

## TeleChoice Int'l

1Q12 results update

Overweight 

**Current Price** **S\$0.205**  
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Fair Value S\$0.26

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## Historical Chart



Source: Bloomberg

## Stock Statistics

Market Cap	S\$95.2m
52-HI	S\$0.255
52-LOW	S\$0.205
Avg Vol (1 yr)	72,730
Shares Outstanding	453.1m
Free Float	135.9m

## Key Indicators

ROE FY12	16%
ROA FY12	7%
P/BK	1.29x
Net gearing	Net cash

## Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

## Preparing the way

- **Upgrade to Overweight.** TeleChoice 1Q12 net profit of S\$1.7m was in line with our net profit forecast of S\$1.8m (1Q only formed 14% of our full year forecast as traditionally it's 1Q is the weakest quarter). As such, we have kept our FY12-14 net profit forecasts unchanged. Our fair value also remains at S\$0.26, still based on 8x PER FY13. Nevertheless, we upgrade our rating from Neutral to **Overweight**, given the 23% potential upside coupled with its strong track record and attractive 7-9% yield.
- **Samsung surpasses Apple as world's top smartphone seller.** According to IDC, the worldwide mobile phone market declined 1.5% yoy in the 1Q12, as Samsung ousted longtime leader Nokia to become the world's top mobile phone vendor. Meanwhile, the worldwide smartphone market grew 42.5% yoy in 1Q12, as Samsung overtook Apple for the smartphone leadership position. As there was not many smartphones launched in the 1H, we believe the battle for the smartphone will start in the 2H. Samsung S3 will go on sale first in the UK, with a targeted date of May 28. The phone should be arriving in Singapore in early Jun. The Apple iPhone 5 and Nokia Windows 8 phone are both expected to be released in the 2H. However, we believe the race remains tight for the next few quarters between Apple and Samsung.
- **Management expects weak 1H but better 2H.** Despite the uncertain outlook in economic conditions, management has pointed out there are a few positive elements in the coming year. TeleChoice has renewed contract with StarHub for integrated fulfillment and management services and this includes fulfillment services for iPhones which are still enjoying robust sales. The increased sales of Android handset devices thus far, especially for Samsung handsets, the growing market for enterprise solutions and cloud computing services and the continued demand for radio network optimization and radio network planning services and network upgrading in the region will provide further opportunities for its business divisions.
- **1Q12 sales increased by 9% yoy to S\$102m** following improved sales by PCS and Engineering Services divisions offset by a drop in revenue from ICT Services division. EBITDA margins contracted by 2% pt yoy to 3% due mainly to its lumpy projects from S&I.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$4.8m this quarter after improved its working capital. As a result, net cash increased by S\$4.6m qoq to S\$18.8m as at end Mar-11. As expected.

## Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
<b>Sales</b>	327.5	389.6	428.5	497.7	579.1
<b>Gross Profit</b>	31.1	41.6	47.1	54.8	63.7
<b>Net Profit</b>	12.4	6.6	12.3	14.6	16.8
<b>EPS (cents)</b>	2.7	1.5	2.7	3.2	3.7
<b>EPS growth (%)</b>	9.0	(47.1)	87.7	18.4	14.6
<b>PER (x)</b>	7.7	14.5	7.7	6.5	5.7
<b>NTA/share (cents)</b>	14.1	12.0	13.4	14.7	16.2
<b>DPS (cents)</b>	1.8	1.6	1.6	1.9	2.2
<b>Div Yield (%)</b>	8.6	7.6	7.8	9.2	10.6

