

Overweight

Current Price	S\$0.270
Fair Value	S\$0.340
Up / (downside)	25.9%

Stock Statistics

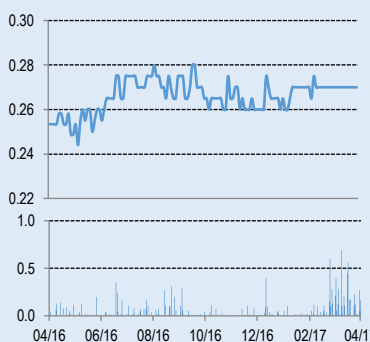
Market cap	S\$122.6m
52-low	S\$0.245
52-high	S\$0.280
Avg daily vol	51,385
No of share	454.4m
Free float	29.4%

Key Indicators

ROE 17F	12.9%
ROA 17F	5.5%
P/BV	1.63
Net gearing	Net cash

Major Shareholders

STT Communications Ltd	50.4%
Leap International	19.7%

Historical Chart

Source: Bloomberg

Liu Jinshu

(+65) 6236-6887
jinshu.liu@nrcapital.com
www.nrcapital.com

New Smartphone Models to Spur Handset Upgrades

- **Samsung launched the Galaxy S8 in March.** Samsung launched its new Galaxy S8 handset at the end of March with a global release date of 21 April. The Samsung Galaxy S8 has been highly anticipated as the Note 7 fiasco in 2016 has led the smartphone maker to double down on efforts to make the Galaxy S8 a success. Samsung officials have been quoted as being optimistic that S8 sales will beat that of the predecessor model S7 and have doubled the initial stock for the S8 compared to the S7.
- **Series of new smartphone models may spur handset upgrades.** TeleChoice's Consumer Business reported a 23% or S\$22.6m year-on-year decline in revenue in 4Q16 partly due to Samsung's recall of the Note 7 phones. The S8 will help drive sales growth for the Consumer or Personal Communications Solutions Business from 2Q onwards, if it proves to be successful. Moreover, Apple is expected to release iPhone 8 in 4Q 2017. Our view is that the new products of this year are more highly anticipated than previous launches and will help to spur handset upgrades, which will in turn provide revenue opportunities for TeleChoice, especially when the company has 14 StarHub and Samsung retail touchpoints in Singapore.
- **Consumer Business has scope to grow.** In addition, we expect TeleChoice's Consumer Business to broaden its services to include e.g. set-top box and home/office networking services for Starhub. Secondly, the Consumer Business is also looking at replicating its services in a third market, after Singapore and Malaysia. Longer term, more aggressive capture of new business opportunities will help the Consumer Business to reduce its reliance on the Singapore market and extract economies of scale from serving a larger portfolio of regional clients.
- **Any industry consolidation to benefit TeleChoice.** We noted that there has been talk of potential consolidation within the telecommunication industry in Singapore, following news that the major shareholders of M1 are considering the sale of their stakes. Any consolidation will be beneficial towards TeleChoice which will be able to expand its market share, owing to its strong relationship with StarHub.
- **Maintain Overweight rating.** In our revised forecasts, we expect revenue to rebound by close to 10% on the back of faster growth in the Consumer Business. Likewise, PATMI is expected to grow from S\$7.7m in FY16 to S\$9.9m in FY17. Given the relatively encouraging outlook, we decided to maintain our Overweight rating and valuation of S\$0.340 on TeleChoice. Despite the lower PATMI in FY16, TeleChoice has maintained its dividend at 1.6 cents. The valuation of S\$0.340 is equivalent to 15.56x FY17 EPS and 4.7% dividend yield given a forecast dividend of 1.6 cents.

Key Financial Data (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Sales	580.7	503.7	549.9	580.8	613.7
Gross Profit	43.1	38.6	41.2	43.6	46.0
Net Profit	10.3	7.7	9.9	11.7	12.3
EPS (cents)	2.3	1.7	2.2	2.6	2.7
EPS growth (%)	9.5	(25.3)	29.5	17.4	5.4
PER (x)	12.0	16.0	12.4	10.5	10.0
NTA/share (cents)	13.5	13.8	14.4	15.5	16.7
DPS (cents)	1.6	1.6	1.6	1.6	1.6
Div Yield (%)	5.9	5.9	5.9	5.9	5.9

