

TeleChoice Int'l

3Q14 results update
18 November 2014Neutral 

Current Price	S\$0.27
Fair Value	S\$0.29
Up / (downside)	7%

Stock Statistics

Market cap	S\$122.5m
52-low	S\$0.225
52-high	S\$0.27
Avg daily vol	83,404
No of share	453.2m
Free float	30%

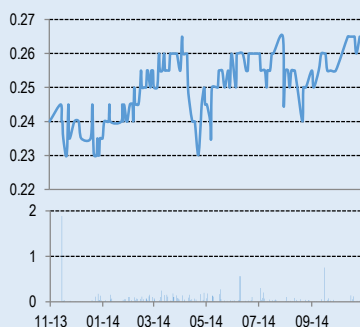
Key Indicators

ROE 14F	14.9%
ROA 14F	6.0%
P/BK	1.7
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart



Source: Bloomberg

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ICT fine in 3Q but dragged by PCS

- **Earnings below expectations.** TeleChoice reported a discouraging 3Q14 net profit of S\$2.3m (-12% yoy) compared to our S\$4.3m forecast due mainly to its disappointing smartphone sales, especially from the Samsung S5 and partially also to the launch of iPhone 6 and 6 Plus in October that held consumers back from changing their phone during that quarter. 9M14 only forms 44% of our full year forecast. We expect its Personal communications solutions services (PCS) division will recover sequentially given the iPhone 6 and 6 plus is still selling strongly for now (TeleChoice benefits from the fulfilment services for StarHub's iPhone contracts with its exclusive partner and platinum shops).
- **Cut FY14 earnings forecasts.** With the disappointment results, we cut our FY14 earnings by 15%. Nevertheless, we kept out FY15-16 net profit forecasts relatively unchanged. As a result, our fair value remains at S\$0.29, still based on 8x PER FY15. Given the limited 7% potential upside, we downgrade our recommendation to **Neutral** for the time being, our FY14 projected yield remains attractive at 5.4%.
- **3Q14 Samsung volume shipment declined by 8% yoy.** According to IDC, worldwide smartphone shipments increased by 25% yoy in the 3Q14 with heightened competition and growth beyond Samsung and Apple. Despite Samsung remaining the clear leader in the worldwide smartphone market, it was the only company among the top five to see its shipment volume decline yoy. On the other hand, Xiaomi jumped into the top 5 list for the first time at the number 3 position thanks to its focus on China and adjacent markets, which resulted in triple-digit yoy growth.
- **3Q14 revenues decreased by 12% yoy to S\$131.5m,** PCS's sales declined 22% yoy due to delay in customer purchases in anticipation of iPhones and Samsung Note 4 launches towards the end of the quarter. ICT revenue surged by 38% yoy mainly due to a long term software and maintenance contract recognized and higher wholesale and enterprise solutions revenue. Nevertheless, Engineering sales fell by 31% yoy due to lower transmission equipment sales in Singapore.
- **Gross profit margins improved 0.7% pts yoy to 8.1% in 3Q14** led by PCS and engineering divisions.
- **Balance sheet remains strong.** As a results for increasing working capital requirement during the quarter, the group generated a negative free cash flow of S\$3.5m. Cash conversion cycle increased by 4 days qoq to 30 days. Net cash decreased to S\$11m as at end September-2014 or about 2.5 cents net cash per shares.

Key Financial Data (S\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Sales	480.9	556.3	564.6	621.0	704.9
Gross Profit	41.6	43.5	45.7	54.0	60.6
Net Profit	8.2	9.7	11.1	16.3	18.0
EPS (cents)	1.8	2.1	2.4	3.6	4.0
EPS growth (%)	25.0	17.4	14.8	47.3	10.1
PER (x)	14.9	12.7	11.1	7.5	6.8
NTA/share (cents)	12.1	11.9	13.3	14.4	16.0
DPS (cents)	1.6	1.6	1.5	2.2	2.4
Div Yield (%)	5.9	5.9	5.4	8.0	8.8

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (\$\$ m)	3Q14	3Q13	yoy % chg	2Q14	qoq % chg	Prev. 3Q14F	Comments
Revenue	131.5	149.4	(12)	129.2	2	161.0	18% below expectation
Operating costs	(127.6)	(145.1)	(12)	(126.0)	1	(154.5)	Below, lower-than-expected revenue
EBITDA	3.9	4.3	(10)	3.2	24	6.5	Below, lower-than-expected revenue and gross profit margins
EBITDA margin (%)	3.0	2.9		2.4		4.0	1% pts above expectation
Deprn & amort.	(0.9)	(0.8)	14	(0.8)	9	(0.8)	In line
EBIT	3.0	3.6	(15)	2.3	30	5.7	Below, lower-than-expected revenue and gross profit margins
Interest expense	(0.2)	(0.3)	(21)	(0.2)	19	(0.2)	In line
Interest & invt inc	0.1	(0.1)	nm	0.1	110	0.2	Below
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.0	3.1	(6)	2.2	33	5.7	Below, lower-than-expected revenue and gross profit margins
Tax	(0.8)	(0.4)	72	(0.5)	56	(1.3)	Below
Tax rate (%)	26.0	14.3		22.2		23.0	
Minority interests	0.1	(0.1)	245	0.1	66	(0.1)	
Net profit	2.3	2.6	(12)	1.8	28	4.3	47% below expectation
EPS (cts)	0.5	0.6	(12)	0.4	28	1.0	

Source: NRA Capital estimates

Top Five Smartphone Vendors, Shipments, Market Share and Year-Over-Year Growth, Q3 2014 Preliminary Data (Units in Millions)

