

Overweight

Current Price	S\$0.22
Fair Value	S\$0.26
Up / (downside)	+18%

Stock Statistics

Market cap	S\$99.7m
52-low	S\$0.205
52-high	S\$0.25
Avg daily vol	78,752
No of share	451.98m
Free float	30%

Key Indicators

ROE 12F	11%
ROA 12F	5%
P/BK	1.36x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Historical Chart

Source: Bloomberg

Smartphone battling still on

- **Earnings below expectation.** TeleChoice's 3Q12 net profit of S\$1.8m (+38% yoy) came in 32% below our expectation due to lower-than-expected revenue and gross profit margins. As such, we have cut our FY12 net profit forecasts by 10% but kept our FY13-14 estimates relatively unchanged. Our fair value remains at S\$0.26, still based on 8x PER FY13. Given the 18% potential upside coupled with its strong track record and attractive 6-10% yield, we maintain our **Overweight** rating.
- **A Galaxy glow.** According to IDC, Samsung extended its lead over Apple in the smartphone market in the 3Q12. Samsung sold 56.3m smartphones during the quarter, an increase of 100% compared to the same three-month period a year earlier, and we believe this was driven mainly by its Galaxy S3. We view TeleChoice 4Q's sales will continue to be driven by the Personal Communications Solution (PCS) division as both iPhone5 and Samsung Galaxy Note 2 were released in October and November. We also expect its Info-Comm technology services (ICT) division will improve sequentially as their projects cycles usually complete around the year-end. While, it's best performing Engineering division will continue to shine this year given the strong demand for telecom infrastructure equipment in Indonesia and Singapore.
- **3Q12 sales increased by 41% yoy to S\$118.8m**, led by all product segments. PCS's sales increased 41% yoy with higher contribution fulfilment contract services from StarHub, regional, local channel and retail sales offset by lower prepaid card sales. ICT's revenues increased by 27% yoy due to the consolidation of revenue from NxGen which was acquired in Nov last year. Engineering sales jumped 61% yoy with strong orders from both Singapore and Indonesia.
- **EBITDA margins improved 0.2% pt yoy to 2.9%** due mainly to better margins contribution from Engineering and ICT divisions, but slightly offset by PCS division due to reduced rates under the new contract with StarHub.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$9.8m this quarter after reducing its working capital requirement, cash conversion cycle has improved from 32 days at previous quarter to 25 days. As a result, net cash has increased to S\$28m as at end Sep-12 from S\$19m as at end Jun-12. We expect the group will continue to maintain its 60-70% dividend payout ratio.

Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	327.5	389.6	504.1	587.1	684.9
Gross Profit	31.1	41.6	42.8	56.9	65.1
Net Profit	12.4	6.6	8.6	14.5	16.0
EPS (cents)	2.7	1.5	1.9	3.2	3.5
EPS growth (%)	9.0	(47.1)	31.1	68.5	10.3
PER (x)	8.0	15.2	11.6	6.9	6.2
NTA/share (cents)	14.1	12.0	13.3	14.2	15.8
DPS (cents)	1.8	1.6	1.3	1.9	2.1
Div Yield (%)	8.2	7.3	5.7	8.7	9.6

Source: Company, NRA Capital estimates

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TeleChoice Int'l

Results comparison

FYE Dec (S\$ m)	2Q12	2Q11	yoy % chg	1Q12	qoq % chg	Prev. 2Q12F	Comments
Revenue	122.3	84.7	44	102.0	20	93.2	31% above expectation
Operating costs	(119.7)	(82.2)	46	(99.0)	21	(88.6)	Above, higher-than-expected sales
EBITDA	2.6	2.5	6	3.0	(13)	4.6	Below, lower-than-expected GPM
EBITDA margin (%)	2.2	2.9		3.0		5.0	2.8% pts below expectation
Depn & amort.	(0.8)	(0.7)	7	(0.7)	2	(0.7)	In line
EBIT	1.9	1.8	6	2.3	(18)	3.9	Below, lower-than-expected GPM
Interest expense	(0.3)	(0.0)	nm	(0.1)	174	(0.0)	Above, higher debt borrowing
Interest & invt inc	(0.1)	0.2	(124)	0.3	(117)	0.3	Below, due to S\$0.2m forex loss
Associates' contrib	0.1	0.1	64	(0.2)	148	(0.1)	Above
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	
Pretax profit	1.7	2.0	(17)	2.3	(27)	4.0	Below, lower-than-expected GPM
Tax	(0.5)	(0.5)	1	(0.6)	(20)	(0.9)	Above, higher-than-expected taxation
Tax rate (%)	27.4	22.5		25.0		22.0	
Minority interests	0.1	0.1	(2)	0.0	493	0.0	
Net profit	1.3	1.7	(22)	1.7	(25)	3.1	59% below expectation
EPS (cts)	0.3	0.4	(22)	0.4	(25)	0.7	

