

TeleChoice Int'l

3Q10 results update

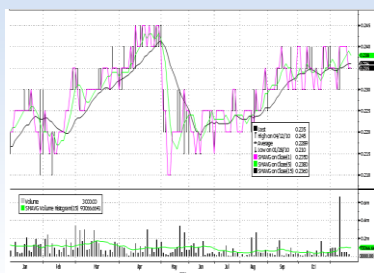
BUY

Current Price **S\$0.235**
16 November 2010

Fair Value S\$0.28

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$106.5m
52-HI	S\$0.245
52-LOW	S\$0.205
Avg Vol (1 yr)	92,298
Shares Outstanding	453.61m
Free Float	135.9m

Key Indicators

ROE FY10	17.2%
ROA FY10	12.5%
P/BK	1.41x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

M&A to drive growth

- **Results within expectation.** Despite sales coming in 23% below expectation, 3Q10 net profit of S\$3.2m (-1% yoy) was in line with our net profit forecast of S\$3.1m due to higher-than-expected margins.
- **Sales increased 7% yoy to S\$75.1m** as Personal Communications Solutions Services (PCS) division grew by 4% yoy mainly due to higher regional sales and prepaid cards, while sales from Engineering division jumped 38% yoy due mainly to an increased project in Indonesia. These however were slightly offset by an 11% drop in sales from Info-Comm Technology Services division (ICT).
- **EBITDA margins improved by 21 basic pts yoy to 5.7%**, due to better product mix from PCS and Engineering divisions. However, ICT's margins continue to contract due to the intense competitive environment and the loss of profit from the discontinued mobile data business. Including the zero financial cost and reduction in job credit granted by the government, pretax and net profit increased by 10% and 3% yoy, respectively.
- **Balance sheet remains strong.** TeleChoice generated S\$7.9m of positive free cash flow in 3Q10 after improving its working capital requirement. As a result, net cash increased by S\$7.8m qoq to S\$46m as at end Sep10. We expect cash will reduce in 4Q, as TeleChoice recently entered into an M&A agreement to purchase a 90% stake in IT company, S & I Systems Pte Ltd (SI), for an aggregate consideration of up to S\$18m, subject to its profit achievement.
- **New growth driver.** The group has combined its new acquisition (SI) with its Telecom business to form a new unit, Info-Comm Technology Services, to fully exploit the opportunities arising from the convergence of IT and Telecoms which has been facilitated by the increasing adoption of cloud computing. The synergy will allow TeleChoice to venture into a new industry with existing recurrent banking and financial customers. We also believe the potential for "cloud computing" is unlimited in the future, however, we are concerned as to how it will fare against the competition made up entirely of big players, including Singapore Telecom.
- **Maintain Buy.** We have fine-tuned our FY10-12 net profit by -2% to 3%, and did not include the contribution from its new acquisition yet. Management expects the consolidation will only start in 1Q11. Our fair value remains unchanged at S\$0.28, still pegged at 1.5x PBR FY11. Given its strong balance sheet, we expect its 60% dividend payout remains intact despite the spending for M&A (~ \$14m to \$18m). The current price also implies an attractive yield of 8-12%.

Key Financial Data

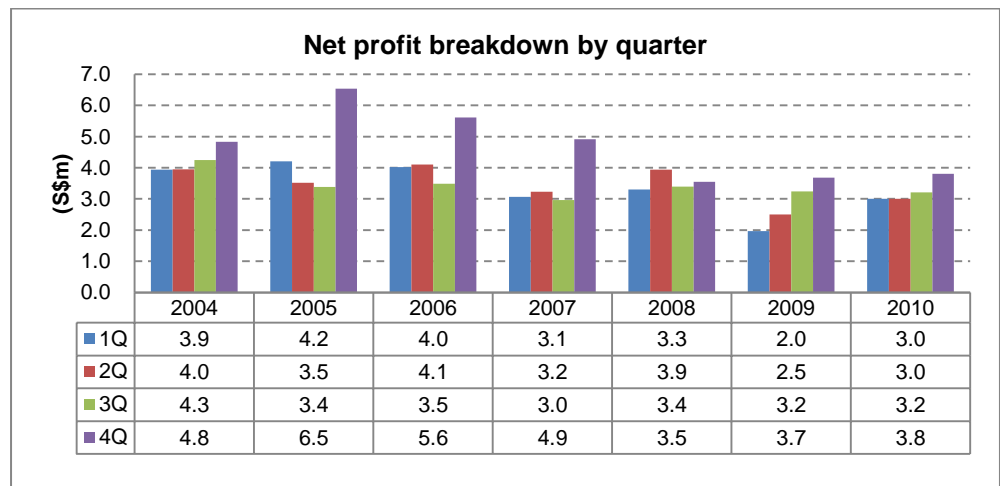
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	354.0	273.7	332.2	411.4	509.0
Gross Profit	37.2	28.6	31.6	38.3	45.8
Net Profit	14.2	11.4	13.0	16.8	20.8
EPS (cents)	3.1	2.5	2.9	3.7	4.6
EPS growth (%)	(0.3)	(19.8)	14.2	29.2	23.9
PER (x)	7.5	9.3	8.2	6.3	5.1
NTA/share (cents)	14.5	15.3	16.6	18.3	20.3
DPS (cents)	2.0	1.8	1.7	2.2	2.8
Div Yield (%)	8.5	7.4	7.3	9.5	11.7

