

Neutral

Current Price	S\$0.27
Fair Value	S\$0.26
Up / (downside)	(4%)

Stock Statistics

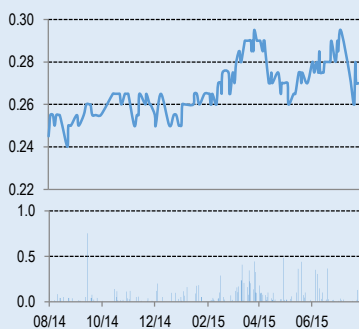
Market cap	S\$123m
52-low	S\$0.24
52-high	S\$0.30
Avg daily vol	88,371
No of share	454.4m
Free float	30%

Key Indicators

ROE 15F	13%
ROA 15F	5%
P/BK	1.7x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart

Source: Bloomberg

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Looking for stronger 2nd half earnings

- **Earnings below expectation.** Despite TeleChoice's 2Q15 revenue being 9% above our expectation, net profit of S\$2.1m (+20% yoy) was 22% lower than our S\$2.7m forecast due mainly to lower-than-expected gross profit margins. This however, was slightly offset by improving SG&A expenses.
- **Cut FY15 earnings forecasts.** As a result, we cut our FY15 earnings estimate by 8%. However, we keep our FY16-17 numbers unchanged. We expect its margins will gradually improve after the amortisation of intangible assets arising from S&I System finishes by October this year. We keep our fair value at S\$0.26, still based on 8x FY16 PER. We maintain our **Neutral** recommendation given its stable cash flow with attractive projected yield at 6-7%.
- **ICT outlook remains positive in Singapore.** According to Gartner's recent report, enterprise spending on IT products and services in Singapore will reach US\$19bn in 2015. Compared with other mature markets in the region, such as Australia, this intensity of IT spending is high relative to Singapore's gross national output and population. The dominant sectors in 2015 will be communications, media and services, banking and securities, government and manufacturing. The government sector looms large in Singapore's ICT landscape. The IDA is committed to promoting the use of IT within government services and developing the ICT industry in the country, incorporating sector transformation and development, social engagement, infrastructure development, and staffing development. The government transparently outlines its ICT spending priorities that include g-cloud, big data, analytics and information security. Telechoice is particularly focusing on education and medical segments currently.
- **2Q15 revenues increased by 14% yoy to S\$146.9m** led by PCS and ICT divisions. PCS revenue increased by 12.5% yoy mainly due to higher prepaid card sales with the appointment as the new master distributor offset by lower sales in Malaysia. ICT revenue increased by 30.5% yoy mainly due to higher software, enterprise solutions and wholesale voice revenue. Meanwhile, engineering revenue decreased by 5.9% yoy mainly due to lower project revenues in Singapore and Malaysia.
- **Gross profit margins lowered by 0.7% pts yoy to 7% in 2Q15** led by the ICT divisions, mainly due to higher contribution from software sales, where margin is lower.
- **Balance sheet remains strong.** The group generated a positive free cash flow of S\$7.5m as of June quarter due mainly to improving its inventory requirements. Including S\$7.3m dividend payout and shares buy back, net cash decreased to S\$15m as at end June-15 or about 3.5 cents net cash per shares.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	556.3	516.8	583.3	628.0	685.3
Gross Profit	43.5	42.5	43.7	52.1	56.2
Net Profit	9.7	9.4	9.8	14.7	15.5
EPS (cents)	2.1	2.1	2.2	3.2	3.4
EPS growth (%)	17.4	(3.1)	4.8	49.3	5.4
PER (x)	12.7	13.1	12.5	8.4	7.9
NTA/share (cents)	11.9	12.8	13.7	14.7	16.1
DPS (cents)	1.6	1.6	1.5	1.9	2.0
Div Yield (%)	5.9	5.9	5.5	7.2	7.6

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (\$\$ m)	2Q15	2Q14	yoy % chg	1Q15	qoq % chg	Prev. 2Q15F	Comments
Revenue	146.9	129.2	14	126.3	16	134.5	9% above expectation
Operating costs	(143.5)	(126.0)	14	(124.0)	16	(130.4)	Above, higher-than-expected revenue
EBITDA	3.4	3.2	9	2.3	51	4.1	Below, lower-than-expected gross profit margins
EBITDA margin (%)	2.3	2.4		1.8		3.1	0.7% pts below expectation
Depn & amort.	(0.7)	(0.8)	-11	(0.8)	-2	(0.8)	In line
EBIT	2.7	2.3	16	1.5	77	3.3	Below, lower-than-expected gross profit margins
Interest expense	(0.2)	(0.3)	-2	(0.3)	-3	(0.2)	In line
Interest & invt inc	0.2	0.1	32	0.4	-54	0.3	Below
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	<i>nm</i>	(0.4)	<i>nm</i>	0.0	
Pretax profit	2.6	2.2	19	1.3	109	3.4	Below, lower-than-expected gross profit margins
Tax	(0.6)	(0.5)	16	(0.6)	3	(0.7)	Below
Tax rate (%)	21.7	22.2		44.1		20.0	
Minority interests	0.1	0.1	9	0.1	11	0.0	
Net profit	2.1	1.8	20	0.8	178	2.7	22% below expectation
EPS (cts)	0.5	0.4	19	0.2	178	0.6	

