

## TeleChoice International Limited

### Stable Results, Promising Outlooks

**Update:** On 13 August 2010, TeleChoice International Limited (TeleChoice) announced their 1H 2010 results. 1H 2010 revenue and profit were 54.8% and 47.0% of our previous FY2010 forecasts. As the performances are largely within our expectations, we are retaining our current forecasts for the year.

#### Fundamental Drivers:

- Strong Top Line Growth:** 2Q 2010 revenue jumped 37.7% YoY to S\$97.3m, maintaining its 1Q 2010 revenue growth rate of 36.5% YoY. The bulk of the growth is derived from the PCS segment, largely driven by higher regional sales and prepaid card sales.
- However, 2Q 2010 gross margin inched down 1.4% points YoY to 8.1%, owing to change in sales mix. Thus, gross profit grew 17.0% YoY to S\$7.9m.
- The Good News:** Operating expenses are well controlled, rising by a mere 4.4% YoY. Particularly, selling and marketing expenses only edged up 1.2% YoY while administrative expenses increased 20.6% YoY. As such, profit before tax climbed 30.9% YoY to S\$3.7m.
- The Headwind:** Profit after tax increased only 19.8% YoY to S\$3.0m, owing to a higher income tax expense. We reckon this can be attributed to the lower tax rate in 1Q 2010. Overall, income tax rates remain stable at 15.5% compared to 1H 2009 income tax rates of 16.1%.

**Value Catalyst:** TeleChoice remains an attractive counter on the back of high dividend yield of approximately 8.9% for FY2010F. The industry outlooks remain promising for both Engineering and Telecoms segments. PCS outlook is likely to remain stable. As such, we are retaining our **Invest** call on the counter with an intrinsic value of S\$0.28, representing an upside of 23.9%.

## Invest

- Intrinsic Value S\$0.285
- Prev Closing S\$0.230

#### 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  |
| Net Profit       | 14.2 | 11.4 | 12.8  |
| EPS (S cts)      | 3.1  | 2.5  | 2.8   |

Source: SIAS Research Estimate

#### Key ratios (FY10F)

|               |       |
|---------------|-------|
| PER           | 8.0   |
| P/BV          | 1.4   |
| ROE           | 17.3% |
| ROA           | 11.3% |
| Current ratio | 2.8   |

Source: SIAS Research Estimate

#### 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\$102.1 m

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**Segment Breakdown:** PCS 2Q sales rose 56% YoY, largely driven by regional sales and the prepaid card business. Profit before tax also grew 55% YoY, in line with revenue.

The Telecoms division experienced a challenging quarter due to the competitive consumer market. The unwinding of Mobitex services further aggravated it. However, a stronger enterprise segment showing offset the decline. Hence, sales were flat YoY whilst profit before tax declined YoY, from S\$0.3m to S\$0.1m.

Weaker transmission equipment sales in Singapore had caused the Engineering segment to suffer an 18% YoY revenue drop to S\$11.6m. Then again, higher gross margin from overseas projects supported the profit before tax figure, resulting in a flat YoY change at S\$0.5m.

**Promising Industry Outlooks:** According to UPS Asia Business Monitor 2010 findings, Singapore’s SME are largely optimistic about business outlook for the year and Singapore retained its number one ranking for SME competitiveness in Asia.

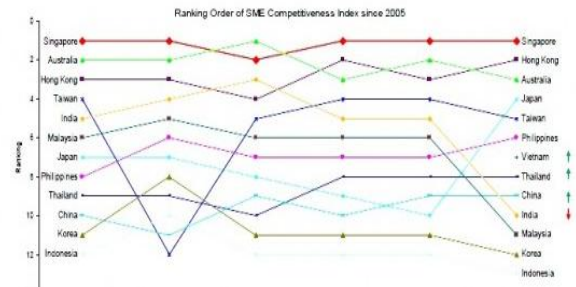
SME tend to favor cloud computing owing to its low CAPEX and flexible operating cost structure. We reckon the take-up rate of cloud computing is likely to increase and thus, benefit TeleChoice. The company had entered into the cloud-computing arena and offered the use of communications-as-a-service and software-as-a-service. (Kindly refer to our update report on 26 November 2009, Moving with the Cloud).

Pertaining to the Engineering division, we anticipate the contribution from Singapore to remain weak as the bulk of the infrastructure works are established. Overseas markets like Malaysia, Vietnam and Indonesia are likely to provide larger contributions, due to more projects and developments that are ongoing.

**Valuation:** Whilst we are bullish on the cloud-computing segment, TeleChoice has yet to prove their ability to penetrate the market, and we expect the competition to be intensive. Thus, we continue to value TeleChoice at a forward P/E of 10.2X. Retain **Invest** with an intrinsic value of S\$0.285 per share.

### Figure 1: SME Competitiveness

SME Competitiveness over the past six years



Source: UPS Asia Business Monitor 2010

### Figure 2: Cheap Compared To Peers

|             | P/E   | ROA (%) |
|-------------|-------|---------|
| SingTel     | 12.07 | 10.97   |
| StarHub     | 15.28 | 18.84   |
| MobileOne   | 12.43 | 18.32   |
| Average     | 13.26 | 16.04   |
| TeleChoice* | 8.0   | 11.3    |

\*: Sias Research 2010 Estimates

Source: Bloomberg

**Figure 3: Financial Forecasts and Estimates**

| <b>Year End Dec</b>            | <b>FY07</b> | <b>FY08</b> | <b>FY09</b> | <b>FY10F</b> |
|--------------------------------|-------------|-------------|-------------|--------------|
| <b>Profit &amp; Loss (\$m)</b> |             |             |             |              |
| 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          |
| <b>Balance Sheet (\$m)</b>     |             |             |             |              |
| 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         |
| <b>Cash Flow (\$m)</b>         |             |             |             |              |
| 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         |
| <b>Financial Ratios</b>        |             |             |             |              |
| 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         |
| <b>Valuations</b>              |             |             |             |              |
| Price to sales (x)             | 0.2         | 0.3         | 0.4         | 0.3          |
| PER (x)                        | 7.2         | 7.2         | 8.9         | 8.0          |
| Price to book (x)              | 1.6         | 1.5         | 1.5         | 1.4          |
| Dividend Yield (%)             | 11.1        | 8.9         | 7.8         | 8.9          |

Source: SIAS Research Estimates

**Rating Definition:**

**Increase Exposure** – The current price of the stock is significantly lower than the underlying fundamental value 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.

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**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.**

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