

TeleChoice International Limited

Looking North

TeleChoice International Limited (TeleChoice) reported an expected set of FY10 results with revenue and profit forming 104% and 97.2% of our forecasts respectively. FY11F performance is likely to surpass that of FY10 due to contribution from S&I (Refer to our previous update, *The Emergence of the Info-comm Technology Division*, 19 October 2010). Another growth driver for the company hinges on U Mobile's success in Malaysia. Maintain **Invest** with an intrinsic value of S\$0.300 per share.

Key Developments:

- PCS Division:** FY10 revenue rose 23% YoY to \$267m owing to robust regional sales and contribution from the prepaid card business, which more than offset the drop in StarHub's sales. Profit before tax increased 17% YoY to S\$12.0m.
- ICT Division:** Following the unwinding of Mobitex services and challenging consumer market, FY10 revenue for this division dipped 6% YoY to S\$14.4m. Profit before tax descended by a larger 79% YoY to S\$0.3m owing to the above reasons, amortization expenses and due diligence expenses incurred for the acquisition of S&I.
- Engineering Division:** On the back of more projects from Indonesia, this division's FY10 revenue grew 12% YoY to S\$45.9m while profit before tax jumped 26% YoY to S\$2.4m. The bottom line increased by a larger percentage due to better margins.
- Cash position declined S\$12m YoY to S\$34.7m largely due to the acquisition of S&I, which has a cash outflow of S\$7.5m, net of cash acquired. The consolidation of S&I into TeleChoice's balance sheet also resulted in intangible asset of S\$10.5m, of which S\$5m of it will be amortized over a period of 5 years, translating to an additional S\$1m amortization fees for FY11F. The company declared a final 1.8 S cents dividend, representing a dividend yield of 6.9%.

Invest

- Intrinsic Value S\$0.300
- Prev Closing S\$0.260

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 (ICT), and Network Engineering Services (Engineering).

Financial Highlights

(Y/E Dec) S\$'mn	FY09	FY10	FY11F
Revenue	273.7	327.5	402.3
Gross Profit	28.6	31.1	38.5
Net Profit	11.4	12.5	15.1
EPS (S cts)	2.5	2.7	3.3

Source: SIAS Research Estimates

Key ratios (FY11F)

PER	7.8
P/BV	1.4
ROE	18.2%
Dividend Yield	8.3%
Current ratio	2.0

Source: SIAS Research Estimates

Indexed Price Chart

Green (FSSTI)
White (TeleChoice)



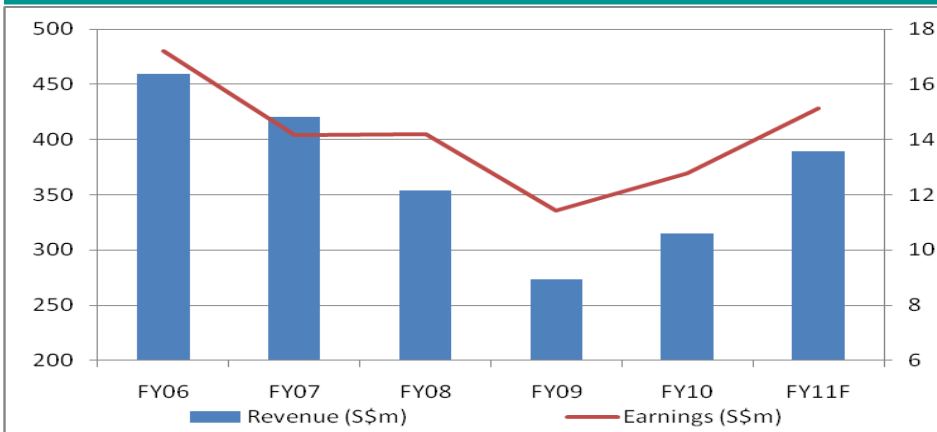
Source: Bloomberg

52wks High-Low 26.5 cents/ 21.0 cents
 Number of Shares 453.6 m
 Market Capitalization S\$117.9 m

Analyst:

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

Figure 1: TeleChoice's Historical Performance



Source: Company, SIAS Research Estimates

Looking North: Back in March 2010, TeleChoice's majority shareholder, Singapore Technologies Telemedia acquired 33% of U Mobile Sdn Bhd (U Mobile), a 3G mobile service operator in Malaysia. Presently, TeleChoice is providing consulting services to U Mobile and we see the possibility of TeleChoice offering a wider range of services from its PCS and Engineering divisions.

