

TeleChoice International Limited

The Emergence of the Info-comm Technology Division

Update: On 11 October 2010, TeleChoice International Limited (TeleChoice) announced that it has entered into a conditional sale and purchase agreement for 90% share capital of S & I Systems Pte Ltd (S&I). S&I is an integrated IT solution provider for enterprises, with many reputable business partners.

Fundamental Drivers:

- The acquiree specializes in high performance enterprise IT infrastructure, optimization of business application solutions, managed services and cloud computing solutions.
- Payment for the acquisition will be made via two tranches. For the first tranche, an initial consideration of S\$11.34m will be paid so long as the NTA of S&I is above S\$6m upon the completion of the sale and purchase.
- An additional adjusted consideration of between S\$3.06m and S\$6.66m will be paid, pending on the audited consolidated net profit after tax attributable to equity holders of S&I for the 12 months assessment period after completion of the sale and purchase.
- We perceive potential synergistic value as S&I's services complement TeleChoice's Telecom division offerings. That said, the new division, made up of the two entities above, may be able to offer an attractive and comprehensive set of services to corporations.
- Cash equivalent position after the acquisition remains strong, at S\$35.5m. We believe there is sufficient funding for another expansion plan, if any.

Value Catalyst: We are retaining our forecasts for FY10F and await to see the integration of S&I. Based on a forward P/E of 10X, we arrive at an intrinsic value of S\$0.XXX, representing an upside of XXX% above current price. **Maintain XXX.**

Invest

- Intrinsic Value S\$0.XXX
- Prev Closing S\$0.XXX

Main Activities

TeleChoice International Limited is engaged in offering a suite of services and solutions for the telecommunications industry. The Company has three divisions: Personal Communications Solutions Services (PCS), Info-Comm Technology Services (Info-Comm), and Network Engineering Services (Engineering).

Financial Highlights

(Y/E Dec) S\$'mn	FY08	FY09	FY10F
Revenue	354.0	273.7	314.7
Gross Profit	37.2	28.6	32.1
Net Profit	14.2	11.4	12.8
EPS (S cts)	3.1	2.5	2.8

Source: SIAS Research Estimates

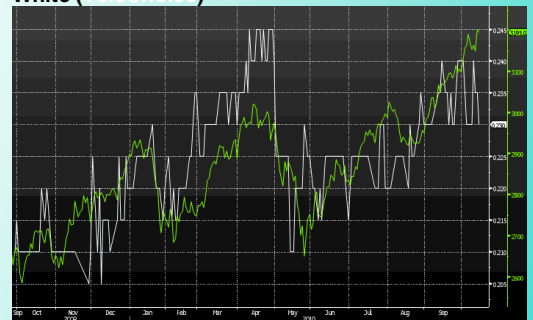
Key ratios (FY10F)

PER	8.2
P/BV	1.4
ROE	17.3%
Debt/Equity	8.1%
Current ratio	2.6

Source: SIAS Research Estimates

Indexed Price Chart

Green (FSSTI)
White (TeleChoice)



Source: Bloomberg

52wks High-Low 24.5 cents/ 20.5 cents
Number of Shares 453.6 m
Market Capitalization S\$104.3 m

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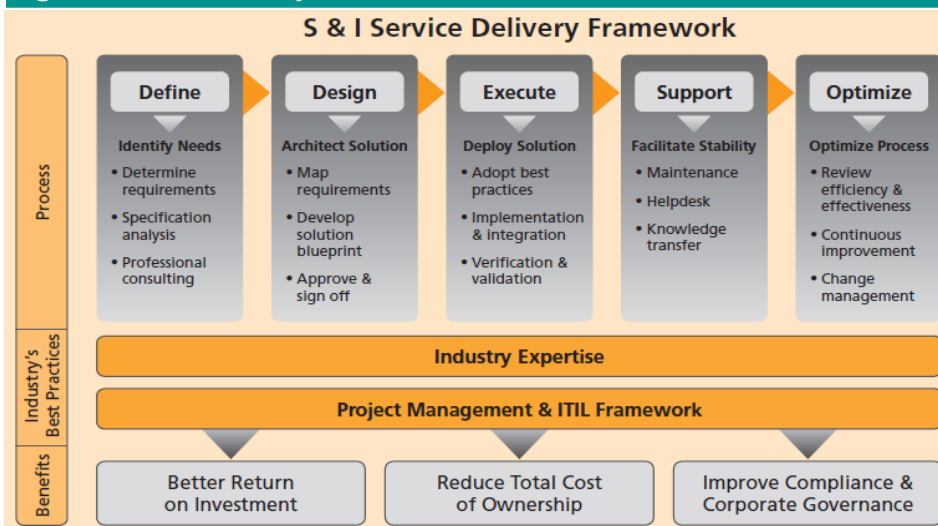
A Reputable IT Solution Specialist

More about the Acquiree: Headquartered in Singapore, S&I was incorporated in 1998 and has subsequently grown its presence into Malaysia and Thailand. It is an integrated IT solution provider for enterprises, having many reputable business partners such as IBM, Oracle, SAP, Netsuite and Hitachi Data Systems.

S&I’s solutions for business are focused on a comprehensive set of methodologies and flexible framework of industry standard processes. With that, the company is able to optimize performance for their clients in various aspects such as system servers and storage infrastructure and streamlining of business processes with solutions for customer relationship, enterprise resource planning, supply chain management and business intelligence. S&I also provides IT outsourcing and managed services with facility capable of providing and supporting business continuity and disaster recovery services to improve business resilience.”

