

TeleChoice Int'l

2Q11 results update

Overweight

Current Price **S\$0.22**
22 August 2011

Fair Value **S\$0.27**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$102m
52-HI	S\$0.265
52-LOW	S\$0.215
Avg Vol (1 yr)	79,364
Shares Outstanding	453.1m
Free Float	135.9m

Key Indicators

ROE FY11	17%
ROA FY11	11%
P/BK	1.4x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Disappointing results, but yield is still attractive

- **Earnings below expectations.** TeleChoice 2Q11 net profit of S\$1.7m was 58% below our S\$3.9m expectation mainly due to lower-than-expected Personal Communications Solutions sales (PCS) sales and unexpected loss from Info-Comm Technology (ICT) division.
- **Sales declined 13% yoy to S\$85m** due to lower regional sales from its PCS division (-36% yoy), however, this was slightly offset by higher contribution from ICT (+456% yoy) with the consolidation of S&I's accounts. Whereas Engineering dropped by 9% yoy from lower power supply projects in Indonesia and products sales in the region.
- **Gross margins expanded by 1.6% pts yoy to 9.7%** due to ICT's higher margins contribution from its newly acquisition S&I. However the significant increases in the SG&A operating expenses led the EBIDTA margins to contract by 1.1% pts yoy to 2.9% as we understand from management 2Q is always the weaker quarter for S&I business. Including higher amortisation, financial and effective tax rate, pretax and net profit decreased by 46% and 45% yoy, respectively.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$2.6m after improving its working capital requirement. After S\$8m dividend payout, net cash reduced by S\$5m to S\$30m as at end June11 (~6.6 cts net cash per share).
- **Opportunity to battle for the smartphone market** following by Google's acquisition of Motorola Mobility. Motorola used to be the largest handset maker in the early days followed by Nokia. This position is now occupied by Apple and followed by Samsung (for smartphone only) in its latest quarter. Given the sharp and fast changing environment in the smartphone industry, management believes this presents an opportunity for TeleChoice to recoup its market share (TeleChoice is losing its handset distributorship market share in 2009 when Apple iPhone only deal directly with the Telcos'). Currently, TeleChoice distributorship with Andriod OS includes Samsung, Sony Ericsson, Motorola and LG. The company has also been appointed recently to distribute Huawei and Dell models.
- **Cut earnings estimates.** We have cut our FY11 estimates by 31% to factor in lower-than-expected earnings. Nevertheless, our fair value slid just 1 ct to S\$0.27, as we roll forward base from FY11 to FY12 still pegged at 8x PER, mean of its 6 years historical. Given its strong balance sheet, the current price also implies an attractive yield of 8-11%. Maintain **Overweight**.

Key Financial Data

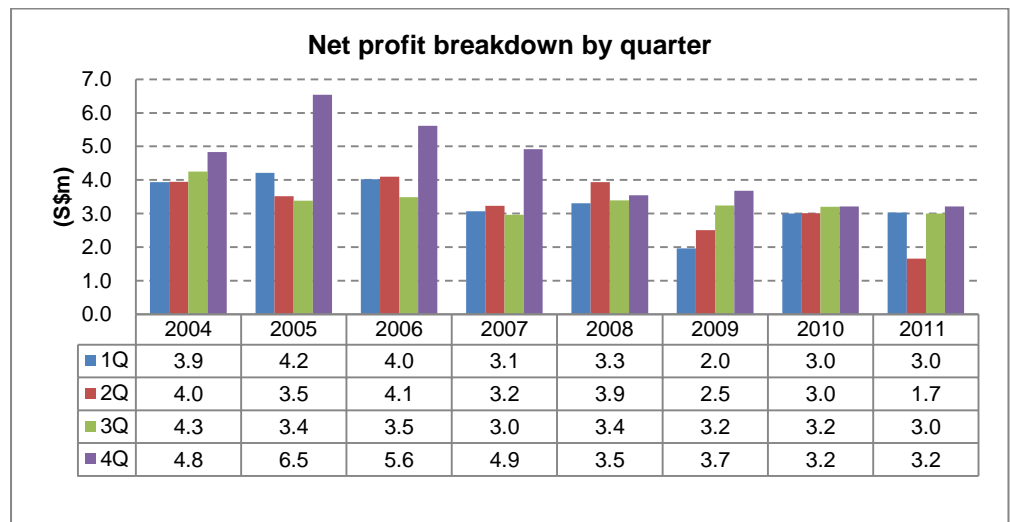
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	273.7	327.5	388.3	448.9	544.3
Gross Profit	28.6	31.1	41.5	47.1	57.2
Net Profit	11.4	12.4	10.9	15.1	18.7
EPS (cents)	2.5	2.7	2.4	3.3	4.1
EPS growth (%)	(19.8)	9.0	(12.2)	38.4	24.0
PER (x)	8.9	8.2	9.4	6.8	5.5
NTA/share (cents)	15.3	14.1	15.2	17.1	19.2
DPS (cents)	1.8	1.8	1.7	2.0	2.5
Div Yield (%)	7.8	8.0	7.5	8.9	11.0

