

TeleChoice Int'l

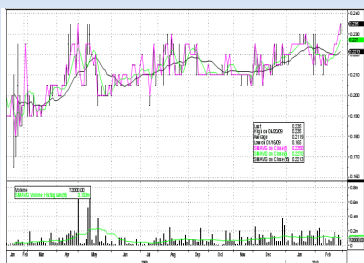
4Q09 results update

BUY

Current Price **S\$0.23**
01 March 2010

Fair Value **S\$0.28**

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Historical Chart

Source: Bloomberg

Stock Statistics

| | |
|---------------------------|-----------|
| Market Cap | S\$104.2m |
| 52-HI | S\$0.235 |
| 52-LOW | S\$0.165 |
| Avg Vol (1 yr) | 77,088 |
| Shares Outstanding | 453.1m |
| Free Float | 135.9m |

Key Indicators

| | |
|--------------------|----------|
| ROE FY10 | 18.7% |
| ROA FY10 | 10.6% |
| P/BK | 1.50x |
| Net gearing | Net cash |

Major Shareholders

| | |
|---------------------------|-------|
| Temasek Holdings | 50.5% |
| Leap International | 19.5% |

Attractive yield as expected

- **Results within expectations.** 4Q09 net profit of S\$3.7m (+3% yoy) was in line with our net profit forecast of S\$3.8m.
- **Group sales slipped 2% yoy to S\$77.7m** as personal communications solutions services (PCS) reversed from consecutive 11 quarters of decline to 6% yoy growth in this quarter, thank to the contribution from prepaid cards. TeleChoice was appointed by StarHub as a fifth distributor for prepaid cards in April last year. However, sales from Telecoms and Engineering divisions dropped 30% and 22% respectively yoy.
- **EBITDA margins declined 81 basic pts yoy** but improved 153 basic pts qoq to 6.7%. Including the S\$0.5m forex loss, pretax decreased by 9% yoy (+27% qoq), however the lower effective tax rate helped lift net profit by 3% yoy (+13% qoq).
- **Strong balance sheet.** TeleChoice generated S\$3.9m of positive free cash flow in FY09 despite its cash conversion cycle increasing by 4 days yoy to 55 days. Net cash increased by S\$6m yoy to S\$44m as at end-09. The board declared a final dividend of 1.75 cts (70% payout ratio) as compared to 2 cts in previous years. However, this is higher than our 1.5 cts expectation.
- **Potential from "Cloud Computing"**, Telechoicelaunched its next generation Unified Communication-as-a-Service (UCaaS) and Software-as-a-Service (SaaS) from its Telecoms division last November. To date, the group has secured 3 clients with over 320 subscribers for 2 year contracts. Management expects revenue of about S\$15-20 per subscriber per month. If this segment can execute well and continue to win more customers, it will be able to lift group margins to a new level. However, the competition from big Telcos would be a risk. Nevertheless, we expect PCS division will continue riding on higher fulfillment contract from StarHub under the smart phone cycle and prepaid cards could see a surge due to projected higher visitor arrivals.
- **Kept forecasts and maintain Buy.** We have kept our FY10-11 net profit forecast unchanged for the time being as we don't factor any profit from its UCaaS and SaaS yet. We have also introduced FY12 forecast and roll forward our valuation pegged at 1.5x FY10 to FY11. As a result, our fair value rises from S\$0.25 to S\$0.28. We maintain our **Buy** recommendation as we believe the group will continue to payout at least 60% of its net profit. This implies an attractive yield of 8-10%.

