

Neutral

Current Price	S\$0.27
Fair Value	S\$0.24
Up / (downside)	(11%)

Stock Statistics

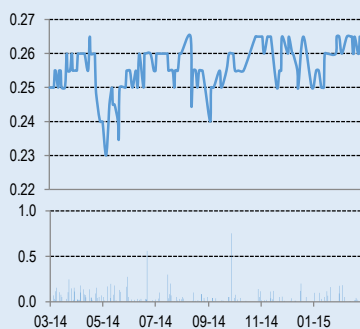
Market cap	S\$122.7m
52-low	S\$0.23
52-high	S\$0.27
Avg daily vol	71,824
No of share	453.2m
Free float	30%

Key Indicators

ROE 15F	18%
ROA 15F	7%
P/BK	1.7
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart

Source: Bloomberg

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Maintaining good dividend

- **Earnings below expectations.** TeleChoice's 4Q14 net profit of S\$3.7m (-12% yoy) was 32% lower than our S\$5.4m forecast due mainly to its disappointing ICT performance. Its S&I System's sales also faced tough times last year as most of its bank customers were cutting capex spending, but this was somewhat offset by more government projects for which margins are lower.
- **Cut earnings forecasts.** With the tough operating conditions for its ICT division, we cut our FY15 and FY16 earnings by 16-17%. As a result, our fair value has been lowered by 5 cents to S\$0.24, still based on 8x PER FY15. We maintain our **Neutral** recommendation given its stable cash flow with attractive projected yield at 6-8%.
- **Master prepaid card distributors for Starhub.** As Singapore's prepaid card market is getting competitive, Starhub is appointing TeleChoice as a master distributor from Jan-2015 but excluding 7-11 stores. This is a consolidation from the original three distributors. We believe this is positive for TeleChoice and the group expects its market share for Starhub prepaid card to grow from 25% in the past to more than 70% now. As it's able to control the pricing better now, we expect its prepaid card's margins will improve. The group expects S\$5-10m additional working capital for inventory, no credit terms are given for its prepaid cards sales.
- **Apple passed Samsung in Q414 smartphone sales.** Worldwide sales of smartphones to end users had a record 4Q14 with an increase by 29.9% yoy to reach 367.5m units, according to Gartner. Samsung lost the No. 1 spot to Apple in the global smartphone market in the 4Q14. Samsung had been in the top spot since 2012. To strike back, Samsung launched its new Galaxy S6 and Galaxy S6 edge, the biggest improvement is both of the new phones are made entirely of metal and glass: the plastics that dominated Samsung's premium products for years are gone.
- **4Q14 revenues decreased by 13% yoy to S\$131.4m,** PCS's sales declined 19% yoy due to lower mobile phones and pre-paid cards sales. ICT revenue slid by 3% yoy mainly due to lower project revenue recognition. Nevertheless, Engineering sales increased by 8 yoy due to higher power supply sales in Indonesia and higher products sales in Malaysia.
- **Gross profit margins improved 0.8% pts yoy to 9.4% in 4Q14** led mainly by PCS divisions.
- **Balance sheet remains strong.** The group generated a positive free cash flow of S\$6.7m after improving its working capital requirements. Net cash increased to S\$18m as at end December-2014 or about 4 cents net cash per shares. As expected, the group declared an unchanged final dividend of 1.6 Singapore cents.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	556.3	516.8	597.9	674.4	761.5
Gross Profit	43.5	42.5	53.2	59.3	65.5
Net Profit	9.7	9.4	13.7	15.0	15.6
EPS (cents)	2.1	2.1	3.0	3.3	3.4
EPS growth (%)	17.4	(3.1)	45.8	9.5	4.7
PER (x)	12.7	13.1	9.0	8.2	7.8
NTA/share (cents)	11.9	12.8	13.9	15.2	16.6
DPS (cents)	1.6	1.6	1.8	2.0	2.1
Div Yield (%)	5.9	5.9	6.7	7.3	7.7

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (\$\$ m)	4Q14	4Q13	yoy % chg	3Q14	qoq % chg	Prev. 4Q14F	Comments
Revenue	131.4	151.8	(13)	131.5	(0)	179.2	26% below expectation
Operating costs	(126.5)	(147.0)	(14)	(127.6)	(1)	(171.2)	Below, lower-than-expected revenue
EBITDA	4.9	4.8	2	3.9	25	8.0	Below, lower-than-expected revenue
EBITDA margin (%)	3.7	3.2		3.0		4.4	0.7% pts below expectation
Deprn & amort.	(0.9)	(0.8)	15	(0.9)	(3)	(0.6)	Above
EBIT	4.0	4.1	(0)	3.0	34	7.4	Below, lower-than-expected revenue
Interest expense	(0.5)	(0.3)	55	(0.2)	120	(0.2)	Above, higher-than-expected effective interest
Interest & invt inc	0.3	0.3	(1)	0.1	137	(0.1)	Above
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.9	4.1	(4)	3.0	32	7.1	Below, lower-than-expected revenue
Tax	(0.2)	0.1	(230)	(0.8)	(76)	(1.8)	Below, lower-than-expected pretax profit and taxation
Tax rate (%)	4.6	(3.4)		26.0		25.1	
Minority interests	(0.1)	(0.0)	49	0.1	(149)	0.1	
Net profit	3.7	4.2	(12)	2.3	60	5.4	32% below expectation
EPS (cts)	0.8	0.9	(12)	0.5	60	1.2	

