

TeleChoice Int'l

1Q15 results update
19 May 2015

Neutral

Current Price	S\$0.275
Fair Value	S\$0.26
Up / (downside)	(6%)

Stock Statistics

Market cap	S\$125m
52-low	S\$0.235
52-high	S\$0.295
Avg daily vol	84,635
No of share	454.4m
Free float	30%

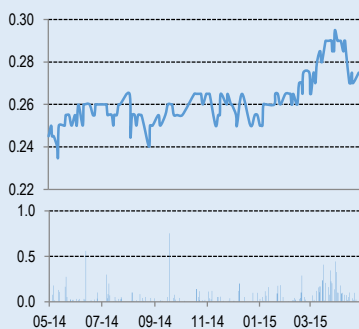
Key Indicators

ROE 15F	14%
ROA 15F	6%
P/BK	1.7x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.4%
Leap International	19.7%

Historical Chart



Source: Bloomberg

Jacky Lee

(+65) 6236-6887
jacky.lee@nracapital.com
www.nracapital.com

Bagging more public sector projects

- **Earnings below expectation.** Despite TeleChoice's 1Q15 revenue being just 8% below our expectation, net profit of S\$0.8m (-53% yoy) was 63% lower than our S\$2.1m forecast due mainly to much lower-than-expected gross profit margins as well as an exceptional loss on disposal of a joint venture.
- **Cut FY15 earnings forecasts.** With disappointing 1Q15 earnings, we cut our FY15 earnings estimate by 19%. However, we keep our FY16-17 numbers unchanged as we remain positive for its ICT. We roll forward our fair value based on FY15 PER to FY16 PER, as a result, our fair value has been inched up by 2 cents to S\$0.26, still based on 8x PER. We maintain our **Neutral** recommendation given its stable cash flow with attractive projected yield at 6-7%.
- **ICT segment remains lumpy for now.** As a new player for government projects, TeleChoice is growing fast in this segment. The group is targeting around 20% of the ICT's revenue to come from public sector projects this year. The group is focusing on education and healthcare for now. However, before reaching its critical mass level, the group expects its ICT segment margins to remain lumpy. Singapore government's IT spending's expected to hit US\$3.2bn in 2014, according to Gartner. Meanwhile, they also project Singapore government spending on ICT will grow by 3% each year over the next four years: from US\$3.2bn this year, to US\$3.3bn in 2015, to US\$3.7bn in 2018, IT spending includes those related to internal services, software, data centres, devices and telecom services.
- **1Q15 revenues increased by 1% yoy to S\$126.3m** led by ICT division. ICT revenue increased by 9% yoy mainly due to higher software sales, however lesser projects were completed in 1Q15. Meanwhile, PCS's revenue was flat yoy as higher prepaid card sales offset weaker handset sales in 1Q (lack of new launch products).
- **Gross profit margins lowered by 0.5% pts yoy to 7.2% in 1Q15** led mainly by ICT divisions. As a result, ICT's operating loss increased by 120% yoy to S\$1.1m. Excluding the amortisation of intangible assets arising from the acquisitions and interest accretion, operating loss for 1Q2015 and 1Q2014 were at \$0.8M and \$0.1M respectively.
- **Balance sheet remains strong.** The group generated a negative free cash flow of S\$1m as of March quarter due mainly to increasing its inventory requirements (master prepaid cards distributor for Starhub and stocking up for new launches Samsung S6 and S6 Edge). As a result, net cash decreased to S\$17m as at end March-14 or about 3.8 cents net cash per shares.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	556.3	516.8	561.4	612.4	668.1
Gross Profit	43.5	42.5	47.2	53.9	58.1
Net Profit	9.7	9.4	10.6	14.6	15.4
EPS (cents)	2.1	2.1	2.3	3.2	3.4
EPS growth (%)	17.4	(3.1)	13.6	37.5	5.5
PER (x)	12.9	13.3	11.7	8.5	8.1
NTA/share (cents)	11.9	12.8	13.7	14.8	16.2
DPS (cents)	1.6	1.6	1.6	1.9	2.0
Div Yield (%)	5.8	5.8	5.8	7.0	7.4

