

TeleChoice International Limited

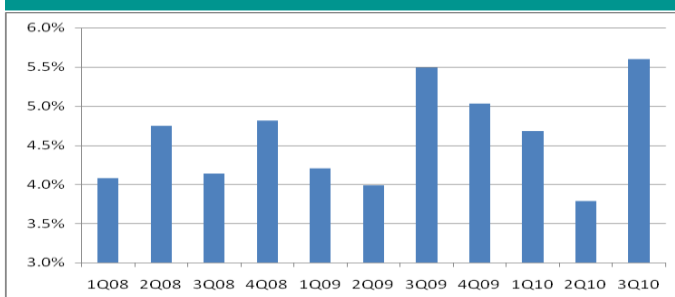
Incorporating the New Acquisition

Update: On 12 November 2010, TeleChoice International Limited (TeleChoice) announced their 3Q 2010 results. The performance was stable, with 9M 2010 revenue and net profit constituting 78.7% and 72.3% of our FY2010F. The company announced the acquisition of S&I last month and we have incorporated it into our FY2011F. Maintain **Invest** with a higher intrinsic value of S\$0.300 per share.

Key Developments:

- PCS Division – High Profit Margin:** Revenue fell 25.8% QoQ owing to lower regional sales. Comparing YoY, sales grew at a stable rate of 4.1% to S\$60.7m. In line with the revenue growth, profit before tax rose 6.25% and marked the highest quarterly profit before tax margin of 5.6% for the past three years – largely due to changes in sales mix.

Figure 1: PCS Profit before Tax Margin



Source: Company, SIAS Research

- Info-Comm Division – Bullish Outlook:** As a result of the discontinued mobile data business, revenue dropped 11.5% YoY to S\$3.4m. Profit before tax also declined from S\$0.3m in 3Q 2009 to S\$0.1m this quarter due to competitive environment and expenses for due diligence activities on S&I. However, 2011F results will be firm with the contribution from S&I.
- Engineering Division - Stable:** Revenue and profit before tax climbed S\$3m and S\$0.4m YoY to S\$11m and S\$0.5m respectively owing to Indonesia's projects. The segment's results have been stable for 9M 2010.

Invest

- Intrinsic Value S\$0.300
- Prev Closing S\$0.235

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	FY09	FY10F	FY11F
Revenue	273.7	314.7	389.2
Gross Profit	28.6	32.1	39.6
Net Profit	11.4	12.8	15.1
EPS (S cts)	2.5	2.8	3.3

Source: SIAS Research Estimates

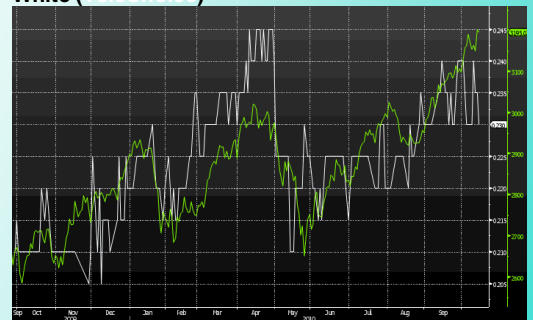
Key ratios (FY11F)

PER	7.1
P/BV	1.4
ROE	19.1%
Dividend Yield	9.9%
Current ratio	2.2

Source: SIAS Research Estimates

Indexed Price Chart

Green (FSSTI)
White (TeleChoice)