Source: Company, NRA Capital

## Results comparison

FYE Dec (\$\$ m)	1Q12	1Q11	yoy % chg	4Q11	qoq % chg	Prev. 1Q12F	Comments
Revenue	102.0	94.0	9	126.4	(19)	103.4	In line
Operating costs	(99.0)	(89.3)	11	(119.5)	(17)	(100.3)	In line
EBITDA	3.0	4.7	(35)	6.9	(56)	3.1	In line
EBITDA margin (%)	3.0	5.0		5.4		3.0	
Depn & amort.	(0.7)	(0.7)	(1)	(1.0)	(27)	(0.8)	Slightly below
EBIT	2.3	3.9	(42)	5.9	(61)	2.3	In line
Interest expense	(0.1)	(0.1)	nm	(0.2)	(47)	(0.0)	Above, higher interest accretion
Interest & invt inc	0.3	0.1	213	0.3	(8)	0.3	In line
Associates' contrib	(0.2)	(0.1)	226	(0.2)	(11)	(0.1)	Below, higher-than-expected loss
Exceptionals	0.0	0.0	nm	(4.4)	nm	0.0	
<b>Pretax profit</b>	<b>2.3</b>	<b>3.9</b>	<b>(41)</b>	<b>1.4</b>	<b>66</b>	<b>2.4</b>	In line
Tax	(0.6)	(0.6)	(4)	(0.5)	24	(0.5)	Above, higher-than-expected taxation
Tax rate (%)	25.0	15.4		33.4		22.0	
Minority interests	0.0	(0.2)	nm	(0.3)	104	(0.1)	
<b>Net profit</b>	<b>1.7</b>	<b>3.0</b>	<b>(42)</b>	<b>0.6</b>	<b>198</b>	<b>1.8</b>	In line
EPS (cts)	0.4	0.7	(43)	0.1	198	0.4	
<b>Core net profit</b>	<b>1.7</b>	<b>3.0</b>	<b>(42)</b>	<b>5.0</b>	<b>(65)</b>	<b>1.8</b>	In line
EPS (cts)	0.4	0.7	(43)	1.1	(65)	0.4	

Source: NRA Capital estimates

## Top Five Worldwide Smartphone Vendors, Shipments, and Market Share, 14 2012 (Units in Millions)

Vendor	1Q12 Shipment Volumes	1Q12 Market Share	1Q11 Shipment Volumes	1Q11 Market Share	Year Over Year Change
Samsung	42.2	29%	11.5	11%	267%
Apple	35.1	24%	18.6	18%	89%
Nokia	11.9	8%	24.2	24%	-51%
Research In Motion	9.7	7%	13.8	14%	-30%
HTC	6.9	5%	9.0	9%	-23%
Others	39.1	27%	24.5	24%	60%
<b>Total</b>	<b>144.9</b>	<b>100%</b>	<b>101.6</b>	<b>100%</b>	<b>43%</b>

Source: IDC Worldwide Mobile Phone Tracker, May 2012

## Smartphone vendor highlights

**Samsung** reclaimed the smartphone leadership position and established a new market record for the number of smartphones shipped in a single quarter. Propelling the company forward was continued expansion of its Galaxy portfolio in nearly all directions - new and old smartphones, product and market segmentation, and multiple price points, screen sizes, and processor speeds.

**Apple** slipped to second place in the worldwide smartphone market, but nonetheless posted strong year-over-year growth to reach 35.1m units shipped. Apple's gains in the market benefited from iPhone availability at additional mobile operators worldwide, as well as sustained end-user demand among both consumers and enterprise users.

**Nokia's** Symbian phone shipments declined precipitously last quarter as demand dropped in key emerging markets, such as China. The company's current smartphone woes make a speedy transition to products powered by the Windows Phone operating system, upon which it has bet its smartphone future, critical.

**Research In Motion's** BlackBerry unit decline continued last quarter, reaching levels not seen since 2009. Like Nokia, RIM is a company in transition. Smartphones running on its new platform, BB 10, will be released later this year. Until then, results like these may be a sign of things to come.

**HTC's** struggles in the U.S. market once again negatively affected its overall performance. However, its relatively strong performance in Asia/Pacific still allowed the company to maintain its position among the top 5 smartphone vendors. The company is staking future success in large part on its One X and S products.

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	327.5	389.6	428.5	497.7	579.1
Operating expenses	(312.1)	(373.5)	(409.4)	(475.6)	(554.5)
EBITDA	15.4	16.1	19.1	22.1	24.6
Depreciation & amortisation	(1.3)	(3.1)	(3.1)	(3.1)	(3.0)
EBIT	14.1	13.0	16.0	19.1	21.6
Net interest & invt income	0.5	0.8	0.9	0.3	0.6
Associates' contribution	0.1	(0.3)	(0.3)	(0.4)	(0.5)
Exceptional items	0.0	(4.4)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>14.7</b>	<b>9.1</b>	<b>16.6</b>	<b>19.0</b>	<b>21.7</b>
Tax	(2.2)	(2.1)	(3.8)	(3.8)	(4.3)
Minority interests	(0.0)	(0.4)	(0.5)	(0.5)	(0.6)
<b>Net profit</b>	<b>12.4</b>	<b>6.6</b>	<b>12.3</b>	<b>14.6</b>	<b>16.8</b>
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