Source: Company, NRA Capital forecasts

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Results Comparison

FYE Dec (S\$ m)	4Q16	4Q15	yoy % chg	3Q16	qoq % chg	Prev. 4Q16F
Revenue	117.7	162.3	-27	127.4	-8	201.4
Operating costs	(112.2)	(155.2)	-28	(123.8)	-9	(196.5)
EBITDA	5.5	7.1	-21	3.6	54	5.0
EBITDA margin (%)	4.7	4.3	8	2.8	67	2.5
Depn & amort.	(0.8)	(0.7)	23	(0.7)	19	(1.9)
EBIT	4.7	6.4	-26	2.9	62	3.1
Interest expense	(0.2)	(0.2)	6	(0.2)	-12	(0.2)
Interest & invt inc	0.0	0.1	-79	0.0	-44	0.5
Associates' contrib	0.1	0.0	nm	0.0	56	0.0
Exceptionals	0.0	(0.2)	nm	0.0	nm	0.0
Pretax profit	4.6	6.1	-25	2.8	67	3.3
Tax	(0.7)	(0.3)	105	(0.7)	-6	(0.2)
Tax rate (%)	14.8	5.4	172	26.2	-44	7.3
Minority interests	(0.0)	0.0	-103	0.0	-150	0.0
Net profit	3.9	5.8	-33	2.0	92	3.1
EPS (cts)	0.86	1.28	-33	0.45	91	0.67

Source: Company, NRA Capital

4Q16 performance was better than expected. We also take this opportunity to highlight that TeleChoice's 4Q16 results were better than expected. While revenue was lower than expected, higher EBITDA margin led the company to report PATMI of S\$3.9m in 4Q16 versus our forecast of S\$3.1m. Operationally, the ICT business won several accolades from partners in 2016, including

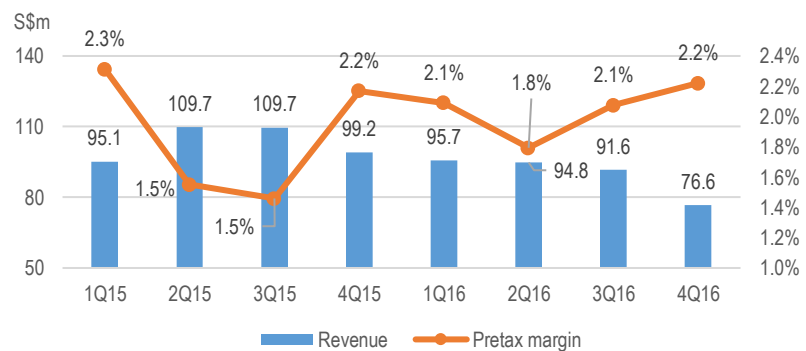
- Appointed as Avaya Diamond partner (the highest tier in Avaya's partner accreditation programme).
- Microsoft's "Cloud Master of the Month" for February 2016
- Oracle's first Advanced Cloud Partner for Singapore
- IBM's "Software Support & Subscription Outstanding Business Partner"

Net cash per share rose to 8.1 cents at the end of 2016. We also highlight that TeleChoice managed to maintain its net operating cash flow at S\$24.8m in FY16 in spite of the challenging conditions. Cash flow was supported by lower working capital needs as inventory fell by approximately S\$10m in FY16. As of 31 December 2016, the company had S\$12.1m of borrowings and S\$48.9m of cash, translating to net cash of S\$36.8m or 8.1 cents per share. Excluding the end FY16 cash of 8.1 cents from TeleChoice's share price, it trades at 11.2x FY16 EPS and only 8.65x FY17F EPS. Therefore, TeleChoice's share price cannot be said to be excessive. In fact, the company comes across as undervalued based on FY17F EPS.

However, expect 1Q17 to be slow. While we remain optimistic about TeleChoice's performance in 2017, the company has remarked that it expects the operating performance for 1Q2017 to be lower than the same period last year. TeleChoice reported revenue of S\$134.0m and PATMI of S\$1.2m for 1Q16. Most likely, TeleChoice's 1Q17 results will continue to reflect the slowdown in the Consumer and ICT businesses whose revenue fell by approximately 20% in 4Q16 when compared to 1Q16. The network engineering services business is expected to remain strong given revenue trends. On balance, we continue to like TeleChoice for its strong balance sheet and steady businesses. In recent years, TeleChoice has increasingly emphasized on delivering growth via initiatives such as new services and new market entry. We will probably hear more about TeleChoice's new businesses in the consumer (i.e. PCS) and enterprise (i.e. ICT and network engineering) divisions later in 2017.

