

**Overweight**

<b>Current Price</b>	<b>S\$0.275</b>
Fair Value	S\$0.340
Up / (downside)	23.6%

**Stock Statistics**

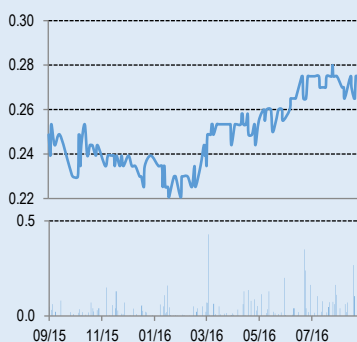
<b>Market cap</b>	S\$124.7m
<b>52-low</b>	S\$0.23
<b>52-high</b>	S\$0.285
<b>Avg daily vol</b>	26,308
<b>No of share</b>	453.51m
<b>Free float</b>	24%

**Key Indicators**

<b>ROE 17F</b>	14.2%
<b>ROA 17F</b>	4.8%
<b>P/BV</b>	1.82
<b>Net gearing</b>	Net cash

**Major Shareholders**

<b>STT Communications Ltd</b>	50.5%
<b>Leap International</b>	19.7%

**Historical Chart**

Source: Bloomberg

**Liu Jinshu**

(+65) 6236-6887  
jinshu.liu@nracapital.com  
[www.nracapital.com](http://www.nracapital.com)

**Longer Term Potential Outweighs Muted Quarter**

- **Hit a road bump in 2Q16.** TeleChoice International Limited reported a slow 2Q16 as the ICT segment dragged down on overall performance. Revenue for the ICT business fell by S\$10.2m from S\$25.8m in 1Q16 to S\$15.6m in 2Q16. As a result, loss before tax by the ICT business widened from S\$0.4m to S\$1.0m, dragging group PBT from S\$1.9m in 1Q16 to S\$1.1m in 2Q16. We have previously mentioned that we have muted expectations for 2Q16. TeleChoice's share price has remained stable at S\$0.275 as of 24 August and longer term growth plans remain in place.
- **Affected by lower demand from financial sector.** As a result of the poorer performance from the ICT segment, TeleChoice's group revenue fell by 15.2% year-on-year to S\$124.6m while profit attributable to shareholders fell by S\$1.6m to S\$0.5m in 2Q16. The company explained that the ICT division earned less service sales from the commercial sector, especially the financial services industry.
- **Verticals to turnaround the ICT business.** Following the drop-off in ICT revenue, TeleChoice's acquisition of MVI Systems Limited comes across as even more astute – the acquisition is structured for MVI to contribute at least S\$0.46m in net profit (over a rolling 12-month period in the next 24 months) to TeleChoice. As a start, TeleChoice's ICT division aims to leverage on MVI to create a more comprehensive solution package and cross sell its services in the hospitality sector. Over time, TeleChoice aims to increase its ICT service offerings across different industry verticals.
- **Core profit drivers remain intact.** The good news is that the network engineering and PCS segments remained profitable with the network engineering business delivering sequential and year-on-year revenue growth of 14.5% and 32.7% respectively. TeleChoice's network engineering business is actually eyeing the higher margin Philippines and Vietnam markets for growth and we expect this segment to deliver double digit revenue growth over our forecast horizon. However, we have revised PATMI sharply lower to S\$7.9m compared to S\$11.1m previously, in light of the weaker 1H performance.
- **Popularity of augmented reality game is encouraging.** We are maintaining our valuation of TeleChoice given historical share price stability – the 52 week high/low range is only 16.3% of current share price against downside protection via regular share buy backs. The recent fad over the augmented reality game Pokemon Go is encouraging. It shows that innovations such as augmented reality and virtual reality entertainment can gain mainstream popularity. As a distributor of communication devices including VR headsets, there is upside potential for TeleChoice when VR takes off over the longer term.