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (\$\$ m)	1Q15	1Q14	yoy % chg	4Q14	qoq % chg	Prev. 1Q15F	Comments
Revenue	126.3	124.7	1	131.4	(4)	136.6	8% below expectation
Operating costs	(124.0)	(121.6)	2	(126.5)	(2)	(132.8)	Below, lower-than-expected revenue
EBITDA	2.3	3.1	(25)	4.9	(54)	3.9	Below, lower-than-expected revenue and gross profit margins
EBITDA margin (%)	1.8	2.4		3.7		2.8	1% pts below expectation
Deprn & amort.	(0.8)	(0.8)	(3)	(0.9)	(13)	(0.8)	In line
EBIT	1.5	2.3	(33)	4.0	(62)	3.1	Below, lower-than-expected revenue and gross profit margins
Interest expense	(0.2)	(0.2)	(20)	(0.5)	(67)	(0.2)	In line
Interest & invt inc	0.3	0.3	12	0.3	(12)	0.2	Above
Associates' contrib	0.0	0.0	0	0.0	0	0.0	
Exceptionals	(0.4)	0.0	<i>nm</i>	0.0	<i>nm</i>	0.0	Loss on disposal of a joint venture
Pretax profit	1.3	2.3	(46)	3.9	(68)	3.0	Below, lower-than-expected revenue and gross profit margins
Tax	(0.6)	(0.8)	(27)	(0.2)	207	(1.0)	Below
Tax rate (%)	44.1	32.4		4.6		32.0	
Minority interests	0.1	0.0	70	(0.1)	221	0.0	
Net profit	0.8	1.6	(53)	3.7	(79)	2.1	63% below expectation
EPS (cts)	0.2	0.4	(53)	0.8	(79)	0.5	

Source: NRA Capital estimates

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Profit & Loss (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	556.3	516.8	561.4	612.4	668.1
Operating expenses	(541.6)	(501.8)	(544.6)	(590.9)	(645.7)
EBITDA	14.7	15.0	16.8	21.4	22.4
Depreciation & amortisation	(3.1)	(3.4)	(3.4)	(3.4)	(3.3)
EBIT	11.5	11.6	13.4	18.1	19.1
Net interest & invt income	(0.5)	(0.2)	0.3	0.2	0.2
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	0.0	(0.4)	0.0	0.0
Pretax profit	11.1	11.4	13.3	18.3	19.3
Tax	(1.5)	(2.2)	(2.7)	(3.7)	(3.9)
Minority interests	0.1	0.2	0.0	0.0	0.0
Net profit	9.7	9.4	10.6	14.6	15.4
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	41.0	41.0	44.5
Stocks	39.1	32.7	35.5	38.6	42.1
Trade debtors	63.4	91.7	89.8	98.0	106.9
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	151.5	162.4	166.3	177.6	193.6
Trade creditors	74.5	85.6	87.4	94.9	103.7
Short-term borrowings	9.9	20.0	11.2	9.2	10.0
Other current liabilities	6.5	5.8	7.7	8.7	8.9
Total current liabilities	90.8	111.4	106.3	112.8	122.6
Long-term borrowings	10.0	0.0	5.6	6.1	6.7
Other long-term liabilities	0.7	3.1	3.0	2.8	2.7
Total long-term liabilities	10.7	3.1	8.6	9.0	9.4
Shareholders' funds	69.5	72.1	75.5	79.8	85.5
Minority interests	0.3	0.2	0.2	0.2	0.2
NTA/share (\$\$)	0.12	0.13	0.14	0.15	0.16
Total Assets	171.3	186.7	190.6	201.8	217.7
Total Liabilities + S'holders' funds	171.3	186.7	190.6	201.8	217.7
Cash Flow (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	11.1	11.4	13.3	18.3	19.3
Depreciation & non-cash adjustments	(4.3)	1.8	3.8	0.8	2.9
Working capital changes	9.1	(10.0)	1.3	(3.2)	(3.2)
Cash tax paid	(2.5)	(1.9)	(0.8)	(2.7)	(3.7)
Cash flow from operations	13.3	1.3	17.6	13.2	15.3
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	(3.1)	(1.5)	1.4
Equity raised/(repaid)	(0.3)	(0.2)	0.0	0.0	0.0
Dividends paid	(7.4)	(7.3)	(7.3)	(7.3)	(8.8)
Cash interest & others	(2.6)	(0.6)	(0.6)	(0.7)	(0.8)
Cash flow from financing	(12.5)	(7.9)	(11.0)	(9.5)	(8.1)
Change in cash	(2.7)	(10.9)	3.0	0.1	3.5
Change in net cash/(debt)	(0.4)	(11.0)	6.1	1.6	2.1
Ending net cash/(debt)	29.0	18.0	24.1	25.7	27.8
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	15.7	(7.1)	8.6	9.1	9.1
EBITDA growth (%)	3.8	2.2	12.3	27.5	4.7
Pretax margins (%)	2.0	2.2	2.4	3.0	2.9
Net profit margins (%)	1.7	1.8	1.9	2.4	2.3
Effective tax rates (%)	13.3	19.3	20.0	20.0	20.0
Net dividend payout (%)	75.2	77.6	68.3	60.0	60.0
ROE (%)	13.9	13.0	14.1	18.3	18.1
Free cash flow yield (%)	8.9	(1.4)	11.4	7.9	9.6

Source: Company, NRA Capital forecasts

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