

TeleChoice Int'l

3Q11 results update

Neutral 

Current Price **S\$0.22**
15 November 2011

Fair Value **S\$0.23**

Jacky Lee
65 62366 887
jacky.lee@nracapital.com

Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$99.4m
52-HI	S\$0.265
52-LOW	S\$0.21
Avg Vol (1 yr)	81,139
Shares Outstanding	453.1m
Free Float	135.9m

Key Indicators

ROE FY11	15%
ROA FY11	8%
P/BK	1.3x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Still expecting good yields

- **Earnings below expectations.** TeleChoice has reported disappointing 3Q earnings of S\$1.3m (-59% yoy), 54% below expectation. The key reasons were lower-than-expected sales and higher operating costs from its new acquisition S & I Systems (S&I). The unexpected loss from Info-Comm Technology (ICT) division was mainly due to the volatile revenue recognition from S&I's projects based business.
- **Sales increased 13% yoy to S\$85m** due to higher contribution from ICT (+381% yoy) with the consolidation of S&I's accounts. However, this was partially offset by lower sales from its PCS (-3.7% yoy) and Engineering (-10.6% yoy) divisions.
- **EBITDA margins contracted by 3% pts yoy to 2.7%** due to slightly lower gross profit margins from PCS segment and significant increases in the SG&A operating expenses from its newly acquired S&I. Including higher amortisation, financial expenses and taxations, pretax and net profit decreased by 56% and 59% yoy, respectively.
- **Balance sheet remains strong.** TeleChoice generated a strong positive free cash flow of S\$9.7m this quarter after improving its working capital requirement. Net cash increased by S\$10m to S\$40m as at end Sep-11 (~8.8cts net cash per share).
- **NxGen Communications acquisition tranches 1 completion.** TeleChoice announced another S\$11.3m acquisition last month to further strengthen its ICT division. The acquisition will be carried out in two tranches and the tranche 2 consideration was arrived at on arm's length negotiations and based on 45% of the profit valuation of NxGen. After completing the 55% for tranche 1, management expects the revenue contribution to start in Q4.
- **Upside limited; downgrade to Neutral.** Despite including the new contribution from NxGen, we have cut our FY11-13 estimates by 14-17% to factor in the disappointing earnings and uncertain economic outlook. As a result, our fair value slid 4 cts to S\$0.23, still pegged at 8x PER FY12, mean of its 6 years historical. Given the upside is limited, we downgrade our recommendation to **Neutral**.
- **On a brighter note...** Its major supplier, Samsung outshone Apple in smartphone shipments in Q3, in a recent IDC report. Given its strong cash flow and balance sheet, coupled with good track record on dividend, our projection for dividend yield still implies an attractive yield of 7-9%.

Key Financial Data

(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	273.7	327.5	362.6	419.0	507.8
Gross Profit	28.6	31.1	38.1	44.0	53.3
Net Profit	11.4	12.4	9.5	13.0	15.5
EPS (cents)	2.5	2.7	2.1	2.9	3.4
EPS growth (%)	(19.8)	9.0	(23.9)	38.0	18.9
PER (x)	8.7	8.0	10.5	7.6	6.4
NTA/share (cents)	15.3	14.1	15.1	16.7	18.6
DPS (cents)	1.8	1.8	1.6	1.7	2.1
Div Yield (%)	8.0	8.2	7.1	7.8	9.3

Source: Company, NRA Capital

Results comparison

FYE Dec (S\$ m)	3Q11	3Q10	yoy % chg	2Q11	qoq % chg	Prev. 3Q11F	Comments
Revenue	84.5	75.1	13	84.7	(0)	99.1	15% below expectation
Operating costs	(82.2)	(70.8)	16	(82.2)	(0)	(95.1)	Below, lower-than-expected sales
EBITDA	2.3	4.2	(47)	2.5	(8)	4.0	Below, lower-than-expected sales and margins
EBITDA margin (%)	2.7	5.7		2.9		4.0	Below
Depn & amort.	(0.7)	(0.3)	104	(0.7)	(1)	(0.7)	In line
EBIT	1.6	3.9	(60)	1.8	(11)	3.3	Below, lower-than-expected sales and margins
Interest expense	(0.0)	0.0	nm	(0.0)	77	(0.0)	In line
Interest & invt inc	0.3	0.0	1,021	0.2	23	0.1	Above
Associates' contrib	(0.0)	0.1	(155)	0.1	(181)	0.1	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	1.8	4.0	(56)	2.0	(13)	3.4	Below, lower-than-expected sales and margins
Tax	(0.5)	(0.8)	(34)	(0.5)	18	(0.5)	Below, lower-than-expected pretax profit
Tax rate (%)	30.5	20.3		22.5		14.0	
Minority interests	0.1	0.0	1,950	0.1	(4)	(0.1)	
Net profit	1.3	3.2	(59)	1.7	(21)	2.8	54% below expectation
EPS (cts)	0.3	0.7	(59)	0.4	(21)	0.6	

Source: NRA Capital estimates

Top Five Smartphone Vendors, Shipments, and Market Share Q3 2011 (Units in Millions)

Vendor	3Q11 Unit Shipments	3Q11 Market Share	3Q10 Unit Shipments	3Q10 Market Share	Year-over- year Change
Samsung	23.6	20.0%	7.3	8.8%	223.3%
Apple	17.1	14.5%	14.1	17.0%	21.3%
Nokia	16.8	14.2%	26.5	32.0%	-36.6%
HTC	12.7	10.8%	5.9	7.1%	115.3%
Research In Motion	11.8	10.0%	12.4	15.0%	-4.8%
Others	36.1	30.6%	16.6	20.0%	117.5%
Total	118.1	100.0%	82.8	100.0%	42.6%

Source: IDC Worldwide Quarterly Mobile Phone Tracker, November 3, 2011

Note: Vendor shipments are branded shipments and exclude OEM sales for all vendors.