<b>Key Financial Data</b> (S\$ m, FYE Dec)	2014	2015	2016F	2017F	2018F
Sales	516.8	580.7	572.9	616.8	665.5
Gross Profit	42.5	43.1	40.7	44.4	49.2
Net Profit	9.4	10.3	7.9	9.6	11.4
EPS (cents)	2.1	2.3	1.7	2.1	2.5
EPS growth (%)	(3.1)	9.5	(22.8)	20.8	19.2
PER (x)	13.3	12.2	15.8	13.1	11.0
NTA/share (cents)	12.8	13.5	13.8	14.4	15.4
DPS (cents)	1.6	1.6	1.6	1.6	1.6
Div Yield (%)	5.8	5.8	5.8	5.8	5.8

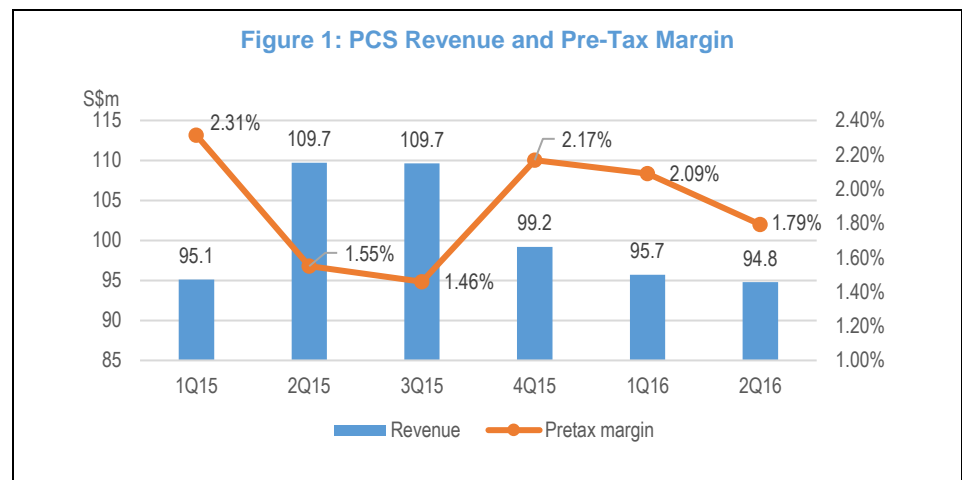
Source: Company, NRA Capital forecasts

# TeleChoice International Limited

## Results Comparison

FYE Dec (S\$ m)	2Q16	2Q15	yoy % chg	1Q16	qoq % chg
Revenue	124.6	146.9	-15	133.9	-7
Operating costs	(122.8)	(143.5)	-14	(131.7)	-7
EBITDA	1.8	3.4	-48	2.3	-21
EBITDA margin (%)	1.4	2.3	-38	1.7	-15
Deprn & amort.	(0.7)	(0.7)	-9	(0.7)	-0
EBIT	1.1	2.7	-58	1.6	-30
Interest expense	(0.2)	(0.2)	-15	(0.2)	17
Interest & invt inc	0.1	0.2	-51	0.4	-79
Associates' contrib	0.1	0.0	nm	0.0	Nm
Exceptionals	0.0	0.0	nm	0.0	Nm
<b>Pretax profit</b>	<b>1.1</b>	<b>2.6</b>	<b>-59</b>	<b>1.9</b>	<b>-42</b>
Tax	(0.6)	(0.6)	0	(0.7)	-13
Tax rate (%)	53.2	21.7	145	35.6	49
Minority interests	0.0	0.1	-96	0.0	200
<b>Net profit</b>	<b>0.5</b>	<b>2.1</b>	<b>-76</b>	<b>1.2</b>	<b>-57</b>
EPS (cts)	0.1	0.5	-76	0.3	-57