Source: Company, NRA Capital

Results comparison

FYE Dec (\$ m)	2Q11	2Q10	yoy % chg	1Q11	qoq % chg	Prev. 2Q11F	Comments
Revenue	84.7	97.3	(13)	94.0	(10)	115.5	27% below expectation
Operating costs	(82.2)	(93.4)	(12)	(89.3)	(8)	(109.9)	Below, lower-than-expected sales
EBITDA	2.5	3.9	(36)	4.7	(47)	5.5	Below, lower-than-expected sales and margins
EBITDA margin (%)	2.9	4.0		5.0		4.8	Below
Depn & amort.	(0.7)	(0.3)	116	(0.7)	(5)	(0.7)	In line
EBIT	1.8	3.6	(50)	3.9	(55)	4.8	Below, lower-than-expected sales and margins
Interest expense	(0.0)	(0.0)	267	(0.1)	nm	(0.0)	In line
Interest & invt inc	0.2	0.1	156	0.1	122	0.1	Above
Associates' contrib	0.1	0.1	(32)	(0.1)	195	(0.1)	Above
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	2.0	3.7	(46)	3.9	(48)	4.8	Below, lower-than-expected sales and margins
Tax	(0.5)	(0.7)	(36)	(0.6)	(24)	(0.8)	Below, lower-than-expected pretax profit
Tax rate (%)	22.5	19.2		15.4		16.0	
Minority interests	0.1	(0.0)	nm	(0.2)	nm	(0.1)	
Net profit	1.7	3.0	(45)	3.0	(45)	3.9	58% below expectation
EPS (cts)	0.4	0.7	(45)	0.7	(45)	0.9	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	273.7	327.5	388.3	448.9	544.3
Operating expenses	(260.1)	(312.1)	(372.4)	(430.6)	(522.9)
EBITDA	13.6	15.4	15.8	18.2	21.4
Depreciation & amortisation	(1.3)	(1.3)	(3.0)	(3.0)	(3.0)
EBIT	12.3	14.1	12.8	15.2	18.5
Net interest & invt income	1.1	0.5	0.7	3.4	4.6
Associates' contribution	0.3	0.1	0.2	0.2	0.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	13.6	14.7	13.7	18.8	23.3
Tax	(2.2)	(2.2)	(2.2)	(3.0)	(3.7)
Minority interests	(0.0)	(0.0)	(0.6)	(0.7)	(0.8)
Net profit	11.4	12.4	10.9	15.1	18.7
Wt. shares (m)	453.1	453.4	453.4	453.4	453.4
Shares at year-end (m)	453.1	453.4	453.4	453.4	453.4

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	2.3	2.8	2.7	2.6	2.5
Intangible assets	0.1	10.5	9.1	7.6	6.2
Other long-term assets	1.4	1.8	1.8	1.8	1.8
Total non-current assets	3.8	15.1	13.5	12.0	10.4
Cash and equivalents	46.6	34.7	41.2	41.7	39.1
Stocks	25.0	37.7	34.7	40.2	48.7
Trade debtors	29.2	44.7	38.7	49.2	64.9
Other current assets	(0.0)	2.9	0.1	0.1	0.0
Total current assets	100.9	120.0	114.7	131.0	152.8
Trade creditors	27.8	42.3	38.8	44.9	54.4
Short-term borrowings	3.0	8.3	1.9	2.2	2.7
Other current liabilities	3.9	7.1	5.8	6.8	7.7
Total current liabilities	34.8	57.7	46.6	53.9	64.8
Long-term borrowings	0.0	0.8	0.4	0.4	0.5
Other long-term liabilities	0.2	1.1	1.1	1.1	1.1
Total long-term liabilities	0.2	1.9	1.5	1.5	1.6
Shareholders' funds	69.6	74.2	78.2	85.0	93.3
Minority interests	0.0	1.3	1.9	2.6	3.5
NTA/share (S\$)	0.15	0.14	0.15	0.17	0.19
Total Assets	104.6	135.1	128.2	143.0	163.2
Total Liabilities + S'holders' funds	104.6	135.1	128.2	143.0	163.2

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	13.6	14.7	13.7	18.8	23.3
Depreciation & non-cash adjustments	(8.7)	4.5	8.7	3.8	2.7
Working capital changes	3.7	(13.7)	5.6	(9.9)	(14.8)
Cash tax paid	(2.9)	(2.4)	(3.7)	(2.2)	(2.6)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5.7	3.1	24.3	10.5	8.6
Capex	(1.8)	(8.8)	(2.9)	(2.9)	(2.9)
Net investments & sale of FA	10.8	0.1	0.0	0.0	0.0
Others	0.2	0.1	0.2	0.2	0.2
Cash flow from investing	9.2	(8.7)	(2.7)	(2.6)	(2.7)
Debt raised/(repaid)	(2.0)	5.9	(6.8)	0.4	0.6
Equity raised/(repaid)	0.0	(0.1)	0.0	0.0	0.0
Dividends paid	(9.1)	(7.9)	(8.2)	(7.6)	(9.1)
Cash interest & others	0.2	(4.5)	(0.2)	(0.1)	(0.1)
Cash flow from financing	(10.9)	(6.6)	(15.1)	(7.4)	(8.6)
Change in cash	4.0	(12.1)	6.5	0.5	(2.6)
Change in net cash/(debt)	6.0	(18.0)	13.3	0.1	(3.1)
Ending net cash/(debt)	43.6	25.6	38.9	39.0	35.8

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	(22.7)	19.6	18.6	15.6	21.3
EBITDA growth (%)	(28.0)	12.8	3.2	15.1	17.7
Pretax margins (%)	5.0	4.5	3.5	4.2	4.3
Net profit margins (%)	4.2	3.8	2.8	3.4	3.4
Interest cover (x)	78.1	774.3	92.3	251.5	621.7
Effective tax rates (%)	16.3	15.3	16.0	16.0	16.0
Net dividend payout (%)	69.6	65.7	70.0	60.0	60.0
Debtors turnover (days)	39.0	49.8	36.4	40.0	43.6
Stock turnover (days)	37.2	46.4	36.5	36.5	36.5
Creditors turnover (days)	37.1	47.1	36.5	36.5	36.5

Source: Company, NRA Capital Estimates

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