Source: Company, NRA Capital

Results comparison

FYE Dec (S\$ m)	3Q10	3Q09	yoy % chg	2Q10	qoq % chg	Prev. 3Q10F	Comments
Revenue	75.1	70.1	7	97.3	(23)	97.2	23% below expectation
Operating costs	(70.8)	(66.3)	7	(93.4)	(24)	(93.1)	Below, lower-than-expected sales
EBITDA	4.2	3.8	11	3.9	9	4.1	In line, offset by higher-than-expected margin
EBITDA margin (%)	5.7	5.4		4.0		4.2	Above
Depn & amort.	(0.3)	(0.3)	5	(0.3)	4	(0.3)	In line
EBIT	3.9	3.5	12	3.6	9	3.8	In line
Interest expense	0.0	(0.1)	(100)	(0.0)	(100)	(0.0)	In line
Interest & invt inc	0.0	0.1	(84)	0.1	(72)	(0.1)	
Associates' contrib	0.1	0.1	32	0.1	1	0.1	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	4.0	3.7	10	3.7	7	3.8	In line
Tax	(0.8)	(0.4)	100	(0.7)	14	(0.7)	Above, higher-than-expected effective tax rate
Tax rate (%)	20.3	11.2		19.2		18.7	Above
Minority interests	0.0	0.0	nm	(0.0)	131	(0.0)	
Net profit	3.2	3.2	(1)	3.0	7	3.1	In line
EPS (cts)	0.7	0.7	(1)	0.7	7	0.7	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	354.0	273.7	332.2	411.4	509.0
Operating expenses	(335.1)	(260.1)	(316.4)	(390.7)	(483.7)
EBITDA	18.9	13.6	15.7	20.7	25.3
Depreciation & amortisation	(2.0)	(1.3)	(1.3)	(1.3)	(1.3)
EBIT	16.9	12.3	14.4	19.4	24.0
Net interest & invt income	0.2	1.1	1.2	0.9	1.1
Associates' contribution	1.1	0.3	0.2	0.3	0.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	18.2	13.6	15.9	20.5	25.4
Tax	(4.0)	(2.2)	(2.9)	(3.7)	(4.6)
Minority interests	0.0	(0.0)	0.0	0.0	0.0
Net profit	14.2	11.4	13.0	16.8	20.8
Wt. shares (m)	452.4	453.1	453.3	453.3	453.3
Shares at year-end (m)	452.4	453.1	453.3	453.3	453.3

Balance Sheet (S\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	1.7	2.3	2.6	2.9	1.6
Intangible assets	0.3	0.1	0.2	0.2	0.2
Other long-term assets	1.1	1.4	1.7	1.7	1.7
Total non-current assets	3.2	3.8	4.5	4.8	3.5
Cash and equivalents	42.6	46.6	40.0	41.5	45.6
Stocks	18.1	25.0	27.1	33.6	41.7
Trade debtors	44.9	29.2	32.7	40.5	50.1
Other current assets	0.0	(0.0)	0.0	0.0	0.0
Total current assets	105.6	100.9	99.8	115.6	137.4
Trade creditors	12.3	11.9	8.3	15.6	25.5
Short-term borrowings	5.0	3.0	0.0	0.0	0.0
Other current liabilities	25.5	19.9	20.1	21.4	23.0
Total current liabilities	42.8	34.8	28.4	37.0	48.4
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.1	0.2	0.2	0.2	0.2
Total long-term liabilities	0.1	0.2	0.2	0.2	0.2
Shareholders' funds	65.9	69.6	75.6	83.1	92.2
Minority interests	0.0	0.0	0.0	0.0	0.0
NTA/share (S\$)	0.14	0.15	0.17	0.18	0.20
Total Assets	108.8	104.6	104.2	120.4	140.9
Total Liabilities + S'holders' funds	108.8	104.6	104.2	120.4	140.9

Cash Flow (S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	18.2	13.6	15.9	20.5	25.4
Depreciation & non-cash adjustments	9.7	(8.7)	0.3	(1.9)	(0.7)
Working capital changes	12.2	3.7	(8.2)	(6.0)	(6.9)
Cash tax paid	(3.7)	(2.9)	(2.1)	(1.7)	(2.1)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	36.4	5.7	5.9	10.9	15.7
Capex	(1.6)	(1.8)	(1.6)	(1.6)	(1.6)
Net investments & sale of FA	0.1	10.8	0.0	0.0	0.0
Others	0.7	0.2	0.1	0.1	0.1
Cash flow from investing	(0.8)	9.2	(1.5)	(1.5)	(1.5)
Debt raised/(repaid)	(6.8)	(2.0)	(3.0)	0.0	0.0
Equity raised/(repaid)	0.3	0.0	(0.1)	0.0	0.0
Dividends paid	(11.3)	(9.1)	(7.9)	(7.8)	(10.1)
Cash interest & others	(0.2)	0.2	(0.0)	(0.0)	(0.0)
Cash flow from financing	(18.0)	(10.9)	(11.0)	(7.8)	(10.1)
Change in cash	17.6	4.0	(6.7)	1.5	4.1
Change in net cash/(debt)	24.4	6.0	(3.7)	1.5	4.1
Ending net cash/(debt)	37.6	43.6	40.0	41.5	45.6

KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	(15.8)	(22.7)	21.4	23.9	23.7
EBITDA growth (%)	7.1	(28.0)	15.6	31.5	22.3
Pretax margins (%)	5.1	5.0	4.8	5.0	5.0
Net profit margins (%)	4.0	4.2	3.9	4.1	4.1
Interest cover (x)	106.8	78.1	679.7	1,754.1	4,344.9
Effective tax rates (%)	22.0	16.3	18.0	18.0	18.0
Net dividend payout (%)	63.8	69.6	60.0	60.0	60.0
Debtors turnover (days)	60.0	49.4	34.0	32.5	32.5
Stock turnover (days)	32.6	32.1	31.6	29.7	29.7
Creditors turnover (days)	27.5	16.1	11.1	10.6	14.7

Source: Company, NRA Capital Estimates

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