

Neutral

Current Price	S\$0.250
Fair Value	S\$0.223
Up / (downside)	(10.8%)

Stock Statistics

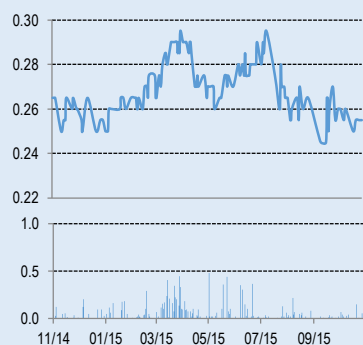
Market cap	S\$113.6m
52-low	S\$0.245
52-high	S\$0.30
Avg daily vol	87.743
No of share	454.4m
Free float	29.5%

Key Indicators

ROE 15F	11.4%
ROA 15F	4.5%
P/BK	1.68x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart

Source: Bloomberg

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Profits dragged by poor ICT performance.

- **Earnings below expectation.** Although TeleChoice's 3Q15 revenue is in line with our expectation, net profit of S\$1.5m (-33% yoy) was 28.1% lower than our S\$2.1m forecast due to weak performance from the ICT segment. Despite revenue growth of 10% yoy in 3Q15, higher operating costs and cost of goods sold led to lower profitability.
- **Trim earnings forecast.** As a result, we trim our FY15 earnings estimate by 11.8%, and we reduce FY 16 and FY17 earnings estimates by 25.8% and 16.6% respectively as we take into consideration the low visibility in the ICT segment. However, we expect profit margins to improve gradually following lower amortization costs arising from S&I System. We reduced fair value from S\$0.26 to S\$0.22, based on the industry average of **9.3x** FY16 PER. We maintained our **Neutral** recommendation although we like the outlook of its PCS segment as well as the telecommunication industry.
- **PCS remains strong.** According to Gartner's recent report, Asia Pacific device shipments are expected to grow by 3.2% in 2015. Device penetration is very high in mature markets and major cities in emerging markets. The overall increase in device shipments is driven by 4.1% growth in the mobile phone market, as competitively priced smartphones incentivize replacements.
- **3Q15 revenue increased by 10% yoy to S\$145.2m** led by PCS and Engineering Services segments. PCS revenue increased by 36% yoy mainly due to higher prepaid sales with TeleChoice's appointment as the new master distributor for StarHub's prepaid business. Revenue from Engineering Services improved by 12% yoy mainly due to higher power supply product sales in Indonesia. Meanwhile, ICT revenue decreased by 44% yoy mainly due to a one-off long term software and maintenance contract recognised in 3Q14 as well as ICT projects being cancelled or delayed into 4Q15.
- **Gross profit margin lowered by 1.5% pts yoy to 6.6% in 3Q15** led by the operating loss from ICT and the weakening of the MYR and IDR versus the SGD. Including the amortisation of intangible assets arising from the acquisitions and interest accretion, operating profit fell by 27.3% yoy to S\$2.1m.
- **Net cash of S\$4.5m.** The group generated negative free cash flow of S\$10.8m in 3Q15 due mainly to higher inventory. Net investing cash flow rose from S\$0.8m in 3Q14 to S\$6.7m in 3Q15, due to S\$5.9m of payment of contingent consideration for the acquisition of the remaining shares in NxGen Communications Pte Ltd. As a result, net cash decreased to S\$4.5m as at end September 2015 or about 1 cents net cash per share.

Key Financial Data					
(S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	556.3	516.8	575.2	605.7	636.0
Gross Profit	43.5	42.5	42.0	47.2	50.9
Net Profit	9.7	9.4	8.7	10.9	12.9
EPS (cents)	2.1	2.1	1.9	2.4	2.8
EPS growth (%)	17.4	(3.1)	(7.6)	25.7	18.4
PER (x)	11.7	12.1	13.1	10.4	8.8
NTA/share (cents)	11.9	12.8	13.8	14.8	15.8
DPS (cents)	1.6	1.6	1.3	1.4	1.7
Div Yield (%)	6.4	6.4	5.3	5.7	6.8

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (\$\$ m)	3Q15	3Q14	yoy % chg	2Q15	qoq % chg	Prev. 3Q15F	Comments
Revenue	145.2	131.5	10	146.9	(1)	152.2	In line
Operating costs	(142.2)	(127.6)	11	(143.5)	(1)	(148.8)	In line
EBITDA	2.9	3.9	(26)	3.4	(15)	3.5	Below, lower-than-expected gross profit margins
EBITDA margin (%)	2.0	3.0		2.3		2.3	0.3% pts below expectation due to reduction in ICT revenue
Depn & amort.	(0.7)	(0.9)	(17)	(0.7)	1	(0.7)	In line
EBIT	2.2	3.0	(28)	2.7	(20)	2.7	0.3% pts below expectation due to reduction in ICT revenue
Interest expense	(0.2)	(0.3)	(24)	(0.2)	(21)	(0.2)	
Interest & invt inc	0.2	0.2	(10)	0.2	(9)	0.2	
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	2.1	2.9	(27)	2.6	(19)	2.7	Below, lower-than-expected gross profit margins from ICT
Tax	(0.7)	(0.8)	(12)	(0.6)	18	(0.5)	Above due to higher tax
Tax rate (%)	31.6	26.0		21.7		20.0	
Minority interests	0.1	0.1	(33)	0.1	1	0.0	
Net profit	1.5	2.3	(33)	2.1	(28)	2.1	28.1% below expectation due to low profit margin from ICT
EPS (cts)	0.3	0.5	(33)	0.5	(28)	0.5	28.1% below expectation due to low profit margin from ICT