Source: IDC

Who is NxGen?

NxGen is a private limited company incorporated in Singapore. It is engaged principally in the business of providing system integration services and managed services for desktop, networking and communications. NxGen and its subsidiaries (NxGen Group) carry on its business primarily in Singapore, Malaysia and the Philippines and provide services to various clients across the Asia Pacific region.

Based on the audited consolidated financial statements of the NxGen Group for the financial year ended 31 December 2010, the audited consolidated revenue and audited consolidated net profit after tax attributable to the shareholders of NxGen (NPAT) for FY2010 was S\$18.0m and S\$1.34m, respectively. As at 31 December 2010, the audited consolidated net tangible assets (excluding non-controlling interests) of the NxGen Group amounted to S\$5.04m.

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	273.7	327.5	362.6	419.0	507.8
Operating expenses	(260.1)	(312.1)	(349.3)	(402.1)	(488.0)
EBITDA	13.6	15.4	13.3	16.9	19.8
Depreciation & amortization	(1.3)	(1.3)	(2.9)	(2.8)	(2.8)
EBIT	12.3	14.1	10.4	14.1	17.0
Net interest & invt income	1.1	0.5	1.2	2.2	2.8
Associates' contribution	0.3	0.1	0.0	0.0	0.1
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	13.6	14.7	11.6	16.3	19.9
Tax	(2.2)	(2.2)	(1.9)	(2.9)	(4.0)
Minority interests	(0.0)	(0.0)	(0.3)	(0.3)	(0.4)
Net profit	11.4	12.4	9.5	13.0	15.5
Wt. shares (m)	453.1	453.4	453.4	453.4	453.4
Shares at year-end (m)	453.1	453.4	453.4	453.4	453.4

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	2.3	2.8	1.4	0.2	(1.0)
Intangible assets	0.1	10.5	9.1	7.6	6.2
Other long-term assets	1.4	1.8	1.8	1.8	1.8
Total non-current assets	3.8	15.1	12.3	9.6	7.0
Cash and equivalents	46.6	34.7	50.7	57.3	62.9
Stocks	25.0	37.7	32.5	37.5	45.4
Trade debtors	29.2	44.7	46.9	54.2	65.6
Other current assets	(0.0)	2.9	0.0	0.0	0.0
Total current assets	100.9	120.0	130.1	149.0	174.0
Trade creditors	27.8	42.3	54.4	62.9	76.2
Short-term borrowings	3.0	8.3	1.8	2.1	2.5
Other current liabilities	3.9	7.1	5.7	6.7	7.8
Total current liabilities	34.8	57.7	61.9	71.7	86.5
Long-term borrowings	0.0	0.8	0.4	0.4	0.5
Other long-term liabilities	0.2	1.1	0.8	0.8	0.8
Total long-term liabilities	0.2	1.9	1.1	1.2	1.3
Shareholders' funds	69.6	74.2	77.4	83.3	90.3
Minority interests	0.0	1.3	1.6	2.0	2.4
NTA/share (S\$)	0.15	0.14	0.15	0.17	0.19
Total Assets	104.6	135.1	142.5	158.6	181.0
Total Liabilities + S'holders' funds	104.6	135.1	142.0	158.2	180.5

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	13.6	14.7	11.6	16.3	19.9
Depreciation & non-cash adjustments	(8.7)	4.5	9.7	3.4	2.6
Working capital changes	3.7	(13.7)	15.1	(3.9)	(6.1)
Cash tax paid	(2.9)	(2.4)	(3.7)	(1.7)	(2.2)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5.7	3.1	32.7	14.2	14.2
Capex	(1.8)	(8.8)	(1.6)	(1.6)	(1.6)
Net investments & sale of FA	10.8	0.1	0.0	0.0	0.0
Others	0.2	0.1	0.3	0.3	0.4
Cash flow from investing	9.2	(8.7)	(1.3)	(1.3)	(1.2)
Debt raised/(repaid)	(2.0)	5.9	(6.9)	0.3	0.5
Equity raised/(repaid)	0.0	(0.1)	(0.1)	0.0	0.0
Dividends paid	(9.1)	(7.9)	(8.2)	(7.1)	(7.8)
Cash interest & others	0.2	(4.5)	(0.2)	(0.1)	(0.1)
Cash flow from financing	(10.9)	(6.6)	(15.3)	(6.9)	(7.4)
Change in cash	4.0	(12.1)	16.1	6.1	5.6
Change in net cash/(debt)	6.0	(18.0)	23.0	5.7	5.1
Ending net cash/(debt)	43.6	25.6	48.6	54.3	59.4

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	(22.7)	19.6	10.7	15.6	21.2
EBITDA growth (%)	(28.0)	12.8	(13.3)	27.1	17.1
Pretax margins (%)	5.0	4.5	3.2	3.9	3.9
Net profit margins (%)	4.2	3.8	2.6	3.1	3.1
Interest cover (x)	78.1	774.3	78.4	218.8	532.3
Effective tax rates (%)	16.3	15.3	16.0	18.0	20.0
Net dividend payout (%)	69.6	65.7	75.0	60.0	60.0
Debtors turnover (days)	39.0	49.8	47.3	47.2	47.2
Stock turnover (days)	37.2	46.4	36.5	36.5	36.5
Creditors turnover (days)	37.1	47.1	54.8	54.8	54.8

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.