Source: Company, NRA Capital

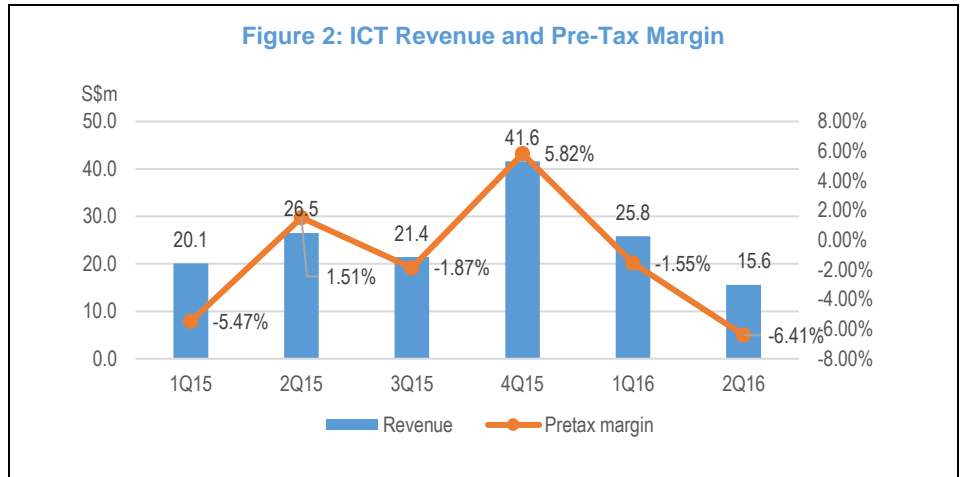


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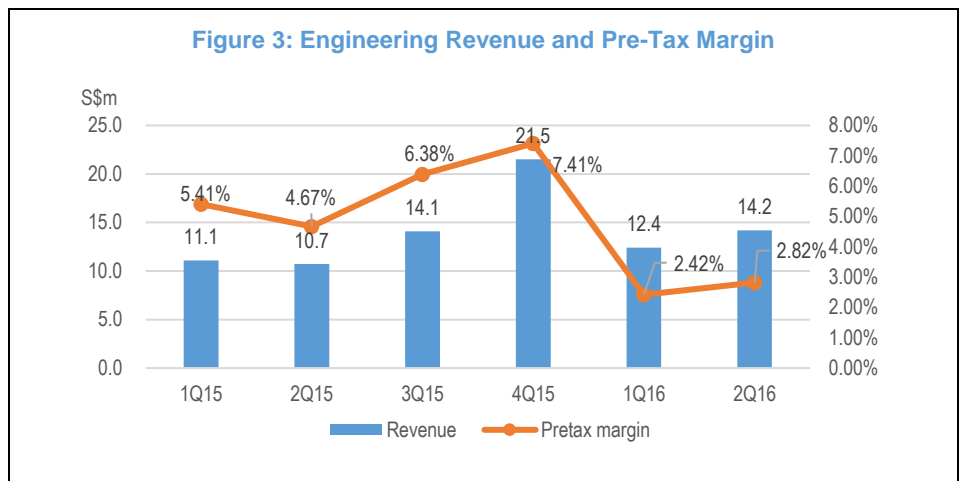
**Personal Communications Solutions and Network Engineering segments are doing ok.** Figure 1 shows that revenue from the PCS segment has normalized following the spike contributed by a new Samsung device model in 2Q and 3Q 2015. Pre-tax margin of 1.8% in 2Q16 is generally similar to that of 2015 and is within expectations. Figure 3 shows that the network engineering segment is enjoying healthy year-on-year revenue growth albeit at lower margins. The lower pre-tax margin of the may be due to the nature of the projects undertaken or costs undertaken to expand into new markets such as Philippines and Vietnam. We shall monitor if such margins persist over the next few quarters for the network engineering segment. To some extent, we have factored in margin pressure by projecting group net margin of 1.2% in FY16 versus 1.8% in FY15.

**ICT may not catch up in time.** Our larger concern is shown in Figure 2, where revenue from the ICT segment has fallen from a high of S\$41.6m. Notwithstanding the lumpiness of the revenue stream of the ICT segment, our concern now is that subsequent project wins or project progress in 2016 may not be sufficient to offset weakness in 2Q16. In fact, the weakness may persist over the next two quarters as new contracts progressively replace lost revenue.

