

## TeleChoice Int'l

4Q10 results update

## Overweight

Current Price **S\$0.26**  
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Fair Value **S\$0.29**

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## Historical Chart



Source: Bloomberg

## Stock Statistics

Market Cap	S\$117.8m
52-HI	S\$0.265
52-LOW	S\$0.21
Avg Vol (1 yr)	84,238
Shares Outstanding	453.61m
Free Float	135.9m

## Key Indicators

ROE FY11	22.0%
ROA FY11	13.3%
P/BK	1.56x
Net gearing	Net cash

## Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

## Slow but steady

- **Below expectations.** 4Q10 net profit of S\$3.2m was 16% below our S\$3.8m expectation due lower-than-expected sales and margins. 4Q10 sales were 6% off our estimates mainly due to lower-than-expected contribution from StarHub fulfillment services. Its margins missed our expectation partially due to higher amortisation from the acquisition of S&I System.
- **Sales increased 3% yoy to S\$79.7m.** Despite 4Q being the strongest quarter traditionally, the impact of the iPhone was detrimental to its Personal Communications Solutions Services (PCS) sales as Apple deals directly only with Telco operators. As a result, its PCS revenue dipped 1.2% yoy, nevertheless, prepaid card revenue grew more than double to offset the drop. Sales from Engineering division jumped 30% yoy due to higher project demand from Indonesia and Malaysia but this was slightly offset by a 6% drop in sales from Info-Comm Technology Services division (ICT).
- **EBITDA margins contracted by 1.2% pts yoy to 4.9%,** due to higher contribution from pre-paid cards, which gives lower profit margins. ICT's operations were also negative because of the higher amortisation expenses following the acquisition of S&I System. Whereas, the drop in the Engineering division was due lower margins for products mix.
- **Balance sheet remains strong.** TeleChoice generated a negative free cash flow of S\$16m after it increased its working capital requirement and new acquisitions. Net cash remains strong with S\$26m as at end Dec10 (~6 cts net cash per share). With no surprises, the board declared a higher final dividend of 1.8 cts (~66% payout ratio) compared to 1.75 cts last year.
- **New growth from M&A.** The group expects 1Q11 operating performance to improve yoy as the newly acquired S&I System will start contributing to its ICS division. Management also expects the large customer base from the new acquisition could eventually benefit its PCS and Engineering divisions. We believe the spotlight on tablets will potentially benefit the group, as most of the tablet launches this year are from its mobile customers. Also, the smartphone cycle getting faster as Android demand is going up and Nokia announced its partnership with Microsoft and this will push its competitors to speed up their product launches.
- **Maintain Overweight.** We have fine-tuned our FY11-12 estimates by -2% to -3% to factor in lower margins and include contribution from S&I. We now peg our fair value at 8x PER FY11, mean of its 6 years historical (from 1.5x PBR previously). As a result, our fair value has been raised by 1 ct to S\$0.29.

