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Update Report

TeleChoice International Limited

Same Gear For The Quarter

***Update:** On 13 May 2010, TeleChoice International Limited (TeleChoice) announced their 1Q 2010 results. The company's 1Q 2010 revenue and net profit stood for 23.9% and 23.5% of our 2010F forecasts respectively. Since the results are in line with our expectations, we have thus not adjusted our forecasts. Consequently, we maintain our **Invest** rating on TeleChoice with an intrinsic value of S$0.285 per share, based on a forward P/E of 10.2X.*

Key Developments:

- PCS segment reported a healthy 44.6% YoY rise in 1Q 2010 revenue to S$61.9m with PBT margin of 4.7%, in line with our anticipation.
- Though Telecoms segment was affected by greater iDD pricing pressure and discontinued businesses in the mobile data and Malaysian operations, it was offset by a pleasant 16.3% YoY revenue growth in the Engineering segment.
- PCS segment is likely to be affected by the iPhone hype for an extended period. However, higher selling prices of other smart phones may mitigate the loss in market share.
- On the back of higher capacity requirement in Indonesia, as evidenced by Swedish Ericsson's three-year contract with PT Indosat to upgrade their mobile network and higher CAPEX by Telkomsel, we project the Engineering division to secure more contracts.

Value Catalyst:

TeleChoice's results are largely within our estimates and our intrinsic value based on 10.2X forward P/E represents a 20% discount to the peer valuation. If we were to use current forward P/E of 7.5X, it denotes an excessive 42% discount to the peers. Additionally, we estimate a satisfactory dividend payout of 9.5% for the counter – assuming 71% payout ratio.

Increase Exposure

- Intrinsic Value S$0.285
- Prev Closing S$0.210

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), Telecommunications Services (Telecoms), and Network Engineering Services (Engineering).

Financial Highlights			
(Y/E Dec) S$ mn	FY08	FY09	FY10F
Revenue	354	274	315
Gross Profit	37.2	28.6	32.1
Income To Equity	14.2	11.4	12.8
EPS (S cts)	3.1	2.5	2.8

Source: Company, SIAS Research Estimate

Key ratios (FY10F)	
PER	7.5
P/BV	1.3
ROE	17.3%
ROA	11.3%
Current ratio	4.1

Source: SIAS Research Estimate

Indexed Price Chart

Green (FSSTI)
White (TeleChoice)

Source: Bloomberg

52wks High-Low	*24.5 cents/19.5 cents*
Number of Shares	*453.6 m*
Market Capitalization	*S$ 95.3m*

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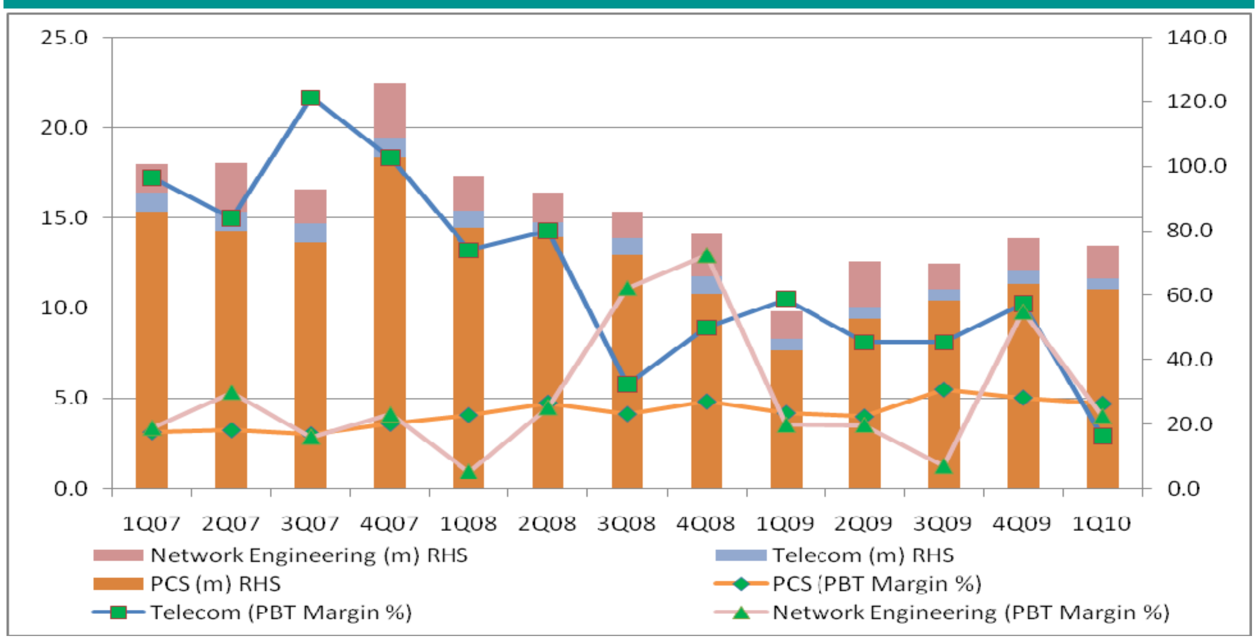
PCS Segment: Revenue for this segment rose 44.6% YoY to S$61.9m, largely due to improved contribution from the Starhub's prepaid card business and better regional sales. As a result of higher revenue, profit before tax (PBT) increased 61.1% YoY to S$2.9m. PBT margin for 1Q 2010 stood at 4.7%, in line with our expectation.