Source: NRA Capital estimates

Industry comparison

	Bloomberg Code	Price (Local)	MktCap (\$\$ m)	T12M PER (x)	FY15 PER (x)	FY16 PER (x)	PBR (x)	ROE (%)	Yield (%)	YTD (%)
TeleChoice International Ltd	TLC SP	0.26	115.88	14.57	11.59	7.97	8.22	1.67	13.23	6.04
CSE Global Ltd	CSE SP	0.48	247.7	6.9	7.1	6.9	28.7	1.5	17.5	5.4
Nera Telecommunications Ltd	NERT SP	0.58	208.1	15.3	14.4	14.4	33.1	4.7	25.5	5.1
OCK Group Bhd	OCK MK	0.80	136.6	17.1	13.3	11.4	26.1	2.4	12.1	0.4
Lantrovision Singapore Ltd	LANT SP	0.45	121.4	11.5	NA	NA	29.0	1.2	9.4	6.1
Declout Ltd	DLL SP	0.20	102.4	36.9	15.3	8.7	26.5	1.9	3.0	0.0
Global Invacom Group Ltd	RAD SP	0.16	37.8	NA	18.2	5.2	23.7	1.4	9.7	1.2
CMC Infocomm Ltd	CMC SP	0.17	25.5	NA	NA	NA	23.2	NA	-6.9	NA
Captii Ltd	CAP SP	0.49	15.7	5.1	NA	NA	50.9	0.4	6.3	4.8
Average		0.41	111.9	15.4	13.6	9.3	30.2	1.9	9.6	3.3

Source: Bloomberg

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Profit & Loss (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	556.3	516.8	575.2	605.7	636.0
Operating expenses	(541.6)	(501.8)	(561.3)	(589.8)	(617.8)
EBITDA	14.7	15.0	14.0	15.9	18.2
Depreciation & amortisation	(3.1)	(3.4)	(2.9)	(2.6)	(2.6)
EBIT	11.5	11.6	11.0	13.3	15.6
Net interest & invt income	(0.5)	(0.2)	0.3	0.5	0.5
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	11.0	13.8	16.1
Tax	(1.5)	(2.2)	(2.5)	(2.9)	(3.2)
Minority interests	0.1	0.2	0.2	0.0	0.0
Net profit	9.7	9.4	8.7	10.9	12.9
Shares at year-end (m)	453.9	454.4	454.4	454.4	454.4
Balance Sheet (S\$ 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	41.3	41.0	43.9
Stocks	39.1	32.7	36.8	38.6	40.4
Trade debtors	63.4	91.7	92.0	96.9	101.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	151.5	162.4	170.2	176.5	186.0
Trade creditors	74.5	85.6	90.7	94.9	99.5
Short-term borrowings	9.9	20.0	11.5	9.1	9.5
Other current liabilities	6.5	5.8	7.5	7.9	8.3
Total current liabilities	90.8	111.4	109.7	111.9	117.3
Long-term borrowings	10.0	0.0	5.8	6.1	6.4
Other long-term liabilities	0.7	3.1	3.0	2.8	2.7
Total long-term liabilities	10.7	3.1	8.7	8.9	9.1
Shareholders' funds	69.5	72.1	76.1	79.9	83.8
Minority interests	0.3	0.2	(0.0)	(0.0)	(0.0)
NTA/share (S\$)	0.12	0.13	0.14	0.15	0.16
Total Assets	171.3	186.7	194.5	200.7	210.1
Total Liabilities + S'holders' funds	171.3	186.7	194.5	200.7	210.1
Cash Flow (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	11.1	11.4	11.0	13.8	16.1
Depreciation & non-cash adjustments	(4.3)	1.8	7.0	3.3	2.1
Working capital changes	9.1	(10.0)	0.9	(2.1)	(1.9)
Cash tax paid	(2.5)	(1.9)	(0.8)	(2.5)	(2.9)
Cash flow from operations	13.3	1.3	18.1	12.5	13.4
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	(2.7)	(2.1)	0.8
Equity raised/(repaid)	(0.3)	(0.2)	0.0	0.0	0.0
Dividends paid	(7.4)	(7.3)	(7.3)	(6.0)	(6.5)
Cash interest & others	(2.6)	(0.6)	(0.9)	(0.8)	(0.8)
Cash flow from financing	(12.5)	(7.9)	(10.8)	(8.9)	(6.6)
Change in cash	(2.7)	(10.9)	3.4	(0.3)	2.8
Change in net cash/(debt)	(0.4)	(11.0)	6.1	1.8	2.1
Ending net cash/(debt)	29.0	18.0	24.1	25.9	28.0
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	15.7	(7.1)	11.3	5.3	5.0
EBITDA growth (%)	3.8	2.2	(6.7)	13.9	14.4
Pretax margins (%)	2.0	2.2	1.9	2.3	2.5
Net profit margins (%)	1.7	1.8	1.5	1.8	2.0
Effective tax rates (%)	13.3	19.3	22.8	21.0	20.0
Net dividend payout (%)	75.2	77.6	68.9	60.0	60.0
ROE (%)	13.9	13.0	11.4	13.6	15.4
Free cash flow yield (%)	9.8	(1.5)	13.0	8.1	8.9

Source: Company, NRA Capital forecasts

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