## Key Financial Data

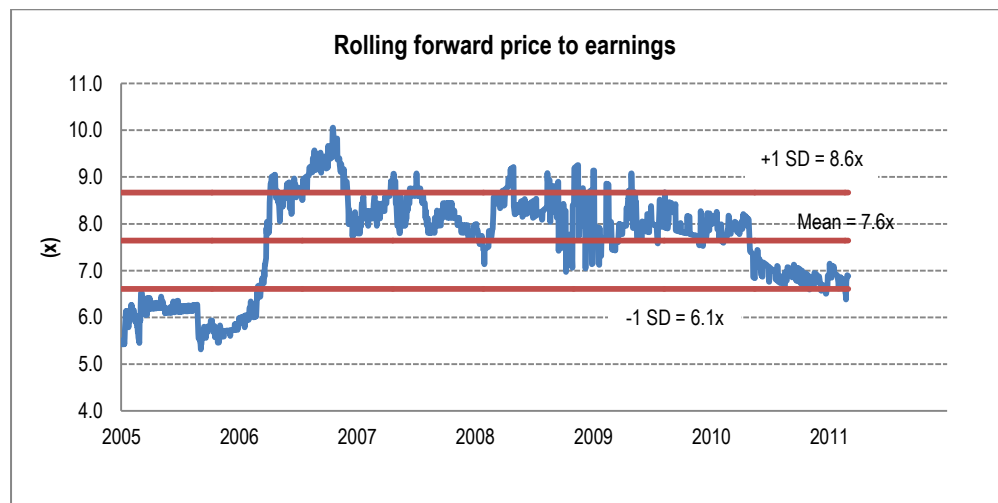
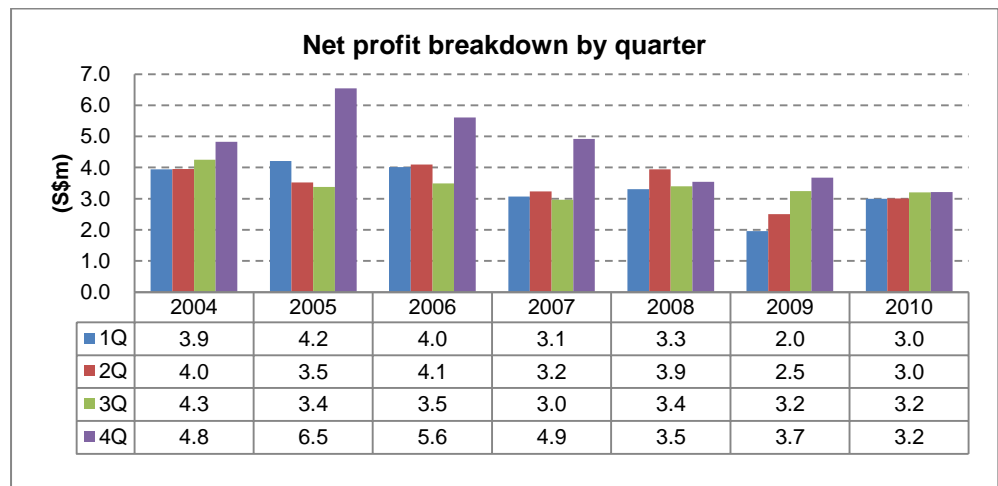
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
<b>Sales</b>	273.7	327.5	406.3	502.5	622.0
<b>Gross Profit</b>	28.6	31.1	37.8	45.2	52.9
<b>Net Profit</b>	11.4	12.4	16.5	20.2	24.7
<b>EPS (cents)</b>	2.5	2.7	3.6	4.4	5.4
<b>EPS growth (%)</b>	(19.8)	9.0	32.7	22.3	22.5
<b>PER (x)</b>	10.3	9.5	7.2	5.8	4.8
<b>NTA/share (cents)</b>	15.3	14.1	15.7	17.6	20.0
<b>DPS (cents)</b>	1.8	1.8	2.2	2.7	3.3
<b>Div Yield (%)</b>	6.7	6.9	8.4	10.3	12.6

Source: Company, NRA Capital

## Results comparison

FYE Dec (\$\$ m)	4Q10	4Q09	yoy % chg	3Q10	qoq % chg	Prev. 4Q10F	Comments
Revenue	79.7	77.7	3	75.1	6	84.4	6% below expectation
Operating costs	(75.8)	(73.0)	4	(70.8)	7	(80.2)	Below, lower-than-expected sales
EBITDA	3.9	4.7	(17)	4.2	(8)	4.3	Below, lower-than-expected sales
EBITDA margin (%)	4.9	6.0		5.7		5.0	0.1% pts below expectation
Depn & amort.	(0.4)	(0.2)	102	(0.3)	20	(0.4)	In line
EBIT	3.5	4.5	(22)	3.9	(11)	3.8	Below, lower-than-expected sales
Interest expense	(0.0)	(0.0)	(98)	0.0	nm	(0.0)	In line
Interest & invt inc	0.1	0.1	(40)	0.0	192	0.8	Below
Associates' contrib	(0.0)	0.1	(136)	0.1	(136)	0.1	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
<b>Pretax profit</b>	<b>3.5</b>	<b>4.7</b>	<b>(24)</b>	<b>4.0</b>	<b>(12)</b>	<b>4.7</b>	Below, lower-than-expected sales
Tax	(0.3)	(1.0)	(67)	(0.8)	(61)	(0.9)	Below, lower profit and taxation
Tax rate (%)	9.0	20.6		20.3		19.8	
Minority interests	(0.0)	(0.0)	(88)	0.0	(150)	0.0	
<b>Net profit</b>	<b>3.2</b>	<b>3.7</b>	<b>(13)</b>	<b>3.2</b>	<b>0</b>	<b>3.8</b>	16% below expectation
EPS (cts)	0.7	0.8	(13)	0.7	0	0.8	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue	273.7	327.5	406.3	502.5	622.0
Operating expenses	(260.1)	(312.1)	(386.3)	(478.5)	(592.6)
EBITDA	13.6	15.4	20.0	24.0	29.4
Depreciation & amortisation	(1.3)	(1.3)	(1.3)	(1.4)	(1.4)
EBIT	12.3	14.1	18.7	22.7	28.0
Net interest & invt income	1.1	0.5	1.0	1.4	1.5
Associates' contribution	0.3	0.1	0.2	0.2	0.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>13.6</b>	<b>14.7</b>	<b>19.9</b>	<b>24.3</b>	<b>29.8</b>
Tax	(2.2)	(2.2)	(3.4)	(4.1)	(5.1)
Minority interests	(0.0)	(0.0)	0.0	0.0	0.0
<b>Net profit</b>	<b>11.4</b>	<b>12.4</b>	<b>16.5</b>	<b>20.2</b>	<b>24.7</b>
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