Source: NRA Capital estimates

Top Five Worldwide Smartphone Vendors, Shipments, and Market Share, Q3 2012 (Units in Millions)

Vendor	3Q12 Unit Shipments	3Q12 Market Share	3Q11 Unit Shipments	3Q11 Market Share	Year-over-year Change
Samsung	56.3	31%	28.1	23%	100%
Apple	26.9	15%	17.1	14%	57%
Research In Motion	7.7	4%	11.8	10%	-35%
ZTE	7.5	4%	4.1	3%	83%
HTC	7.3	4%	12.7	10%	-43%
Others	74.0	41%	49.9	40%	48%
Total	179.7	100%	123.7	100%	45%

Source: IDC

The worldwide mobile phone market grew 2.4% yoy in the 3Q12, driven by heavyweights Samsung and Apple as Nokia dropped off the Top 5 list of smartphone vendors. According to the International Data Corporation (IDC) Worldwide Quarterly Mobile Phone Tracker, vendors shipped a total of 444.5m mobile phones in 3Q12 compared to 434.1m units in the 3Q11. Vendors shipped 179.7m smartphones in 3Q12 compared to 123.7m units in 3Q11. The 45.3% yoy growth was slightly above IDC's forecast of 45.2% for the quarter.

IDC expects long-term mobile phone and smartphone shipment demand to grow due to the central role mobile phones play in people's lives. Mobile phones and smartphones play a critical role in keeping people connected, regardless of location. In addition, their utility beyond communication – productivity, entertainment, and multimedia – continues to add to their value.

Mobile Operating System Highlights

Android, having topped the 100m unit mark in 3Q12, reached a new record level in a single quarter. By comparison, Android's total volumes for the quarter were greater than the total number of smartphones shipped in 2007, the year that Android was officially announced. Samsung once again led all vendors in this space, but saw its market share decline as numerous smaller vendors increased their production.

iOS was a distant second place to Android, but was the only other mobile operating system to amass double-digit market share for the quarter. The late quarter launch of the iPhone 5 and lower prices on older models prevented total shipment volumes from slipping to 3Q11 levels. But without a splashy new OS-driven feature like Siri in 2011 and FaceTime in 2010, the iPhone 5 relied on its larger, but not wider, screen and LTE connectivity to drive growth.

BlackBerry's market share continued to sink, falling to just over 4% by the end of the quarter. With the launch of BlackBerry 10 yet to come in 2013, BlackBerry will continue to rely on its aging BlackBerry 7 platform, and equally aging device line-up. Still, demand for BlackBerry and its wildly popular BBM service is strong within multiple key markets worldwide, and the number of subscribers continues to increase.

Symbian posted the largest yoy decline of the leading operating systems. Nokia remains the largest vendor still supporting Symbian, along with Japanese vendors Fujitsu, Sharp, and Sony. Each of these vendors is in the midst of transitioning to other operating systems and IDC believes that they will cease shipping Symbian-powered smartphones in 2013. At the same time, the installed base of Symbian users will continue well after the last Symbian smartphone ships.

Windows Phone marked its second anniversary with a total of just 3.6m units shipped worldwide, fewer than the total number of Symbian units shipped. Even with the backing of multiple smartphone market leaders, Windows Phone has yet to make a significant dent into Android's and iOS's collective market share. That could change in 4Q12, when multiple Windows Phone 8 smartphones will reach the market.

Linux volume declined for the third straight quarter as did its year-over-year growth. Samsung accounted for the majority of shipments once again, but like most other vendors competing with Linux-powered smartphones, most of its attention went towards Android instead. Still, that has not deterred other vendors from experimenting, or at least considering the open-source operating system, as multiple reports of Firefox, Sailfish, and Tizen plan to release new Linux-based experiences in the future.