Telecoms Segment: Whilst traffic volume for iDD usage is showing signs of improving, iDD revenue remained low as the industry faces greater pricing pressure. Additionally, TeleChoice has discontinued businesses in the mobile data and the Malaysian operations. Both factors resulted in lower Telecoms revenue – down 10.5% YoY to S$3.4m. Hence, PBT experienced a 75% YoY fall to S$0.1m in 1Q 2010 owing to lower revenue and gross margin. The 2.9% PBT segment margin is significantly lower than our forecast for the year.

Engineering Segment: On the back of more radio network planning projects in Indonesia, the Engineering segment reported a pleasant 16.3% YoY rise in revenue to S$10m. As such, PBT enjoyed a 33% YoY increment to S$0.4m, despite slight exchange loss of S$86,000 in 1Q 2010 compared to exchange gain of S$230,000 in 1Q 2009. The PBT margin is slightly below our forecast.

Figure 1: Revenue and PBT Margin



Source: Company

Industry/Company Outlook: The iPhone has scored a big hit in Singapore recently, largely due to its popularity and more importantly, the end of SingTel's exclusive distribution rights late last year. This view is supported by the higher cost of goods sold in StarHub and M1 1Q 2010 results - mainly due to more iPhone sales. As a result, sales of other mobile phones were badly affected, which indirectly influenced the PCS business – the division does not hold iPhone inventory for StarHub. Whilst the iPhone craze seems to be cooling off and we are observing an influx of new smart phones by other cell phone makers, we expect TeleChoice's sales to remain affected for an extended period. However, the loss in market share may be compensated by higher selling prices of other smart phones.

As for the Engineering division, we are noticing higher capacity requirement in Indonesia due to growth in mobile broadband applications. More contracts are expected. It can be substantiated by Swedish Ericsson's three-year contract with PT Indosat to modernize their mobile network in May 2010. Additionally, Telkomsel intends to allocate RP20t of CAPEX in 2010 relative to RP19.2t CAPEX during 2009. We believe the developments are beneficial to TeleChoice.

Pertaining to NexWave Telecoms, which is a wholly owned subsidiary of Telecoms segment and a provider of next generation communications and application solution, we anticipate some pickup in volume though selling prices may be pressured due to intense competition. Orders are likely to flow in gradually, as businesses get more familiar with NexWave's new product offerings.

Additionally, we noted that TeleChoice's major shareholder, Singapore Technologies Telemedia (STT) has recently purchased a 33% stake in U Mobile Sdn Bhd (U Mobile). At the same time, U Mobile is seeking to raise funding for its expansion via a rights issue. We are of the opinion that TeleChoice may receive more projects from Malaysia in the near future.

Valuation: TeleChoice's 1Q 2010 revenue and net profit stood for 23.9% and 23.5% of our 2010F forecasts respectively. Since the results are in step with our expectations, we are leaving it intact. Consequently, we continue to maintain our **Invest** rating on TeleChoice with an intrinsic value of S$0.285 per share, based on a forward P/E of 10.2X.

Figure 2: Peer Comparison

	P/E	ROA (%)
SingTel	11.86	10.97
StarHub	13.65	18.84
MobileOne	13.03	18.32
Average	12.8	16.0
TeleChoice	7.5*	10.97

*: SIAS Research FY10F

Source: Bloomberg

Figure 3: Financial Forecast and Estimate

Year End Dec	FY07	FY08	FY09	FY10F
Profit & Loss (S$m)				
Revenue	420.4	354.0	273.7	314.7
Gross Profit	39.5	37.2	28.6	32.1
Op Income	16.9	16.7	12.8	15.8
Pretax	17.8	18.2	13.6	15.8
Earnings	14.2	14.2	11.4	12.8
EPS (fully diluted – S cts)	3.1	3.1	2.5	2.8
Balance Sheet (S$m)	**FY07**	**FY08**	**FY09**	**FY10F**
Non Current Assets	14.7	3.2	3.8	4.0
Current Assets	135.1	105.7	100.9	109.3
Current Liabilities	85.0	42.8	34.8	39.0
Non Current Liabilities	0.2	0.1	0.2	0.3
Total Equity	64.6	65.9	69.6	74.0
Cash Flow (S$m)	**FY07**	**FY08**	**FY09**	**FY10F**
Operating Cash Flow	2.2	36.3	5.8	7.3
Investing Cash Flow	(11.2)	(0.7)	9.2	(2.1)
Financing Cash Flow	5.8	(17.8)	(11.2)	(8.2)
Net Cash Increase/(Decrease)	(3.3)	17.8	3.9	(3.0)
Cash	25.0	42.6	46.6	43.6
Financial Ratios	**FY07**	**FY08**	**FY09**	**FY10F**
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	2.8
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	8.9
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	11.3
Return on Invested Capital (%)	18.6	20.0	15.7	16.6
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	**FY07**	**FY08**	**FY09**	**FY10F**
Price to sales (x)	0.2	0.3	0.3	0.3
PER (x)	6.7	6.7	8.3	7.5
Price to book (x)	1.5	1.4	1.4	1.3
Dividend Yield (%)	11.9	9.5	8.3	9.5

Source: SIAS Research Estimate

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.