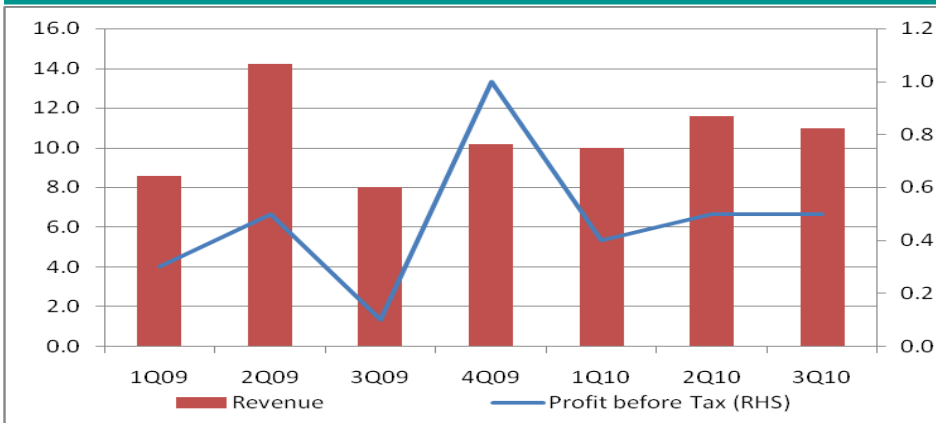
Source: Bloomberg

52wks High-Low 24.5 cents/ 20.5 cents
 Number of Shares 453.6 m
 Market Capitalization S\$106.6 m

Analyst:

Ng Kian Teck, Investment Analyst
kianteck@siasresearch.com
 Tel: 6227 2107

Figure 2: Engineering Division's Stable Performance (S\$M)



Source: Company, SIAS Research

On an aggregate level, profit before tax rose 10% YoY to S\$4.0m. However, tax expenses increased 100% YoY to S\$0.8m due to higher taxable income and tax refund in prior years. As such, profit for the period dipped 1.3% YoY to S\$3.2m. Exchange loss is lowered YoY, from S\$299,000 to S\$88,000, as the clients in Indonesia move toward payment in IDR instead of US\$.

Balance Sheet Analysis: Due to the decline in revenue, the level of inventories, trade receivables and trade payables have dropped correspondingly. Consequently, cash flow from operations soared to S\$8.9m – with S\$4.7m attributed from changes in working capital. The inventory days, trade receivable days and trade payable days are around historical average level.

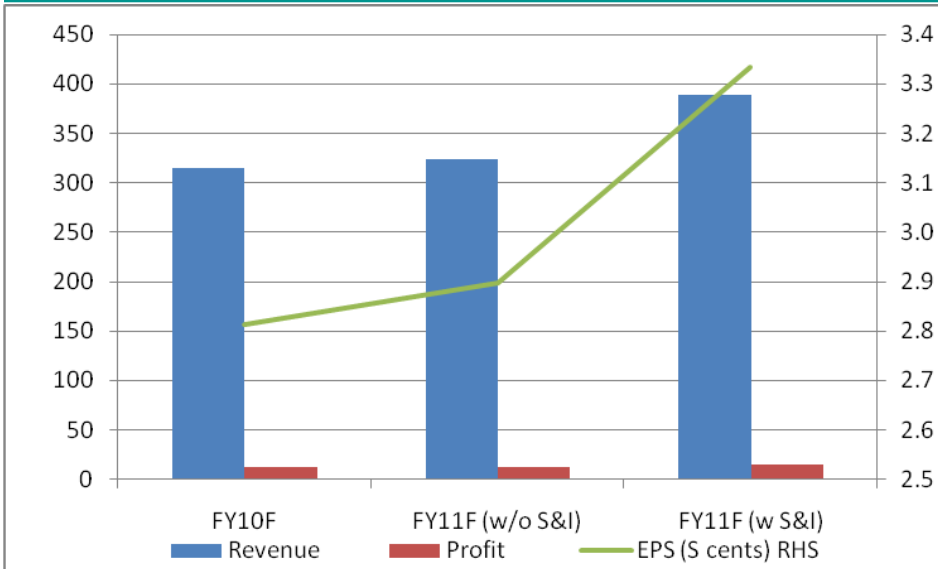
Figure 3: Key Working Capital Figures

S\$'000	2Q 2010	3Q 010
Revenue	97,320	75,085
COGS	89,447	67,035
Inventories	16,861	12,045
Trade Receivables	34,009	28,373
Trade Payables	28,225	23,050
Inventories Days (Annualized)	17.2	16.4
Trade Receivables Days (Annualized)	31.9	34.5
Trade Payables Days (Annualized)	28.8	31.4
Cash Conversion Cycle (Annualized)	20.3	19.5