Key Financial Data

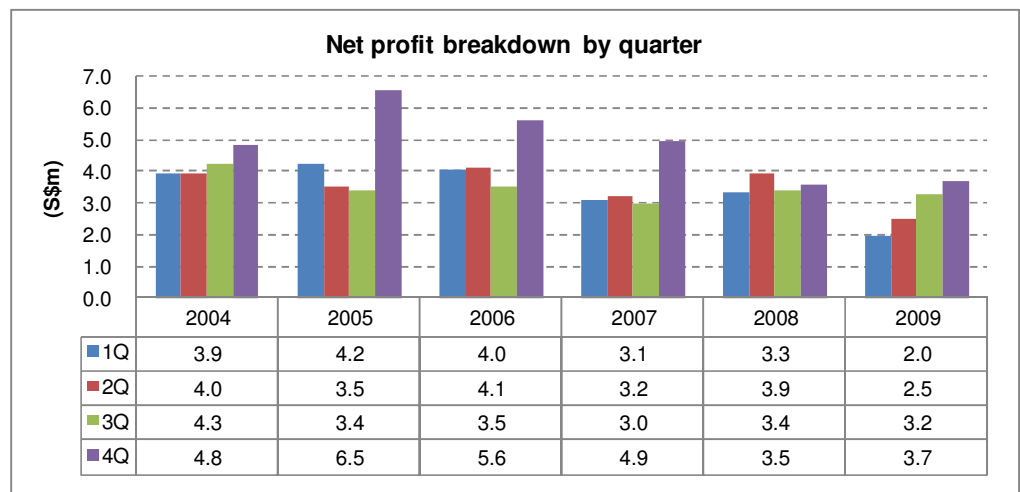
| (S\$ m, FYE Dec) | 2008 | 2009 | 2010F | 2011F | 2012F |
|--------------------------|-------|--------|-------|-------|-------|
| Sales | 354.0 | 273.7 | 339.3 | 420.7 | 521.9 |
| Gross Profit | 37.2 | 28.6 | 40.7 | 50.5 | 62.6 |
| Net Profit | 14.2 | 11.4 | 14.2 | 17.7 | 22.1 |
| EPS (cents) | 3.1 | 2.5 | 3.1 | 3.9 | 4.9 |
| EPS growth (%) | (0.3) | (19.8) | 24.4 | 24.7 | 25.0 |
| PER (x) | 7.3 | 9.1 | 7.3 | 5.9 | 4.7 |
| NTA/share (cents) | 14.5 | 15.3 | 16.7 | 18.5 | 20.6 |
| DPS (cents) | 2.0 | 1.8 | 1.9 | 2.3 | 2.9 |
| Div Yield (%) | 8.7 | 7.6 | 8.2 | 10.2 | 12.7 |

Source: Company, NRA Capital

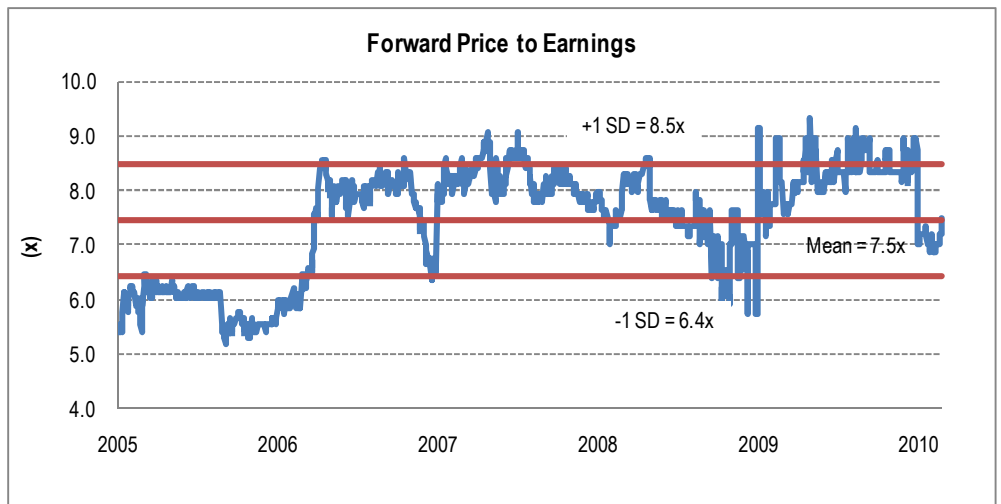
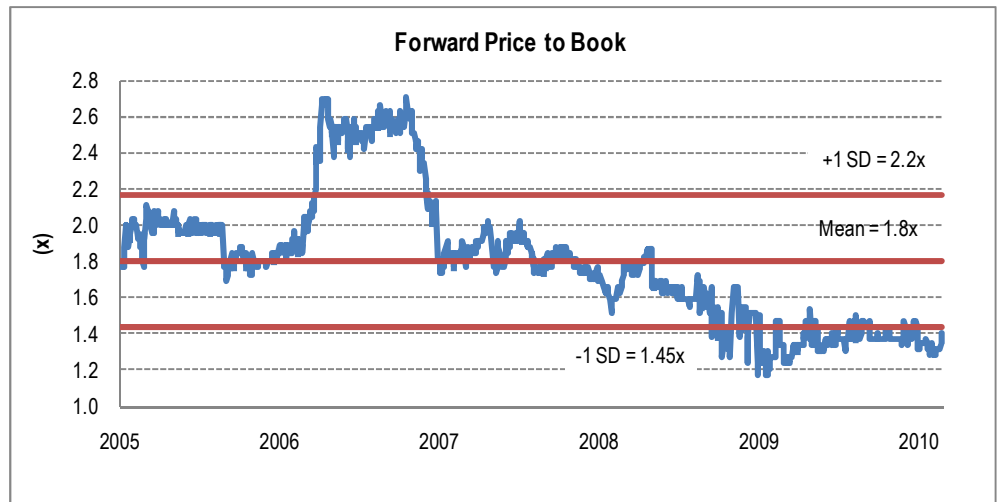
Results comparison