TeleChoice Int'l

Profit & Loss (\$\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	327.5	389.6	504.1	587.1	684.9
Operating expenses	(312.1)	(373.5)	(489.4)	(565.5)	(661.7)
EBITDA	15.4	16.1	14.7	21.5	23.2
Depreciation & amortisation	(1.3)	(3.1)	(3.1)	(3.1)	(3.0)
EBIT	14.1	13.0	11.6	18.5	20.2
Net interest & invt income	0.5	0.8	0.0	0.4	0.6
Associates' contribution	0.1	(0.3)	(0.2)	0.2	0.3
Exceptional items	0.0	(4.4)	0.0	0.0	0.0
Pretax profit	14.7	9.1	11.4	19.1	21.1
Tax	(2.2)	(2.1)	(3.0)	(4.8)	(5.3)
Minority interests	(0.0)	(0.4)	0.2	0.2	0.2
Net profit	12.4	6.6	8.6	14.5	16.0
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
Balance Sheet (\$\$ 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
Total non-current assets	18.0	22.8	21.4	20.0	18.7
Cash and equivalents	34.7	30.9	29.5	28.3	20.6
Stocks	37.7	37.0	46.1	53.0	62.0
Trade debtors	44.7	79.7	75.6	88.1	102.7
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	117.1	147.6	151.2	169.4	185.3
Trade creditors	39.3	60.9	64.6	74.2	86.8
Short-term borrowings	8.5	16.6	11.6	12.9	14.4
Other current liabilities	9.9	12.6	6.3	8.3	8.8
Total current liabilities	57.7	90.0	82.5	95.5	110.0
Long-term borrowings	0.8	0.0	5.0	5.9	6.8
Other long-term liabilities	1.1	6.7	7.0	7.5	1.2
Total long-term liabilities	1.9	6.7	12.1	13.3	8.1
Shareholders' funds	74.2	72.3	76.8	79.6	85.1
Minority interests	1.3	1.4	1.3	1.1	0.8
NTA/share (\$\$)	0.14	0.12	0.13	0.14	0.16
Total Assets	135.1	170.4	172.6	189.4	204.0
Total Liabilities + S'holders' funds	135.1	170.4	172.6	189.4	204.0
Cash Flow (\$\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	14.7	9.1	11.4	19.1	21.1
Depreciation & non-cash adjustments	7.4	8.4	1.0	(2.2)	(4.9)
Working capital changes	(16.6)	(12.6)	(1.1)	(9.6)	(11.0)
Cash tax paid	(2.4)	(3.5)	(3.1)	(3.0)	(4.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	3.1	1.4	8.1	4.4	0.4
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	0.1	0.1	0.1
Cash flow from investing	(8.7)	(3.0)	(1.5)	(1.6)	(1.6)
Debt raised/(repaid)	6.1	7.1	0.1	2.2	2.4
Equity raised/(repaid)	(0.1)	(0.4)	0.0	0.0	0.0
Dividends paid	(7.9)	(8.1)	(7.3)	(5.7)	(8.7)
Cash interest & others	(4.7)	(0.9)	(0.8)	(0.4)	(0.2)
Cash flow from financing	(6.6)	(2.4)	(8.0)	(4.0)	(6.5)
Change in cash	(12.1)	(4.0)	(1.4)	(1.1)	(7.7)
Change in net cash/(debt)	(18.2)	(11.1)	(1.5)	(3.3)	(10.2)
Ending net cash/(debt)	25.4	14.3	12.8	9.5	(0.7)
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	19.6	19.0	29.4	16.5	16.7
EBITDA growth (%)	12.8	5.0	(8.7)	46.4	7.7
Pretax margins (%)	4.5	2.3	2.3	3.3	3.1
Net profit margins (%)	3.8	1.7	1.7	2.5	2.3
Interest cover (x)	774.3	30.1	16.3	52.1	113.5
Effective tax rates (%)	15.3	22.7	26.0	25.0	25.0
Net dividend payout (%)	65.7	110.3	66.0	60.0	60.0
Debtors turnover (days)	49.8	74.7	54.8	54.8	54.8
Stock turnover (days)	46.4	38.8	36.5	36.5	36.5
Creditors turnover (days)	48.4	63.8	51.1	51.1	51.1

Source: Company, NRA Capital estimates

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