Vendor	2014Q3 Shipment Volumes	2014Q3 Market Share	2013Q3 Shipment Volumes	2013Q3 Market Share	3Q14/3Q13 Change
1. Samsung	78.1	24%	85.0	33%	-8%
2. Apple	39.3	12%	33.8	13%	16%
3. Xiaomi	17.3	5%	5.6	2%	211%
4. Lenovo*	16.9	5%	12.3	5%	38%
4. LG*	16.8	5%	12.0	5%	40%
Others	159.2	49%	113.0	43%	41%
Total	327.6	100%	261.7	100%	25%

Source: IDC Worldwide Quarterly Mobile Phone Tracker, October 29, 2014

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Profit & Loss (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue	480.9	556.3	564.6	621.0	704.9
Operating expenses	(466.8)	(541.6)	(546.7)	(597.7)	(679.5)
EBITDA	14.1	14.7	17.9	23.4	25.4
Depreciation & amortisation	(3.0)	(3.1)	(3.1)	(3.1)	(3.1)
EBIT	11.1	11.5	14.8	20.3	22.3
Net interest & invt income	(0.2)	(0.5)	(0.2)	0.1	0.1
Associates' contribution	(0.7)	0.0	0.0	0.0	0.0
Exceptional items	(0.2)	0.0	0.0	0.0	0.0
Pretax profit	9.9	11.1	14.6	20.4	22.5
Tax	(1.7)	(1.5)	(3.8)	(4.1)	(4.5)
Minority interests	0.0	0.1	0.3	0.0	0.0
Net profit	8.2	9.7	11.1	16.3	18.0
Shares at year-end (m)	453.8	453.9	453.6	453.6	453.6
Balance Sheet (\$\$ m, as at Dec)	2012	2013	2014F	2015F	2016F
Fixed assets	2.9	2.4	2.4	2.4	2.4
Intangible assets	16.4	15.6	14.0	12.6	11.4
Other long-term assets	2.0	1.8	6.9	6.9	6.9
Total non-current assets	21.3	19.8	23.4	21.9	20.6
Cash and equivalents	51.6	48.9	26.9	19.4	19.6
Stocks	39.2	39.1	67.4	73.7	83.8
Trade debtors	64.7	63.4	67.7	74.5	84.6
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	155.5	151.5	162.1	167.6	188.0
Trade creditors	67.8	74.5	77.8	85.0	96.6
Short-term borrowings	12.1	9.9	9.6	9.9	10.6
Other current liabilities	6.1	6.5	8.2	8.5	8.9
Total current liabilities	86.1	90.8	95.7	103.5	116.2
Long-term borrowings	10.0	10.0	10.0	3.1	3.5
Other long-term liabilities	8.1	0.7	5.2	5.0	4.8
Total long-term liabilities	18.1	10.7	15.3	8.1	8.3
Shareholders' funds	71.4	69.5	74.6	78.0	84.1
Minority interests	1.3	0.3	(0.0)	(0.0)	(0.0)
NTA/share (\$\$)	0.12	0.12	0.13	0.14	0.16
Total Assets	176.8	171.3	185.5	189.6	208.6
Total Liabilities + S'holders' funds	176.8	171.3	185.5	189.6	208.6
Cash Flow (\$\$ m, FYE Dec)	2012	2013	2014F	2015F	2016F
Pretax profit	9.9	11.1	14.6	20.4	22.5
Depreciation & non-cash adjustments	4.6	(4.3)	5.0	(1.7)	2.6
Working capital changes	20.6	9.1	(28.7)	(5.5)	(8.2)
Cash tax paid	(3.0)	(2.5)	(1.3)	(3.8)	(4.1)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	32.2	13.3	(10.5)	9.4	12.7
Capex	(2.0)	(2.2)	(2.6)	(2.6)	(2.6)
Net investments & sale of FA	(5.0)	0.0	0.0	0.0	0.0
Others	(1.4)	(1.4)	(0.2)	(0.2)	(0.2)
Cash flow from investing	(8.3)	(3.6)	(2.8)	(2.8)	(2.9)
Debt raised/(repaid)	5.9	(2.3)	(0.2)	(6.6)	1.1
Equity raised/(repaid)	(0.3)	(0.3)	(0.1)	0.0	0.0
Dividends paid	(7.3)	(7.4)	(7.3)	(6.6)	(9.8)
Cash interest & others	(1.1)	(2.6)	(1.1)	(0.8)	(0.9)
Cash flow from financing	(2.7)	(12.5)	(8.7)	(14.1)	(9.6)
Change in cash	21.1	(2.7)	(22.0)	(7.6)	0.2
Change in net cash/(debt)	15.2	(0.4)	(21.7)	(0.9)	(0.8)
Ending net cash/(debt)	29.5	29.0	7.3	6.4	5.5
KEY RATIOS (FYE Dec)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	23.4	15.7	1.5	10.0	13.5
EBITDA growth (%)	(12.5)	3.8	22.0	30.6	8.7
Pretax margins (%)	2.1	2.0	2.6	3.3	3.2
Net profit margins (%)	1.7	1.7	2.0	2.6	2.5
Effective tax rates (%)	17.2	13.3	26.0	20.0	20.0
Net dividend payout (%)	88.2	75.2	60.0	60.0	60.0
ROE (%)	11.5	13.9	14.9	20.9	21.4
Free cash flow yield (%)	24.6	9.1	(10.7)	5.5	8.2

Source: Company, NRA Capital forecasts

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