The former may be able to provide mobile handset fulfillment and retail management services (similar to what it provides StarHub with) while the Engineering division can assist in certain infrastructure projects. The ICT division's S&I also has some ongoing operations in Malaysia and may be able to broaden their offerings via U Mobile. However, the 'opportunities' mentioned above hinge on the success of U Mobile in Malaysia. TeleChoice is also looking at other growth opportunities in the region.

More Acquisitions After S&I?: TeleChoice did not incorporate any S&I earnings into the FY10 results and we retain our expectation of FY11F S\$2.7m profit (S\$1.7m after amortization fees) from this entity. The combination of NexWave Telecoms' telephony expertise and S&I's secured network knowledge will position the division for growth as an integrated info-comm solutions provider and a leading cloud provider. Going forward, the ICT division may continue to acquire more related companies so as to offer more comprehensive services and hitch on the fast growing cloud computing space.

Valuation: TeleChoice's growth plans lie mainly in regional opportunities and the cloud computing space. The core business of handset fulfillment to StarHub is likely to remain stagnant owing to sizeable penetration from Apple's products, which TeleChoice does not carry. We are retaining our FY11 forecasts and continue to price the company at 9X FY11F P/E. Maintain **Invest** with an intrinsic value of S\$0.30 per share.

Figure 2: Peers Comparison

	P/E	ROA (%)
SingTel	11.99	10.97
StarHub	17.00	14.93
MobileOne	13.71	17.73
Average	14.23	14.54
TeleChoice*	9.48	9.22

*: FY10 Results, the peers' figures are based on Bloomberg's trailing 12 months
Source: Bloomberg, SIAS Research

Figure 3: Financial Forecasts and Estimates

Year End Dec	FY07	FY08	FY09	FY10	FY11F
Profit & Loss (\$m)					
Revenue	420.4	354.0	273.7	327.5	402.3
Gross Profit	39.5	37.2	28.6	31.1	38.5
Op Income	16.9	16.7	12.8	14.5	18.3
Pretax	17.8	18.2	13.6	14.7	18.7
Earnings	14.2	14.2	11.4	12.5	15.1
EPS (fully diluted - S cts)	3.1	3.1	2.5	2.7	3.3
Balance Sheet (\$m)					
Non Current Assets	14.7	3.2	3.8	18.0	25.7
Current Assets	135.1	105.7	100.9	117.1	119.6
Current Liabilities	85.0	42.8	34.8	57.7	60.2
Non Current Liabilities	0.2	0.1	0.2	1.9	2.5
Total Equity	64.6	65.9	69.6	75.5	82.6
Cash Flow (\$m)					
Operating Cash Flow	2.2	36.3	5.8	3.1	10.3
Investing Cash Flow	(11.2)	(0.7)	9.2	(8.7)	(8.6)
Financing Cash Flow	5.8	(17.8)	(11.2)	(6.5)	(4.2)
Net Cash Increase/(Decrease)	(3.3)	17.8	3.9	(12.1)	(2.5)
Cash	25.0	42.6	46.6	34.5	32.0
Financial Ratios					
Revenue Growth (%)	(8.6)	(15.8)	(22.7)	19.7	22.8
Earnings Growth (%)	(17.6)	0.1	(19.6)	9.1	21.3
EPS Growth (%)	(17.6)	(0.3)	(19.7)	8.9	21.3
Gross Margin (%)	9.4	10.5	10.4	9.5	9.6
Net Margin (%)	3.4	4.0	4.2	3.8	3.8
Current Ratio (x)	1.6	2.5	2.9	2.0	2.0
Book value per share (S cts)	14.3	14.6	15.4	16.3	18.2
Net Cash/(Debt) per sh (S cts)	2.9	8.3	9.6	5.6	5.3
Net Debt / Equity (%)	Cash	Cash	Cash	Cash	Cash
Dividend payout ratio (%)	79.5	63.8	69.5	65.6	65.0
Return on Equity (%)	21.9	21.5	16.4	16.7	18.2
Return on Asset (%)	9.5	13.0	10.9	9.2	10.4
Return on Invested Capital (%)	18.6	20.0	15.7	14.9	16.3
Debtor Days	53.9	46.4	39.0	49.8	37.0
Creditor Days	39.4	14.2	17.7	22.3	20.2
Inventory Days	24.7	23.3	18.1	29.3	26.5
CCC	39.3	55.5	39.4	56.9	43.3
Valuations					
Price to sales (x)	0.3	0.3	0.4	0.4	0.3
PER (x)	8.3	8.3	10.3	9.5	7.8
Price to book (x)	1.8	1.8	1.7	1.6	1.4
Dividend Yield (%)	9.6	7.7	6.7	6.9	8.3

Source: SIAS Research Estimates

Rating Definition:

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

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