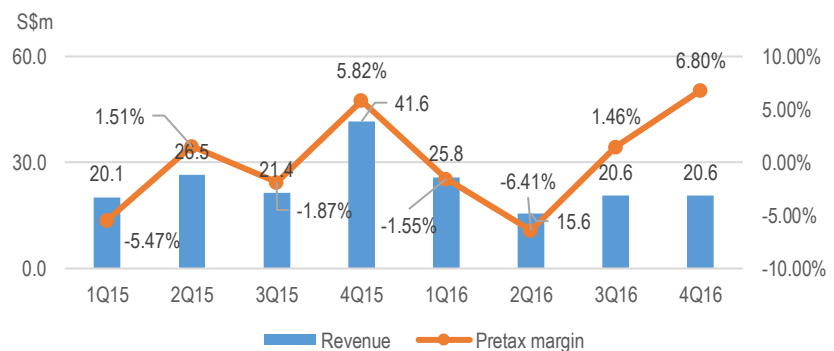
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Figure 1: Handset upgrades / New phone models boosted 2Q15 and 3Q15 revenue for the PCS segment.



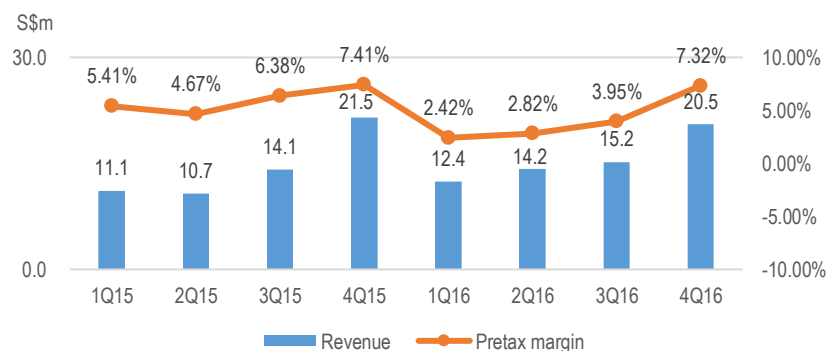
Source: Company, NRA Capital

Figure 2: Stable revenue for ICT business, amidst improving margins.



Source: Company, NRA Capital

Figure 3: Network engineering revenue and margin



Source: Company, NRA Capital

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Figure 4: Peer Comparison

Company Name	Mkt Cap (\$m)	T12M Sales (\$m)	ROE	Debt to Equity	P/E	P/B	EV/EBITDA
CSE Global Ltd	281.3	317.8	8.6	8.1	13.14	1.11	6.14
Nera Telecommunications Ltd	146.6	177.8	114.7	14.5	40.17	2.18	10.45
Declout Ltd	108.3	304.0	7.6	30.4	13.91	0.90	5.31
Hengxin Technology Ltd	118.3	318.5	7.4	1.9	5.85	0.42	0.20
Polaris Ltd	85.3	89.9	8.2	40.2	87.72	6.31	86.85
Addvalue Technologies Ltd	68.1	18.9	-22.4	59.3	NA	2.99	65.82
Global Invacom Group Ltd	39.4	175.8	-5.1	11.7	NA	0.54	13.30
Next-Generation Satellite Communications Ltd	12.8	0.0	57.8	0.0	0.54	0.26	NA
Captii Ltd	19.7	23.5	5.6	0.0	3.68	0.59	2.36
CMC Infocomm Ltd	11.4	18.2	NA	8.1	13.14	1.11	6.14
Average	89.1	144.4	20.3	18.4	23.57	1.62	22.60
TeleChoice International Ltd	122.7	503.7	10.2	16.1	16.0	1.63	6.60
Telecommunication Companies							
Singapore Telecommunications Ltd	64,009.4	16,497.6	14.9	39.8	16.33	2.38	15.22
StarHub Ltd	4,978.8	2,396.7	178.5	506.7	14.34	25.19	8.09
M1 Ltd/Singapore	2,008.9	1,061	36.7	99.4	13.25	4.85	7.57
Average	23,665.7	6,651.8	76.7	215.3	14.64	10.80	10.29

Source: Bloomberg, NRA Capital Extracted on 5 April.