Source: NRA Capital estimates

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Profit & Loss (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	556.3	516.8	583.3	628.0	685.3
Operating expenses	(541.6)	(501.8)	(568.1)	(607.5)	(663.8)
EBITDA	14.7	15.0	15.2	20.5	21.5
Depreciation & amortisation	(3.1)	(3.4)	(2.9)	(2.6)	(2.6)
EBIT	11.5	11.6	12.2	17.9	18.9
Net interest & invt income	(0.5)	(0.2)	0.3	0.4	0.4
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	(0.4)	0.0	0.0
Pretax profit	11.1	11.4	12.1	18.3	19.3
Tax	(1.5)	(2.2)	(2.4)	(3.7)	(3.9)
Minority interests	0.1	0.2	0.1	0.0	0.0
Net profit	9.7	9.4	9.8	14.7	15.5
Shares at year-end (m)	453.9	454.4	454.4	454.4	454.4
Balance Sheet (\$\$ m, as at Dec)	2013	2014	2015F	2016F	2017F
Fixed assets	2.4	3.3	4.0	4.6	5.1
Intangible assets	15.6	14.0	13.3	12.7	12.0
Other long-term assets	1.8	7.0	7.0	7.0	7.0
Total non-current assets	19.8	24.3	24.3	24.2	24.1
Cash and equivalents	48.9	38.0	40.6	40.3	43.7
Stocks	39.1	32.7	37.3	39.8	43.4
Trade debtors	63.4	91.7	93.3	100.5	109.7
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	151.5	162.4	171.1	180.5	196.8
Trade creditors	74.5	85.6	91.7	97.9	107.0
Short-term borrowings	9.9	20.0	11.7	9.4	10.3
Other current liabilities	6.5	5.8	7.5	8.7	8.9
Total current liabilities	90.8	111.4	110.8	116.0	126.1
Long-term borrowings	10.0	0.0	5.8	6.3	6.9
Other long-term liabilities	0.7	3.1	3.0	2.8	2.7
Total long-term liabilities	10.7	3.1	8.8	9.1	9.6
Shareholders' funds	69.5	72.1	75.7	79.5	85.2
Minority interests	0.3	0.2	0.0	0.0	0.0
NTA/share (\$\$)	0.12	0.13	0.14	0.15	0.16
Total Assets	171.3	186.7	195.4	204.7	221.0
Total Liabilities + S'holders' funds	171.3	186.7	195.4	204.7	221.0
Cash Flow (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	11.1	11.4	12.1	18.3	19.3
Depreciation & non-cash adjustments	(4.3)	1.8	5.5	0.3	3.6
Working capital changes	9.1	(10.0)	0.3	(3.2)	(3.5)
Cash tax paid	(2.5)	(1.9)	(0.8)	(2.4)	(3.7)
Cash flow from operations	13.3	1.3	17.1	13.0	15.7
Capex	(2.2)	(3.0)	(3.3)	(3.3)	(3.3)
Net investments & sale of FA	0.0	0.0	0.0	0.0	0.0
Others	(1.4)	(1.3)	(0.6)	(0.6)	(0.7)
Cash flow from investing	(3.6)	(4.3)	(3.9)	(3.9)	(4.0)
Debt raised/(repaid)	(2.3)	0.1	(2.5)	(1.8)	1.4
Equity raised/(repaid)	(0.3)	(0.2)	0.0	0.0	0.0
Dividends paid	(7.4)	(7.3)	(7.3)	(6.7)	(8.8)
Cash interest & others	(2.6)	(0.6)	(0.9)	(0.8)	(0.9)
Cash flow from financing	(12.5)	(7.9)	(10.6)	(9.3)	(8.2)
Change in cash	(2.7)	(10.9)	2.6	(0.3)	3.5
Change in net cash/(debt)	(0.4)	(11.0)	5.0	1.5	2.1
Ending net cash/(debt)	29.0	18.0	23.1	24.6	26.6
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	15.7	(7.1)	12.9	7.7	9.1
EBITDA growth (%)	3.8	2.2	1.4	35.0	4.9
Pretax margins (%)	2.0	2.2	2.1	2.9	2.8
Net profit margins (%)	1.7	1.8	1.7	2.3	2.3
Effective tax rates (%)	13.3	19.3	20.0	20.0	20.0
Net dividend payout (%)	75.2	77.6	68.5	60.0	60.0
ROE (%)	13.9	13.0	13.0	18.4	18.1
Free cash flow yield (%)	9.1	(1.4)	11.3	7.9	10.1

Source: Company, NRA Capital forecasts

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