 1H16 to S\$0.9m in 1H17. Revenue growth was mainly driven by higher handset sales following strong demand for Samsung's latest model.
- Higher handset sales led to improved performance at PCS segment.** The consumer business's profit before tax grew from S\$1.7m in 2Q16 and S\$1.3m in 1Q17 to S\$1.9m in 2Q17. While revenue growth was driven by higher handset sales, profit before tax margin also improved quarter-on-quarter from 1.6% to 1.7%.
- Other StarHub contracts remain unaffected.** TeleChoice has previously announced that StarHub will not be renewing or extending its Logistics Contract with the company and that the Contract will expire on 30 June 2017. We reiterate that TeleChoice's other contracts with StarHub remains intact, such as the operation of StarHub stores and the prepaid card master distribution agreement. Overall, we reckon that the 1H17 results will likely be reflective of TeleChoice's full year performance and adjust FY17F PATMI to S\$4.2m. While the loss of the Logistics Contract will have an impact on segment profits, we expect the enterprise business, i.e. network engineering and ICT, to help offset any such impact.
- Looking out for news of M&A/JV.** TeleChoice has been emphasizing on greater regionalisation and deepening service capabilities for some time now. TeleChoice has previously mentioned that it has been exploring a third market for its consumer business. The loss of the StarHub Logistics Contract suggests that TeleChoice now has to act faster to diversify its income sources and reduce reliance on StarHub (which itself is trying to reduce costs amidst potential competition from the fourth telco). The only way to rapidly ramp up its presence in a new market is for the company to acquire and/or form joint ventures with sizeable partners in the region.
- Maintaining rating and valuation.** Despite the lower PATMI forecasts, we are maintaining our rating and valuation, pending review in 2H17 while bearing in mind that the company may do more to grow its PCS business within the next six to 12 months. We highlight that TeleChoice trades at just 12.5x EV/ FY17F EBITDA compared to a P/E of 26.9x FY17 earnings. EBITDA is more reflective of TeleChoice's cash generating ability with depreciation and amortisation accounting for close to 50% of PBT in 1H17.

Key Financial Data (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Sales	580.7	503.7	549.9	580.8	613.7
Gross Profit	43.1	38.6	33.0	34.9	36.8
Net Profit	10.3	7.7	4.2	4.5	4.7
EPS (cents)	2.3	1.7	0.9	1.0	1.0
EPS growth (%)	9.5	(25.3)	(44.9)	6.8	5.0
PER (x)	11.1	14.8	26.9	25.2	24.0
NTA/share (cents)	13.5	13.8	13.1	12.7	12.2
DPS (cents)	1.6	1.6	1.6	1.6	1.6
Div Yield (%)	6.4	6.4	6.4	6.4	6.4

Source: Company, NRA Capital forecasts

# TeleChoice International Limited

## Results Comparison

FYE Dec (\$\$ m)	2Q17	2Q16	yoy % chg	1Q17	qoq % chg	Prev. 2Q17F
Revenue	150.15	124.58	20.5	113.43	32.4	137.48
PCS	114.9	94.8	21.2	80.1	43.4	
ICT	18.6	15.6	19.2	17.9	3.9	
Engineering	16.6	14.2	16.9	15.4	7.8	
Operating costs	(147.11)	(122.65)	19.9	(112.08)	31.3	(133.90)
EBITDA	3.04	1.93	57.5	1.35	124.7	3.58
EBITDA margin (%)	2.02	1.55		1.19		
Depn & amort.	(0.69)	(0.67)	3.6	(0.68)	1.6	(0.75)
EBIT	2.34	1.26	86.2	0.67	250.4	2.83
Interest expense	(0.27)	(0.21)	26.7	(0.15)	76.2	(0.27)
Interest & invt inc	0.25	(0.04)	nm	0.10	159.2	0.42
Associates' contrib	(0.09)	0.07	nm	0.02	nm	0.05
Exceptionals	0.00	0.00	nm	0.00	nm	0.00
<b>Pretax profit</b>	<b>2.24</b>	<b>1.08</b>	<b>107.6</b>	<b>0.64</b>	<b>251.1</b>	<b>3.03</b>
PCS	1.9	1.7	11.8	1.3	46.2	
ICT	0.04	(1.0)	nm	(0.9)	nm	
Engineering	0.3	0.4	(25.0)	0.2	50.0	
Tax	(0.53)	(0.57)	(7.8)	(0.25)	109.9	(0.55)
Tax rate (%)	23.62	53.20		39.50		18.18
Minority interests	(0.00)	0.00	nm	0.00	nm	0.00
<b>Net profit</b>	<b>1.71</b>	<b>0.51</b>	<b>236.8</b>	<b>0.39</b>	<b>342.1</b>	<b>2.48</b>
EPS (cts)	0.38	0.11	245.5	0.08	375.0	0.54