Source: NRA Capital estimates

Worldwide Smartphone Sales to End Users by Vendor in 4Q14 ('000)

Company	4Q14 Units	4Q14 Market Share (%)	4Q13 Units	4Q13 Market Share (%)
Apple	74,832	20%	50,224	18%
Samsung	73,032	20%	83,317	30%
Lenovo*	24,300	7%	16,465	6%
Huawei	21,038	6%	16,057	6%
Xiaomi	18,582	5%	5,598	2%
Others	155,702	42%	111,204	39%
Total	367,485	100%	282,866	100%

Source: Gartner (March 2015) *The results for Lenovo include sales of mobile phones by Lenovo and Motorola.

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Profit & Loss (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	556.3	516.8	597.9	674.4	761.5
Operating expenses	(541.6)	(501.8)	(577.5)	(652.4)	(738.7)
EBITDA	14.7	15.0	20.4	21.9	22.8
Depreciation & amortisation	(3.1)	(3.4)	(3.4)	(3.4)	(3.3)
EBIT	11.5	11.6	17.0	18.6	19.5
Net interest & invt income	(0.5)	(0.2)	0.0	0.1	0.1
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	11.1	11.4	17.1	18.7	19.6
Tax	(1.5)	(2.2)	(3.4)	(3.7)	(3.9)
Minority interests	0.1	0.2	0.0	0.0	0.0
Net profit	9.7	9.4	13.7	15.0	15.6
Shares at year-end (m)	453.9	454.4	454.4	454.4	454.4
Balance Sheet (\$\$ m, as at Dec)	2013	2014	2015F	2016F	2017F
Fixed assets	2.4	3.3	4.0	4.6	5.1
Intangible assets	15.6	14.0	13.3	12.7	12.0
Other long-term assets	1.8	7.0	7.0	7.0	7.0
Total non-current assets	19.8	24.3	24.3	24.2	24.1
Cash and equivalents	48.9	38.0	41.2	40.5	42.8
Stocks	39.1	32.7	37.6	42.5	48.1
Trade debtors	63.4	91.7	95.7	107.9	121.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	151.5	162.4	174.5	190.8	212.7
Trade creditors	74.5	85.6	92.6	104.6	118.3
Short-term borrowings	9.9	20.0	12.0	10.1	11.4
Other current liabilities	6.5	5.8	8.5	8.8	8.9
Total current liabilities	90.8	111.4	113.0	123.4	138.7
Long-term borrowings	10.0	0.0	6.0	6.7	7.6
Other long-term liabilities	0.7	3.1	3.0	2.8	2.7
Total long-term liabilities	10.7	3.1	8.9	9.6	10.3
Shareholders' funds	69.5	72.1	76.6	81.9	87.7
Minority interests	0.3	0.2	0.2	0.2	0.2
NTA/share (\$\$)	0.12	0.13	0.14	0.15	0.17
Total Assets	171.3	186.7	198.8	215.0	236.9
Total Liabilities + S'holders' funds	171.3	186.7	198.8	215.0	236.9
Cash Flow (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	11.1	11.4	17.1	18.7	19.6
Depreciation & non-cash adjustments	(4.3)	1.8	1.9	2.2	3.0
Working capital changes	9.1	(10.0)	(1.3)	(4.6)	(5.1)
Cash tax paid	(2.5)	(1.9)	(0.8)	(3.4)	(3.7)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	13.3	1.3	17.0	12.9	13.7
Capex	(2.2)	(3.0)	(3.3)	(3.3)	(3.3)
Net investments & sale of FA	0.0	0.0	0.0	0.0	0.0
Others	(1.4)	(1.3)	(0.3)	(0.3)	(0.3)
Cash flow from investing	(3.6)	(4.3)	(3.6)	(3.6)	(3.6)
Debt raised/(repaid)	(2.3)	0.1	(2.0)	(1.1)	2.2
Equity raised/(repaid)	(0.3)	(0.2)	0.0	0.0	0.0
Dividends paid	(7.4)	(7.3)	(7.3)	(8.2)	(9.0)
Cash interest & others	(2.6)	(0.6)	(0.8)	(0.8)	(0.9)
Cash flow from financing	(12.5)	(7.9)	(10.1)	(10.0)	(7.7)
Change in cash	(2.7)	(10.9)	3.2	(0.7)	2.4
Change in net cash/(debt)	(0.4)	(11.0)	5.3	0.3	0.2
Ending net cash/(debt)	29.0	18.0	23.3	23.6	23.8
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	15.7	(7.1)	15.7	12.8	12.9
EBITDA growth (%)	3.8	2.2	36.2	7.4	4.1
Pretax margins (%)	2.0	2.2	2.9	2.8	2.6
Net profit margins (%)	1.7	1.8	2.3	2.2	2.1
Effective tax rates (%)	13.3	19.3	20.0	20.0	20.0
Net dividend payout (%)	75.2	77.6	60.0	60.0	60.0
ROE (%)	13.9	13.0	17.8	18.3	17.8
Free cash flow yield (%)	9.1	(1.4)	11.1	7.8	8.5

Source: Company, NRA Capital forecasts

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