<b>Balance Sheet</b> (S\$ m, as at Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Fixed assets	2.3	2.8	4.4	5.9	7.4
Intangible assets	0.1	10.5	10.5	10.5	10.5
Other long-term assets	1.4	1.8	1.8	1.8	1.8
<b>Total non-current assets</b>	<b>3.8</b>	<b>15.1</b>	<b>16.7</b>	<b>18.2</b>	<b>19.7</b>
Cash and equivalents	46.6	34.7	34.6	28.8	20.9
Stocks	25.0	37.7	36.9	45.7	56.9
Trade debtors	29.2	44.7	48.1	59.5	73.6
Other current assets	(0.0)	2.9	0.0	0.0	0.0
<b>Total current assets</b>	<b>100.9</b>	<b>120.0</b>	<b>119.5</b>	<b>133.9</b>	<b>151.4</b>
Trade creditors	12.8	26.5	24.4	30.2	37.3
Short-term borrowings	3.0	8.3	4.1	4.0	3.1
Other current liabilities	19.0	22.9	23.0	24.7	26.6
<b>Total current liabilities</b>	<b>34.8</b>	<b>57.7</b>	<b>51.4</b>	<b>58.9</b>	<b>67.1</b>
Long-term borrowings	0.0	0.8	0.8	0.5	0.6
Other long-term liabilities	0.2	1.1	1.1	1.1	1.1
<b>Total long-term liabilities</b>	<b>0.2</b>	<b>1.9</b>	<b>1.9</b>	<b>1.6</b>	<b>1.7</b>
<b>Shareholders' funds</b>	<b>69.6</b>	<b>74.2</b>	<b>81.5</b>	<b>90.3</b>	<b>101.0</b>
Minority interests	0.0	1.3	1.3	1.3	1.3
NTA/share (S\$)	0.15	0.14	0.16	0.18	0.20
<b>Total Assets</b>	<b>104.6</b>	<b>135.1</b>	<b>136.2</b>	<b>152.1</b>	<b>171.1</b>
<b>Total Liabilities + S'holders' funds</b>	<b>104.6</b>	<b>135.1</b>	<b>136.2</b>	<b>152.1</b>	<b>171.1</b>

<b>Cash Flow</b> (S\$ m, FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Pretax profit	13.6	14.7	19.9	24.3	29.8
Depreciation & non-cash adjustments	(8.7)	4.5	2.8	(0.6)	(1.4)
Working capital changes	3.7	(13.7)	(3.8)	(13.7)	(17.3)
Cash tax paid	(2.9)	(2.4)	(3.7)	(2.8)	(3.1)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>5.7</b>	<b>3.1</b>	<b>15.1</b>	<b>7.3</b>	<b>7.9</b>
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	0.1	0.1	0.1
<b>Cash flow from investing</b>	<b>9.2</b>	<b>(8.7)</b>	<b>(2.8)</b>	<b>(2.8)</b>	<b>(2.8)</b>
Debt raised/(repaid)	(2.0)	5.9	(4.2)	(0.4)	(0.8)
Equity raised/(repaid)	0.0	(0.1)	0.0	0.0	0.0
Dividends paid	(9.1)	(7.9)	(8.2)	(9.9)	(12.1)
Cash interest & others	0.2	(4.5)	(0.1)	(0.1)	(0.1)
<b>Cash flow from financing</b>	<b>(10.9)</b>	<b>(6.6)</b>	<b>(12.5)</b>	<b>(10.3)</b>	<b>(12.9)</b>
<b>Change in cash</b>	<b>4.0</b>	<b>(12.1)</b>	<b>(0.1)</b>	<b>(5.8)</b>	<b>(7.9)</b>
<b>Change in net cash/(debt)</b>	<b>6.0</b>	<b>(18.0)</b>	<b>4.1</b>	<b>(5.5)</b>	<b>(7.1)</b>
<b>Ending net cash/(debt)</b>	<b>43.6</b>	<b>25.6</b>	<b>29.7</b>	<b>24.2</b>	<b>17.2</b>

<b>KEY RATIOS</b> (FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue growth (%)	(22.7)	19.6	24.1	23.7	23.8
EBITDA growth (%)	(28.0)	12.8	30.6	19.8	22.6
Pretax margins (%)	5.0	4.5	4.9	4.8	4.8
Net profit margins (%)	4.2	3.8	4.1	4.0	4.0
Interest cover (x)	78.1	774.3	662.9	1,620.2	3,968.9
Effective tax rates (%)	16.3	15.3	17.0	17.0	17.0
Net dividend payout (%)	69.6	65.7	60.0	60.0	60.0
Debtors turnover (days)	49.4	41.2	41.7	39.1	39.0
Stock turnover (days)	32.1	38.6	36.9	33.0	32.9
Creditors turnover (days)	16.7	21.9	22.9	19.8	19.8

Source: Company, NRA Capital Estimates

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