# TeleChoice International Limited



Source: Company, NRA Capital



Source: Company, NRA Capital

**Competitive government ICT tenders support move to target private sector verticals.** We have also perused through contract opportunities offered by the government over the GeBIZ platform. Generally, we are able to see the bids for opportunities that were closed in the last six months or awarded in the last one month. TeleChoice's subsidiary S & I Systems Pte Ltd has bid for at least 11 contracts with a total bid value of S\$25.9m, excluding one bid with a quantum of S\$42.3m. Generally, we have the impression that these tenders are very competitive with up to 43 bidders in certain projects, which explains the company's strategic direction to pursue more of private sector projects.

TeleChoice's acquisition of MVI will provide some profit support for the ICT segment as TeleChoice's stake in MVI will be increased if the latter does not meet certain profit targets. Consequent to any higher stake, we can infer that the profit contribution to TeleChoice will remain relatively stable even if the performance of MVI were to falter. Following TeleChoice's investment, we see that MVI has refreshed its website. Additional statistics disclosed show that MVI's system is deployed in more than 20,000 rooms in the Asia Pacific and the Middle East. A longer list of clients and partners is also shown including IBM, NEC, Four Seasons and Holiday Inn.

# TeleChoice International Limited

Figure 4: List of GeBIZ opportunities that S & I is participating in

Tender No	Description	Agency	No of Bidders	Min Bid	Max Bid	Tender Close	Status	S & I Systems' Bid
IDA000ETT16000042	For The Provision of Network Equipment and Cabling Infrastructure to Government Ministries/Departments, Statutory Boards, Organs of State and Participating Universities.	IDA	40	S\$1.0	S\$0.17m	17-Aug-16	Pending Award	S\$1.0
IDA000ETT16000039	SUPPLY OF RELATIONAL DATABASE MANAGEMENT SYSTEM (RDBMS) SOFTWARE, MIDDLEWARE SOFTWARE AND RELATED PROFESSIONAL SERVICES (IDA(T)-1441-S)	IDA	14	S\$1.0	S\$42.7m	22-Jul-16	Pending Award	S\$42.3m
JTC000ETT16000081	Provision of Services for JTC Corporate e_Learning Management System (LMS) and e_Learning Courseware Development	JTC	12	S\$1.0	S\$0.58m	21-Jun-16	Pending Award	S\$0.58m
NTU000ETT16000084	Supply and Commissioning of High-performance parallel storage system and at NTUs option, to extend the service maintenance contract for an additional two years	NTU	11	S\$0.6m	S\$1.88m	1-Jun-16	Pending Award	S\$0.96m
HDB000ETT16000117	Supply, Delivery, Installation, Testing, Commissioning And Maintenance Of Environmental Sensors Network In A HDB Residential Estate	HDB	10	S\$0.24m	S\$0.57m	8-Jul-16	Pending Award	S\$0.37m
STB000ETT16000029	Tender for the Provision of Services to Enhance Data Analytics Capability for the Supply, Delivery, Installation, Testing, Commissioning of a Data Analytics Platform	STB	14	S\$4.8m	S\$43.8m	31-May-16	Pending Award	S\$9.98m
IDA000ETT16000030	FOR THE PROVISION OF IT APPLICATION DEVELOPMENT AND MAINTENANCE SERVICES FOR GOVERNMENT MINISTRIES/DEPARTMENTS, STATUTORY BOARDS, ORGANS OF STATE AND PARTICIPATING ENTITIES	IDA	43	S\$1.0	S\$4.79m	16-May-16	Pending Award	S\$2.58m
JTC000ETT16000062	Requirement Study, Design, Development, Testing, Implementation and Hosting of Statistical Portal v2.0 for JTC Corporation	JTC	5	S\$1.35m	S\$3.95m	20-May-16	No Award	S\$2.67m
CCY000ETT16000001	Supply, design, development, delivery, installation, testing, training, and commissioning of a fully operational Record Management System with an option for maintenance.	MCCY	16	S\$0.935m	S\$2.87m	9-May-16	Pending Award	S\$1.60m
NUSDEPET16000085	FOR THE SUPPLY, DELIVERY, IMPLEMENTATION, COMMISSIONING AND MAINTENANCE OF AN IDENTITY AND ACCESS MANAGEMENT SYSTEM FOR NATIONAL UNIVERSITY OF SINGAPORE	NUS	14	S\$1.1m	S\$2.17m	29-Mar-16	Pending Award	S\$1.67m
ITE000ETT16000004	Supply, Deliver, Install, Configure, Integrate, Test, Commission, PGP and Support of a Commercial-Off-The-Shelf Integrated Assessment System	ITE	5	S\$3.35m	S\$12.4m	8-Mar-16	Pending Award	S\$5.48m