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Profit & Loss (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Revenue	580.7	503.7	549.9	580.8	613.7
Operating expenses	(565.1)	(490.7)	(535.7)	(564.6)	(596.6)
EBITDA	15.5	13.0	14.3	16.3	17.0
Depreciation & amortisation	(2.9)	(2.9)	(3.0)	(3.0)	(3.0)
EBIT	12.6	10.2	11.3	13.3	14.0
Net interest & invt income	0.2	(0.0)	0.6	0.7	0.7
Associates' contribution	0.0	0.2	0.2	0.2	0.3
Exceptional items	(0.6)	0.0	0.0	0.0	0.0
Pretax profit	12.2	10.3	12.1	14.2	15.0
Tax	(2.1)	(2.6)	(2.2)	(2.6)	(2.7)
Minority interests	0.2	0.0	0.0	0.0	0.0
Net profit	10.3	7.7	9.9	11.7	12.3
Shares at year-end (m)	454.4	454.4	454.4	454.4	454.4
Balance Sheet (S\$ m, as at Dec)	2015	2016	2017F	2018F	2019F
Fixed assets	3.7	3.6	3.5	3.4	3.3
Intangible assets	13.0	12.4	11.8	11.2	10.7
Other long-term assets	7.7	7.3	3.5	2.5	1.9
Total non-current assets	24.4	23.3	18.9	17.2	15.8
Cash and equivalents	44.6	48.9	50.4	55.7	61.0
Stocks	51.3	40.8	48.6	51.3	54.2
Trade debtors	73.6	58.9	69.7	73.6	77.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	169.5	148.6	168.7	180.6	193.0
Trade creditors	89.3	75.6	86.5	91.3	96.5
Short-term borrowings	14.5	7.1	8.2	8.7	9.2
Other current liabilities	5.8	5.6	7.0	7.4	7.5
Total current liabilities	109.6	88.3	101.7	107.4	113.2
Long-term borrowings	5.0	5.0	5.5	5.8	6.1
Other long-term liabilities	5.1	3.4	3.2	3.0	2.9
Total long-term liabilities	10.1	8.3	8.7	8.8	9.0
Shareholders' funds	74.2	75.3	77.2	81.6	86.6
Minority interests	0.0	0.0	0.0	(0.0)	(0.0)
NTA/share (S\$)	0.13	0.14	0.14	0.15	0.17
Total Assets	193.9	171.9	187.6	197.8	208.8
Total Liabilities + S'holders' funds	193.9	171.9	187.6	197.8	208.8
Cash Flow (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Pretax profit	12.2	10.3	12.1	14.2	15.0
Depreciation & non-cash adjustments	10.2	4.0	7.8	5.9	5.6
Working capital changes	3.7	12.2	(7.5)	(1.6)	(1.7)
Cash tax paid	(1.3)	(1.7)	(0.8)	(2.2)	(2.6)
Cash flow from operations	24.7	24.8	11.7	16.3	16.3
Capex	(2.3)	(2.2)	(3.1)	(3.1)	(3.1)
Net investments & sale of FA	(5.9)	(2.2)	0.0	0.0	0.0
Others	(0.3)	0.1	(0.6)	(0.6)	(0.6)
Cash flow from investing	(8.4)	(4.4)	(3.7)	(3.8)	(3.8)
Debt raised/(repaid)	(0.5)	(7.4)	1.6	0.8	0.8
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)
Cash interest & others	(1.9)	(1.5)	(0.8)	(0.8)	(0.8)
Cash flow from financing	(9.7)	(16.1)	(6.4)	(7.3)	(7.3)
Change in cash	6.6	4.3	1.6	5.3	5.3
Change in net cash/(debt)	7.1	11.6	(0.1)	4.5	4.5
Ending net cash/(debt)	25.1	36.8	36.7	41.2	45.6
KEY RATIOS (FYE Dec)	2015	2016	2017F	2018F	2019F
Revenue growth (%)	12.4	(13.3)	9.2	5.6	5.6
EBITDA growth (%)	3.7	(16.1)	9.4	14.3	4.5
Pretax margins (%)	2.1	2.0	2.2	2.4	2.4
Net profit margins (%)	1.8	1.5	1.8	2.0	2.0
Effective tax rates (%)	17.6	25.6	18.0	18.0	18.0
Net dividend payout (%)	70.9	94.9	73.2	62.4	59.2
ROE (%)	13.8	10.2	12.9	14.3	14.2
Free cash flow yield (%)	18.3	18.4	6.9	10.8	10.8

Source: Company, NRA Capital forecasts

TeleChoice International Limited

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