Source: Company, NRA Capital

# TeleChoice International Limited

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Revenue	580.7	503.7	549.9	580.8	613.7
Operating expenses	(565.1)	(490.7)	(542.6)	(573.3)	(605.8)
EBITDA	15.5	13.0	7.3	7.6	7.8
Depreciation & amortisation	(2.9)	(2.9)	(3.0)	(3.0)	(3.0)
EBIT	12.6	10.2	4.3	4.6	4.8
Net interest & invt income	0.2	(0.0)	0.6	0.7	0.7
Associates' contribution	0.0	0.2	0.2	0.2	0.3
Exceptional items	(0.6)	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>12.2</b>	<b>10.3</b>	<b>5.1</b>	<b>5.5</b>	<b>5.8</b>
Tax	(2.1)	(2.6)	(0.9)	(1.0)	(1.0)
Minority interests	0.2	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>10.3</b>	<b>7.7</b>	<b>4.2</b>	<b>4.5</b>	<b>4.7</b>
Shares at year-end (m)	454.4	454.4	454.4	454.4	454.4
<b>Balance Sheet</b> (S\$ m, as at Dec)	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Fixed assets	3.7	3.6	3.5	3.4	3.3
Intangible assets	13.0	12.4	11.8	11.2	10.7
Other long-term assets	7.7	7.3	3.5	2.5	1.9
<b>Total non-current assets</b>	<b>24.4</b>	<b>23.3</b>	<b>18.9</b>	<b>17.2</b>	<b>15.8</b>
Cash and equivalents	44.6	48.9	44.1	41.9	39.6
Stocks	51.3	40.8	49.4	52.1	55.1
Trade debtors	73.6	58.9	69.7	73.6	77.8
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>169.5</b>	<b>148.6</b>	<b>163.1</b>	<b>167.7</b>	<b>172.5</b>
Trade creditors	89.3	75.6	87.9	92.8	98.1
Short-term borrowings	14.5	7.1	8.2	8.7	9.2
Other current liabilities	5.8	5.6	5.7	5.8	5.8
<b>Total current liabilities</b>	<b>109.6</b>	<b>88.3</b>	<b>101.9</b>	<b>107.3</b>	<b>113.1</b>
Long-term borrowings	5.0	5.0	5.5	5.8	6.1
Other long-term liabilities	5.1	3.4	3.2	3.0	2.9
<b>Total long-term liabilities</b>	<b>10.1</b>	<b>8.3</b>	<b>8.7</b>	<b>8.8</b>	<b>9.0</b>
<b>Shareholders' funds</b>	<b>74.2</b>	<b>75.3</b>	<b>71.5</b>	<b>68.7</b>	<b>66.2</b>
Minority interests	0.0	0.0	0.0	(0.0)	(0.0)
NTA/share (S\$)	0.13	0.14	0.13	0.13	0.12
<b>Total Assets</b>	<b>193.9</b>	<b>171.9</b>	<b>182.0</b>	<b>184.9</b>	<b>188.3</b>
<b>Total Liabilities + S'holders' funds</b>	<b>193.9</b>	<b>171.9</b>	<b>182.0</b>	<b>184.9</b>	<b>188.3</b>
<b>Cash Flow</b> (S\$ m, FYE Dec)	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Pretax profit	12.2	10.3	5.1	5.5	5.8
Depreciation & non-cash adjustments	10.2	4.0	7.8	5.9	5.6
Working capital changes	3.7	12.2	(6.9)	(1.6)	(1.6)
Cash tax paid	(1.3)	(1.7)	(0.8)	(0.9)	(1.0)
<b>Cash flow from operations</b>	<b>24.7</b>	<b>24.8</b>	<b>5.3</b>	<b>8.9</b>	<b>8.7</b>
Capex	(2.3)	(2.2)	(3.1)	(3.1)	(3.1)
Net investments & sale of FA	(5.9)	(2.2)	0.0	0.0	0.0
Others	(0.3)	0.1	(0.6)	(0.6)	(0.6)
<b>Cash flow from investing</b>	<b>(8.4)</b>	<b>(4.4)</b>	<b>(3.7)</b>	<b>(3.8)</b>	<b>(3.8)</b>
Debt raised/(repaid)	(0.5)	(7.4)	1.6	0.8	0.8
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)
Cash interest & others	(1.9)	(1.5)	(0.8)	(0.8)	(0.8)
<b>Cash flow from financing</b>	<b>(9.7)</b>	<b>(16.1)</b>	<b>(6.4)</b>	<b>(7.3)</b>	<b>(7.3)</b>
<b>Change in cash</b>	<b>6.6</b>	<b>4.3</b>	<b>(4.8)</b>	<b>(2.2)</b>	<b>(2.3)</b>
<b>Change in net cash/(debt)</b>	<b>7.1</b>	<b>11.6</b>	<b>(6.4)</b>	<b>(2.9)</b>	<b>(3.1)</b>
<b>Ending net cash/(debt)</b>	<b>25.1</b>	<b>36.8</b>	<b>30.3</b>	<b>27.4</b>	<b>24.3</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2015</b>	<b>2016</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Revenue growth (%)	12.4	(13.3)	9.2	5.6	5.6
EBITDA growth (%)	3.7	(16.1)	(43.9)	3.8	3.2
Pretax margins (%)	2.1	2.0	0.9	0.9	0.9
Net profit margins (%)	1.8	1.5	0.8	0.8	0.8
Effective tax rates (%)	17.6	25.6	18.0	18.0	18.0
Net dividend payout (%)	70.9	94.9	172.2	161.2	153.6
ROE (%)	13.8	10.2	5.9	6.6	7.2
Free cash flow yield (%)	19.7	19.8	1.9	5.1	4.9

Source: Company, NRA Capital forecasts

# TeleChoice International Limited

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.