Source: GeBiz, NRA Capital

**Moderating forecasts.** In this update, we revised our forecasts to expect net profit of S\$7.9m in FY16. Given the revenue momentum of the network engineering business, we expect 2H FY16 group revenue to be higher by 2.3% to reach S\$314.4m. However, net profit attributable to shareholders is expected to drop by 28.2% year-on-year from S\$7.35m in 2H FY15 to S\$6.21m in 2H FY16.

# TeleChoice International Limited

**Maintaining valuation.** However, we decided to retain our valuation at S\$0.340 per share which works out to 22.1x FY16 earnings and 16.2x FY17 earnings. The P/E multiple implied by our valuation is within the range of its peers. For instance, Nera Telecommunications Ltd trades at 25x current P/E. Hence, our valuation cannot be said to be excessive.

Moreover, TeleChoice offers exposure to longer term trends such as the adoption of virtual reality technology (via its device distributorships) and the internet of things (via its ICT business) in the context of its relatively stable share price. TeleChoice's share price has been relatively stable, ranging from 20 cents in 2011 (when attributable net profit touched a low of S\$6.6m) to just below 30 cents in 2015 with a relatively narrow 52-week trading range of 4.5 cents. Downside protection is also provided by regular share buy backs by the company.

We will consider revising our recommendation and valuation if earnings continue to drop going into 2017. For now, near term upside from the network engineering business and PCS may provide some support and we decided to retain our recommendation at Overweight.