Source: Company, SIAS Research

Valuation: We have incorporated the contribution of S&I into our FY2011F – revenue and profit are expected to grow 23.7% and 20% YoY respectively. As the bulk of the acquisition is done via cash, we expect minimal financial expenses. Based on a 9X FY2011F P/E, we are upgrading our valuation to S\$0.30 per share. Recommend **Invest**.

Figure 4: FY2011 Forecasts (\$M)



Source: Company, SIAS Research

Figure 5: Financial Forecasts and Estimates

Year End Dec	FY07	FY08	FY09	FY10F	FY11F
Profit & Loss (\$m)					
Revenue	420.4	354.0	273.7	314.7	389.2
Gross Profit	39.5	37.2	28.6	32.1	39.6
Op Income	16.9	16.7	12.8	15.8	20.6
Pretax	17.8	18.2	13.6	15.8	20.2
Earnings	14.2	14.2	11.4	12.8	15.1
EPS (fully diluted - S cts)	3.1	3.1	2.5	2.8	3.3
Balance Sheet (\$m)					
Non Current Assets	14.7	3.2	3.8	24.0	31.9
Current Assets	135.1	105.7	100.9	102.3	106.4
Current Liabilities	85.0	42.8	34.8	44.0	49.3
Non Current Liabilities	0.2	0.1	0.2	8.3	10.5
Total Equity	64.6	65.9	69.6	74.0	78.5
Cash Flow (\$m)					
Operating Cash Flow	2.2	36.3	5.8	13.6	7.4
Investing Cash Flow	(11.2)	(0.7)	9.2	(12.1)	(8.6)
Financing Cash Flow	5.8	(17.8)	(11.2)	(5.2)	(4.2)
Net Cash Increase/(Decrease)	(3.3)	17.8	3.9	(3.7)	(5.4)
Cash	25.0	42.6	46.6	42.9	37.5
Financial Ratios					
Revenue Growth (%)	(8.6)	(15.8)	(22.7)	15.0	23.7
Earnings Growth (%)	(17.6)	0.1	(19.6)	12.0	18.4
EPS Growth (%)	(17.6)	(0.3)	(19.7)	11.8	18.4
Gross Margin (%)	9.4	10.5	10.4	10.2	10.2
Net Margin (%)	3.4	4.0	4.2	4.1	3.9
Current Ratio (x)	1.6	2.5	2.9	2.6	2.2
Book value per share (S cts)	14.3	14.6	15.4	16.3	17.3
Net Cash/(Debt) per sh (S cts)	2.9	8.3	9.6	8.1	6.5
Net Debt / Equity (%)	Cash	Cash	Cash	Cash	Cash
Dividend payout ratio (%)	79.5	63.8	69.5	71.1	70.0
Return on Equity (%)	21.9	21.5	16.4	17.3	19.1
Return on Asset (%)	9.5	13.0	10.9	11.0	10.9
Return on Invested Capital (%)	18.6	20.0	15.7	16.0	17.1
Debtor Days	53.9	46.4	39.0	37.7	37.0
Creditor Days	39.4	14.2	17.7	20.4	20.0
Inventory Days	24.7	23.3	18.1	26.0	26.0
CCC	39.3	55.5	39.4	43.3	43.0
Valuations					
Price to sales (x)	0.2	0.3	0.4	0.3	0.3
PER (x)	7.3	7.3	9.1	8.2	6.9
Price to book (x)	1.6	1.6	1.5	1.4	1.3
Dividend Yield (%)	10.9	8.7	7.6	8.7	10.1

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.

This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
