

# TeleChoice International Limited

03 Mar 10

## Results Review

### Awaiting the Next Wave

**Results Review: On 25 Feb 2010, TeleChoice announced their unaudited full year results ended 31 Dec 2009. The performance was largely within our expectations with FY09 sales outperforming our estimate by 1.7% and FY09 net profit beating our forecast by 5.7%.**

Sales continue to weaken YoY for 4Q09 with S\$77.7m revenue compared to 4Q08's revenue of S\$79.0m. The PCS division reported higher revenue due to additional sales of prepaid cards, which offset weaker demand from StarHub. For the Telecoms and Engineering divisions, sales were lowered YoY for the quarter due to lower IDD usage and poorer transmission equipment sales in Singapore respectively.

However, we noted that 4Q09 sales across all three divisions improved slightly QoQ, as demand recovers from the trough following the financial crisis.

While the top line is on track to recovery, we are largely impressed by the rapid upturn in profit before tax (PBT) margin. The Telecoms and Engineering segments' PBT margin advanced from 8.1% and 1.3% respectively in 3Q09 to 10.3% and 9.8% in 4Q09. Though PCS's PBT margin slipped from 5.5% to 5% QoQ, it is still way above the historical quarterly average of 4.1% from 1Q07 to 4Q09.

TeleChoice proposed a dividend payout of 1.75 Singapore cents per ordinary share for this financial period, representing a payout ratio of 69.5%. This is consistent with their past five years' payout ratio, which ranges from 60% to 80%.

## Fairly Valued

**Intrinsic Value S\$0.285**  
**Prev Closing Price S\$0.225**

### 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\$m | 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: Company, SIAS Research

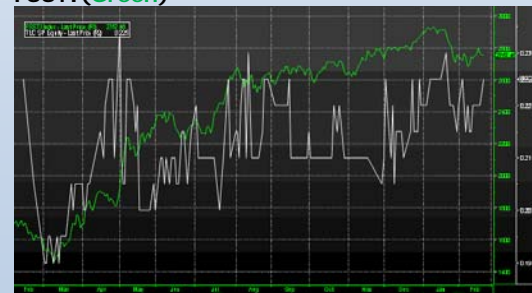
### Key ratios (FY10F)

|                    |          |
|--------------------|----------|
| PER                | 8.2      |
| P/BV               | 1.4      |
| ROA                | 11.3%    |
| ROE                | 17.3%    |
| Net Debt to Equity | Net Cash |
| Current ratio      | 2.8      |

Source: SIAS Research

### Indexed Price Chart

Telechoice (White)  
 FSSTI (Green)



Source: Bloomberg

52wks High-Low S\$0.235/S\$0.190  
 Number of Shares 453.3 m  
 Market Capitalization S\$104.3m

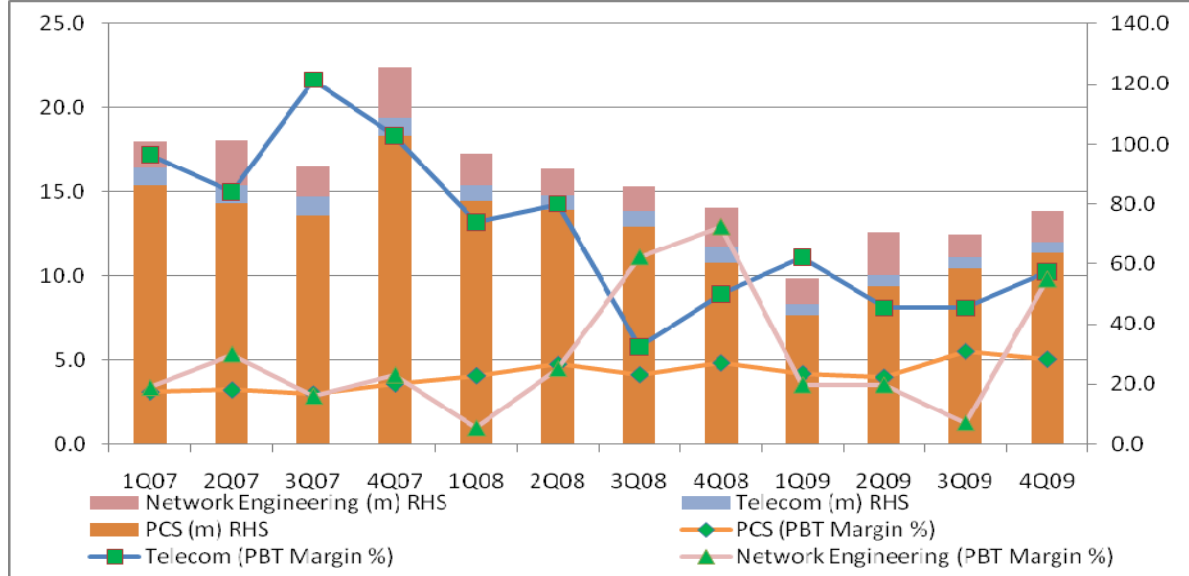
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Results Review

In addition, net cash position of TeleChoice had been strengthening over the past few years, from S\$28.3m in 2006 to S\$43.6m in 2009. This provides TeleChoice with the financial muscle to carry out new business developments or M&A transactions, should the opportunity arise.