# TeleChoice International Limited

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Revenue	516.8	580.7	572.9	616.8	665.5
Operating expenses	(501.8)	(565.1)	(560.8)	(603.3)	(649.7)
EBITDA	15.0	15.5	12.1	13.5	15.8
Depreciation & amortisation	(3.4)	(2.9)	(2.6)	(2.6)	(2.6)
EBIT	11.6	12.6	9.6	10.9	13.2
Net interest & invt income	(0.2)	0.2	(0.2)	0.4	0.4
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	(0.6)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>11.4</b>	<b>12.2</b>	<b>9.4</b>	<b>11.4</b>	<b>13.6</b>
Tax	(2.2)	(2.1)	(1.7)	(2.0)	(2.4)
Minority interests	0.2	0.2	0.2	0.2	0.2
<b>Net profit</b>	<b>9.4</b>	<b>10.3</b>	<b>7.9</b>	<b>9.6</b>	<b>11.4</b>
Shares at year-end (m)	454.4	454.4	454.4	454.4	454.4
<b>Balance Sheet</b> (S\$ m, as at Dec)	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Fixed assets	3.3	3.7	4.2	4.6	5.1
Intangible assets	14.0	13.0	12.3	11.7	11.1
Other long-term assets	7.0	7.7	8.2	8.6	9.2
<b>Total non-current assets</b>	<b>24.3</b>	<b>24.4</b>	<b>24.7</b>	<b>25.0</b>	<b>25.4</b>
Cash and equivalents	38.0	44.6	42.6	43.0	45.0
Stocks	32.7	51.3	50.8	54.7	58.8
Trade debtors	91.7	73.6	72.6	78.2	84.4
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>162.4</b>	<b>169.5</b>	<b>166.1</b>	<b>175.8</b>	<b>188.2</b>
Trade creditors	85.6	89.3	90.5	97.3	104.8
Short-term borrowings	20.0	14.5	8.6	9.3	10.0
Other current liabilities	5.8	5.8	6.5	6.9	7.3
<b>Total current liabilities</b>	<b>111.4</b>	<b>109.6</b>	<b>105.6</b>	<b>113.4</b>	<b>122.0</b>
Long-term borrowings	0.0	5.0	5.7	6.2	6.7
Other long-term liabilities	3.1	5.1	4.9	4.6	4.4
<b>Total long-term liabilities</b>	<b>3.1</b>	<b>10.1</b>	<b>10.6</b>	<b>10.8</b>	<b>11.1</b>
<b>Shareholders' funds</b>	<b>72.1</b>	<b>74.2</b>	<b>74.8</b>	<b>77.1</b>	<b>81.2</b>
Minority interests	0.2	0.0	(0.2)	(0.5)	(0.7)
NTA/share (S\$)	0.13	0.13	0.14	0.14	0.15
<b>Total Assets</b>	<b>186.7</b>	<b>193.9</b>	<b>190.7</b>	<b>200.8</b>	<b>213.6</b>
<b>Total Liabilities + S'holders' funds</b>	<b>186.7</b>	<b>193.9</b>	<b>190.7</b>	<b>200.8</b>	<b>213.6</b>
<b>Cash Flow</b> (S\$ m, FYE Dec)	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Pretax profit	11.4	12.2	9.4	11.4	13.6
Depreciation & non-cash adjustments	1.9	10.2	3.7	3.7	3.8
Working capital changes	(10.0)	3.7	3.5	(2.3)	(2.6)
Cash tax paid	(1.9)	(1.3)	(1.0)	(1.7)	(2.0)
<b>Cash flow from operations</b>	<b>1.4</b>	<b>24.7</b>	<b>15.5</b>	<b>11.1</b>	<b>12.7</b>
Capex	(3.0)	(2.3)	(3.1)	(3.1)	(3.1)
Net investments & sale of FA	0.0	(5.9)	0.0	0.0	0.0
Others	(1.3)	(0.3)	(0.5)	(0.6)	(0.6)
<b>Cash flow from investing</b>	<b>(4.3)</b>	<b>(8.4)</b>	<b>(3.6)</b>	<b>(3.7)</b>	<b>(3.7)</b>
Debt raised/(repaid)	0.1	(0.5)	(5.1)	1.1	1.2
Equity raised/(repaid)	(0.2)	0.0	0.0	0.0	0.0
Dividends paid	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)
Cash interest & others	(0.6)	(1.9)	(1.4)	(0.9)	(1.0)
<b>Cash flow from financing</b>	<b>(8.0)</b>	<b>(9.7)</b>	<b>(13.9)</b>	<b>(7.1)</b>	<b>(7.0)</b>
<b>Change in cash</b>	<b>(10.9)</b>	<b>6.6</b>	<b>(2.0)</b>	<b>0.4</b>	<b>2.0</b>
<b>Change in net cash/(debt)</b>	<b>(11.0)</b>	<b>7.1</b>	<b>3.2</b>	<b>(0.7)</b>	<b>0.8</b>
<b>Ending net cash/(debt)</b>	<b>18.0</b>	<b>25.1</b>	<b>28.3</b>	<b>27.6</b>	<b>28.4</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Revenue growth (%)	(7.1)	12.4	(1.3)	7.7	7.9
EBITDA growth (%)	2.2	3.7	(21.9)	11.4	16.5
Pretax margins (%)	2.2	2.1	1.6	1.8	2.0
Net profit margins (%)	1.8	1.8	1.4	1.5	1.7
Effective tax rates (%)	19.3	17.6	18.0	18.0	18.0
Net dividend payout (%)	77.6	70.9	91.8	76.1	63.8
ROE (%)	13.0	13.8	10.6	12.4	14.0
Free cash flow yield (%)	(1.3)	17.9	10.0	6.4	7.7

Source: Company, NRA Capital forecasts

# TeleChoice International Limited

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