The entity has proven its competency by winning remarkable awards such as the Enterprise 50 award (2003-2007), Top performing IBM business partner for system I (1997-2007), Oracle partner for the year – Oracle applications – Reseller/Outstanding Innovation/Mid Market (2006-2008).

Figure 1: S&I Delivery Framework



Source: Company, SIAS Research

Waiting to See the New Division

First Tranche Payment: TeleChoice will pay S&I an initial consideration of S\$11.34m. However, should the NTA of acquiree be lower than S\$6m upon the completion of the sale and purchase, the vendors will have to return the difference between S\$6m and the NTA.

Second Tranche Payment: In addition, TeleChoice will also pay an additional adjusted consideration of between S\$3.06m to S\$6.66m, pending on S&I's audited consolidated net profit after tax attributable to equity holders of S&I for the 12 months assessment period after completion of the sale and purchase. In the event that the net profit of S&I is less than S\$2.67m, Sunway Systems will pay TeleChoice 90% of the difference between S\$2.67m and the actual profit. On the other hand, if the profit is more than S\$3.33m, TeleChoice will pay Sunway Systems 90% of the disparity between the actual profit and S\$3.33m. The indicative profit determined by both parties is S\$3m.

Bullish Outlook: However, S&I only made a mere S\$0.95m for the financial year ended 31 March 2010 due to the financial crisis. Nonetheless, both parties believe that it is reasonable to expect S&I's performance to improve given its existing contracts and track record between FY2006 to FY2009 – average net profit of S\$2.8m.

Potential Synergistic Value: This acquisition did not surprise us – we have repeatedly highlighted TeleChoice's high cash position and its eagerness to enter the cloud computing arena. We believe there may be synergistic value from this acquisition as S&I's IT services and software complements the Telecom division's voice communication and cloud services offerings – enabling the entity to offer a comprehensive range of IT and communication related services. That said, it is likely to boost the offerings of the new Info-comm technology services division and attract more corporations to sign up. The clientele base in S&I is likely to help jump start the business. We view the acquisition valuation as reasonable and await to see the positioning of the new division.

Cash Position Remains Strong: The company's proforma statements suggest that the level of borrowings will increase by S\$6m, probably due to debts from S&I. The acquisition is likely to be financed via internal resources. The ending cash equivalent position is projected to be S\$35.5m, which we reckon is sufficient for the entity to pursue another expansion plan, if any.

Valuation: We are retaining our forecasts for FY10F and await to see the integration of S&I. Based on a forward P/E of 10X, we arrive at an intrinsic value of S\$0.XXX per share, representing an upside of XXX% above the current trading price of S\$0.230 per share. **Maintain XXX.**

Figure 2: Financial Forecasts and Estimates

Year End Dec	FY07	FY08	FY09	FY10F
Profit & Loss (\$m)				
Revenue	420.4	354.0	273.7	314.7
Gross Profit	39.5	37.2	28.6	32.1
Op Income	16.9	16.7	12.8	15.8
Pretax	17.8	18.2	13.6	15.8
Earnings	14.2	14.2	11.4	12.8
EPS (fully diluted – S cts)	3.1	3.1	2.5	2.8
Balance Sheet (\$m)				
Non Current Assets	14.7	3.2	3.8	14.0
Current Assets	135.1	105.7	100.9	102.3
Current Liabilities	85.0	42.8	34.8	39.0
Non Current Liabilities	0.2	0.1	0.2	3.3
Total Equity	64.6	65.9	69.6	74.0
Cash Flow (\$m)				
Operating Cash Flow	2.2	36.3	5.8	7.3
Investing Cash Flow	(11.2)	(0.7)	9.2	(12.1)
Financing Cash Flow	5.8	(17.8)	(11.2)	(5.2)
Net Cash Increase/(Decrease)	(3.3)	17.8	3.9	(10.0)
Cash	25.0	42.6	46.6	36.6
Financial Ratios				
Revenue Growth (%)	(8.6)	(15.8)	(22.7)	15.0
Earnings Growth (%)	(17.6)	0.1	(19.6)	12.0
EPS Growth (%)	(17.6)	(0.3)	(19.7)	11.8
Gross Margin (%)	9.4	10.5	10.4	10.2
Net Margin (%)	3.4	4.0	4.2	4.1
Current Ratio (x)	1.6	2.5	2.9	2.6
Book value per share (S cts)	14.3	14.6	15.4	16.3
Net Cash/(Debt) per sh (S cts)	2.9	8.3	9.6	6.7
Net Debt / Equity (%)	Cash	Cash	Cash	Cash
Dividend payout ratio (%)	79.5	63.8	69.5	71.1
Return on Equity (%)	21.9	21.5	16.4	17.3
Return on Asset (%)	9.5	13.0	10.9	11.0
Return on Invested Capital (%)	18.6	20.0	15.7	16.0
Debtor Days	53.9	46.4	39.0	37.7
Creditor Days	39.4	14.2	17.7	20.4
Inventory Days	24.7	23.3	18.1	26.0
CCC	39.3	55.5	39.4	43.3
Valuations				
Price to sales (x)	0.2	0.3	0.4	0.3
PER (x)	7.3	7.3	9.1	8.2
Price to book (x)	1.6	1.6	1.5	1.4
Dividend Yield (%)	10.9	8.7	7.6	8.7

Source: SIAS Research Estimates

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value of the firm. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE

SIAS Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is statement of opinion, and not statement of fact or recommendation on the stock.

As of the date of the report, the analyst and his immediate family do not hold positions in the securities recommended in this report.

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