Figure 1: Revenue and PBT Margin



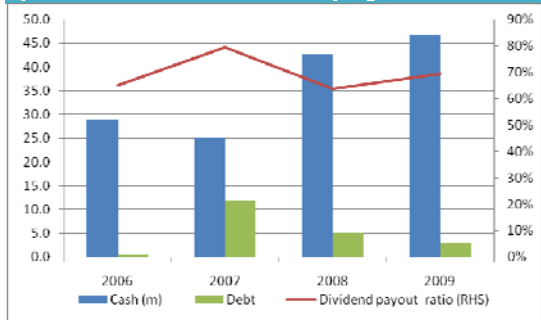
Source: Company, SIAS Research

**Update:** In our previous coverage (Moving with the Cloud, 26 Nov 09), we illustrated the showcase of NexWave Telecoms (NexWave). The new corporate website of this subsidiary has recently won the Interactive Media Award for Outstanding Achievement 2009.

We also find the website user-friendly with the ability to position NexWave accurately to potential clients. This should help the subsidiary to convey their value propositions to customers more effectively and assist in generating interest from corporations and retailers.

**Valuation:** The impending launch of the Next Generation National Broadband Network (NBN) is likely to spur new product offerings by operators such as TeleChoice. The additional services will probably be centered on the commercial broadband and data management subsectors, which were previously dominated by the incumbents.

Figure 2: Cash position, debt position and dividend payout ratio



Source: Company, SIAS Research

Figure 3: NexWave Award



Source: Company

However, we remain cautious about the growth prospect of NBN and NexWave as the competition is expected to be aggressive. Hence, we continue to value TeleChoice at a forward P/E of 10.2X. With that, we maintain our fully valued recommendation with an intrinsic value of S\$0.285, based on FY10F EPS of 2.81 cents.

**Figure 4: Peer Valuation**

|            | P/E   | ROA (%) |
|------------|-------|---------|
| SingTel    | 12.84 | 10.15   |
| StarHub    | 11.52 | 18.84   |
| MobileOne  | 12.2  | 18.32   |
| Average    | 12.2  | 15.8    |
| TeleChoice | 9.2   | 10.97   |

Source: Bloomberg, SIAS Research

Figure 5: Financial Forecast and Estimate

| Year End Dec                   | FY08   | FY09   | FY10F |
|--------------------------------|--------|--------|-------|
| <b>Profit &amp; Loss (\$m)</b> |        |        |       |
| Revenue                        | 354.0  | 273.7  | 314.7 |
| Gross Profit                   | 37.2   | 28.6   | 32.1  |
| Op Income                      | 16.7   | 12.8   | 15.8  |
| Pretax                         | 18.2   | 13.6   | 15.8  |
| Earnings                       | 14.2   | 11.4   | 12.8  |
| EPS (fully diluted – S cts)    | 3.1    | 2.5    | 2.8   |
| <b>Balance Sheet (\$m)</b>     |        |        |       |
| Non Current Assets             | 3.2    | 3.8    | 4.0   |
| Current Assets                 | 105.7  | 100.9  | 109.3 |
| Current Liabilities            | 42.8   | 34.8   | 39.0  |
| Non Current Liabilities        | 0.1    | 0.2    | 0.3   |
| Total Equity                   | 65.9   | 69.6   | 74.0  |
| <b>Cash Flow (\$m)</b>         |        |        |       |
| Operating Cash Flow            | 36.3   | 5.8    | 7.3   |
| Investing Cash Flow            | (0.7)  | 9.2    | (2.1) |
| Financing Cash Flow            | (17.8) | (11.2) | (8.2) |
| Net Cash Increase/(Decrease)   | 17.8   | 3.9    | (3.0) |
| Cash                           | 42.6   | 46.6   | 43.6  |
| <b>Financial Ratios</b>        |        |        |       |
| Revenue Growth (%)             | (15.8) | (22.7) | 15.0  |
| Earnings Growth (%)            | 0.1    | (19.6) | 12.0  |
| EPS Growth (%)                 | (0.3)  | (19.7) | 11.8  |
| Gross Margin (%)               | 10.5   | 10.4   | 10.2  |
| Net Margin (%)                 | 4.0    | 4.2    | 4.1   |
| Current Ratio (x)              | 2.5    | 2.9    | 2.8   |
| Book value per share (S cts)   | 14.6   | 15.4   | 16.3  |
| Net Cash/(Debt) per sh (S cts) | 8.3    | 9.6    | 8.9   |
| Net Debt / Equity (%)          | Cash   | Cash   | Cash  |
| Dividend payout ratio (%)      | 63.8   | 69.5   | 71.1  |
| Return on Equity (%)           | 21.5   | 16.4   | 17.3  |
| Return on Asset (%)            | 13.0   | 10.9   | 11.3  |
| Return on Invested Capital (%) | 20.0   | 15.7   | 16.6  |
| Debtor Days                    | 46.4   | 39.0   | 37.7  |
| Creditor Days                  | 14.2   | 17.7   | 20.4  |
| Inventory Days                 | 23.3   | 18.1   | 26.0  |
| CCC                            | 55.5   | 39.4   | 43.3  |
| <b>Valuations</b>              |        |        |       |
| Price to sales (x)             | 0.3    | 0.4    | 0.3   |
| PER (x)                        | 7.3    | 9.1    | 8.2   |
| Price to book (x)              | 1.6    | 1.5    | 1.4   |
| Dividend Yield (%)             | 8.7    | 7.6    | 8.7   |

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.

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