<b>Balance Sheet</b> (S\$ 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
<b>Total non-current assets</b>	<b>18.0</b>	<b>22.8</b>	<b>21.4</b>	<b>20.0</b>	<b>18.7</b>
Cash and equivalents	34.7	30.9	27.0	24.8	15.4
Stocks	37.7	37.0	45.8	53.2	61.9
Trade debtors	44.7	79.7	68.6	79.6	92.7
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>117.1</b>	<b>147.6</b>	<b>141.3</b>	<b>157.6</b>	<b>169.9</b>
Trade creditors	39.3	60.9	61.0	70.9	82.5
Short-term borrowings	8.5	16.6	8.6	8.0	6.9
Other current liabilities	9.9	12.6	7.1	7.3	7.9
<b>Total current liabilities</b>	<b>57.7</b>	<b>90.0</b>	<b>76.7</b>	<b>86.2</b>	<b>97.3</b>
Long-term borrowings	0.8	0.0	0.0	0.0	0.0
Other long-term liabilities	1.1	6.7	7.0	7.5	1.2
<b>Total long-term liabilities</b>	<b>1.9</b>	<b>6.7</b>	<b>7.0</b>	<b>7.5</b>	<b>1.2</b>
<b>Shareholders' funds</b>	<b>74.2</b>	<b>72.3</b>	<b>77.1</b>	<b>81.6</b>	<b>87.0</b>
Minority interests	1.3	1.4	1.9	2.4	3.1
NTA/share (S\$)	0.14	0.12	0.13	0.15	0.16
<b>Total Assets</b>	<b>135.1</b>	<b>170.4</b>	<b>162.7</b>	<b>177.6</b>	<b>188.6</b>
<b>Total Liabilities + S'holders' funds</b>	<b>135.1</b>	<b>170.4</b>	<b>162.7</b>	<b>177.6</b>	<b>188.6</b>

<b>Cash Flow</b> (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	14.7	9.1	16.6	19.0	21.7
Depreciation & non-cash adjustments	7.4	8.4	(3.2)	0.7	(6.0)
Working capital changes	(16.6)	(12.6)	2.8	(8.4)	(9.9)
Cash tax paid	(2.4)	(3.5)	(3.1)	(3.8)	(3.8)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>3.1</b>	<b>1.4</b>	<b>13.1</b>	<b>7.5</b>	<b>2.0</b>
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
<b>Cash flow from investing</b>	<b>(8.7)</b>	<b>(3.0)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
Debt raised/(repaid)	6.1	7.1	(8.0)	(0.6)	(1.0)
Equity raised/(repaid)	(0.1)	(0.4)	0.0	0.0	0.0
Dividends paid	(7.9)	(8.1)	(7.3)	(7.4)	(8.8)
Cash interest & others	(4.7)	(0.9)	(0.2)	(0.1)	(0.1)
<b>Cash flow from financing</b>	<b>(6.6)</b>	<b>(2.4)</b>	<b>(15.5)</b>	<b>(8.2)</b>	<b>(9.9)</b>
<b>Change in cash</b>	<b>(12.1)</b>	<b>(4.0)</b>	<b>(3.9)</b>	<b>(2.2)</b>	<b>(9.4)</b>
<b>Change in net cash/(debt)</b>	<b>(18.2)</b>	<b>(11.1)</b>	<b>4.1</b>	<b>(1.6)</b>	<b>(8.4)</b>
<b>Ending net cash/(debt)</b>	<b>25.4</b>	<b>14.3</b>	<b>18.4</b>	<b>16.8</b>	<b>8.4</b>

<b>KEY RATIOS</b> (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	19.6	19.0	10.0	16.1	16.4
EBITDA growth (%)	12.8	5.0	18.6	15.6	11.3
Pretax margins (%)	4.5	2.3	3.9	3.8	3.8
Net profit margins (%)	3.8	1.7	2.9	2.9	2.9
Interest cover (x)	774.3	30.1	104.0	236.6	541.2
Effective tax rates (%)	15.3	22.7	22.7	20.0	20.0
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

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