| FYE Dec (\$ m) | 4Q09 | 4Q08 | yoy % chg | 3Q09 | qoq % chg | Prev. 4Q09F | Comments |
|----------------------|------------|------------|--------------|------------|--------------|----------------|--|
| Revenue | 77.7 | 79.0 | (2) | 70.0 | 11 | 89.8 | 14% below expectation |
| Operating costs | (73.0) | (73.8) | (1) | (66.3) | 10 | (85.1) | Below, lower-than-expected sales |
| EBITDA | 4.7 | 5.2 | (10) | 3.6 | 30 | 4.7 | In line |
| EBITDA margin (%) | 6.1 | 6.6 | | 5.2 | | 5.3 | Above, better-than-expected gross margins |
| Depn & amort. | (0.2) | (0.7) | (70) | (0.3) | (37) | (0.3) | In line |
| EBIT | 4.5 | 4.5 | (1) | 3.3 | 37 | 4.4 | In line |
| Interest expense | (0.0) | (0.0) | 16 | (0.1) | (23) | (0.0) | In line |
| Interest & invt inc | 0.1 | 0.4 | (78) | 0.2 | (55) | 0.0 | In line |
| Associates' contrib | 0.1 | 0.2 | (55) | 0.1 | 34 | 0.1 | |
| Exceptionals | 0.0 | 0.0 | 0 | 0.0 | 0 | 0.0 | |
| Pretax profit | 4.6 | 5.1 | (9) | 3.5 | 33 | 4.5 | In line |
| Tax | (1.0) | (1.5) | (38) | (0.4) | 135 | (0.7) | Above, higher-than-expected effective tax rate |
| Tax rate (%) | 20.7 | 30.3 | | 11.7 | | 14.8 | |
| Minority interests | (0.0) | 0.0 | nm | 0.0 | nm | 0.0 | |
| Net profit | 3.7 | 3.5 | 3 | 3.1 | 19 | 3.8 | In line |
| EPS (cts) | 0.8 | 0.8 | 3 | 0.7 | 19 | 0.8 | In line |

Source: NRA Capital estimates



Source: NRA Capital Estimates



Source: NRA Capital Estimates

| Profit & Loss (S\$ m, FYE Dec) | 2008 | 2009 | 2010F | 2011F | 2012F |
|---|---------------|---------------|--------------|--------------|---------------|
| Revenue | 354.0 | 273.7 | 339.3 | 420.7 | 521.9 |
| Operating expenses | (335.1) | (260.1) | (322.7) | (400.9) | (497.5) |
| EBITDA | 18.9 | 13.6 | 16.6 | 19.9 | 24.3 |
| Depreciation & amortisation | (2.0) | (1.3) | (1.3) | (1.3) | (1.3) |
| EBIT | 16.9 | 12.3 | 15.3 | 18.5 | 23.0 |
| Net interest & invt income | 0.2 | 1.1 | 1.3 | 2.1 | 2.9 |
| Associates' contribution | 1.1 | 0.3 | 0.3 | 0.4 | 0.4 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 18.2 | 13.6 | 16.9 | 21.1 | 26.3 |
| Tax | (4.0) | (2.2) | (2.7) | (3.4) | (4.2) |
| Minority interests | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 |
| Net profit | 14.2 | 11.4 | 14.2 | 17.7 | 22.1 |
| Wt. shares (m) | 452.4 | 453.1 | 453.1 | 453.1 | 453.1 |
| Shares at year-end (m) | 452.4 | 453.1 | 453.1 | 453.1 | 453.1 |
| Balance Sheet (S\$ m, as at Dec) | 2008 | 2009 | 2010F | 2011F | 2012F |
| Fixed assets | 1.7 | 2.3 | 2.6 | 2.9 | 1.6 |
| Intangible assets | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other long-term assets | 1.1 | 1.4 | 1.4 | 1.4 | 1.4 |
| Total non-current assets | 3.2 | 3.8 | 4.1 | 4.4 | 3.0 |
| Cash and equivalents | 42.6 | 46.6 | 39.4 | 42.3 | 46.5 |
| Stocks | 18.1 | 25.0 | 35.8 | 44.4 | 53.7 |
| Trade debtors | 44.9 | 29.2 | 54.5 | 58.4 | 66.8 |
| Other current assets | 0.0 | (0.0) | 0.0 | 0.0 | 0.0 |
| Total current assets | 105.6 | 100.9 | 129.7 | 145.2 | 167.1 |
| Trade creditors | 12.3 | 11.9 | 33.9 | 42.1 | 52.2 |
| Short-term borrowings | 5.0 | 3.0 | 3.4 | 2.1 | 1.6 |
| Other current liabilities | 25.5 | 19.9 | 20.2 | 21.3 | 22.6 |
| Total current liabilities | 42.8 | 34.8 | 57.5 | 65.5 | 76.4 |
| Long-term borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long-term liabilities | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total long-term liabilities | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Shareholders' funds | 65.9 | 69.6 | 76.0 | 83.8 | 93.4 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NTA/share (S\$) | 0.14 | 0.15 | 0.17 | 0.18 | 0.21 |
| Total Assets | 108.8 | 104.6 | 133.7 | 149.6 | 170.1 |
| Total Liabilities + S'holders' funds | 108.8 | 104.6 | 133.7 | 149.6 | 170.1 |
| Cash Flow (S\$ m, FYE Dec) | 2008 | 2009 | 2010F | 2011F | 2012F |
| Pretax profit | 18.2 | 13.6 | 16.9 | 21.1 | 26.3 |
| Depreciation & non-cash adjustments | 9.7 | (8.7) | 0.4 | (0.8) | (0.1) |
| Working capital changes | 12.2 | 3.7 | (13.1) | (3.4) | (6.5) |
| Cash tax paid | (3.7) | (2.9) | (2.1) | (1.6) | (1.9) |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow from operations | 36.4 | 5.7 | 2.2 | 15.3 | 17.8 |
| Capex | (1.6) | (1.8) | (1.6) | (1.6) | (1.6) |
| Net investments & sale of FA | 0.1 | 10.8 | 0.0 | 0.0 | 0.0 |
| Others | 0.7 | 0.2 | (0.3) | (1.0) | (1.0) |
| Cash flow from investing | (0.8) | 9.2 | (1.9) | (2.6) | (2.6) |
| Debt raised/(repaid) | (6.8) | (2.0) | 0.4 | (1.3) | (0.5) |
| Equity raised/(repaid) | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | (11.3) | (9.1) | (7.9) | (8.5) | (10.6) |
| Cash interest & others | (0.2) | 0.2 | 0.0 | 0.1 | 0.1 |
| Cash flow from financing | (18.0) | (10.9) | (7.5) | (9.7) | (11.1) |
| Change in cash | 17.6 | 4.0 | (7.3) | 3.0 | 4.2 |
| Change in net cash/(debt) | 24.4 | 6.0 | (7.7) | 4.3 | 4.7 |
| Ending net cash/(debt) | 37.6 | 43.6 | 36.0 | 40.2 | 44.9 |
| KEY RATIOS (FYE Dec) | 2008 | 2009 | 2010F | 2011F | 2012F |
| Revenue growth (%) | (15.8) | (22.7) | 24.0 | 24.0 | 24.0 |
| EBITDA growth (%) | 7.1 | (28.0) | 22.0 | 19.7 | 22.5 |
| Pretax margins (%) | 5.1 | 5.0 | 5.0 | 5.0 | 5.0 |
| Net profit margins (%) | 4.0 | 4.2 | 4.2 | 4.2 | 4.2 |
| Interest cover (x) | 106.8 | 78.1 | 125.4 | 251.2 | 421.4 |
| Effective tax rates (%) | 22.0 | 16.3 | 16.0 | 16.0 | 16.0 |
| Net dividend payout (%) | 63.8 | 69.6 | 60.0 | 60.0 | 60.0 |
| Debtors turnover (days) | 60.0 | 49.4 | 45.0 | 49.0 | 43.8 |
| Stock turnover (days) | 32.6 | 32.1 | 37.2 | 39.6 | 39.0 |
| Creditors turnover (days) | 27.5 | 16.1 | 24.6 | 33.0 | 33.0 |

Source: Company, NRA Capital Estimates

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