

Analyse This...

Renfred Tay - +(65) 6210-8692 - renfred.tay@cimb.com

Telechoice International

No catalysts in sight to drive share price

 TLC SP
 HOLD; TP: S\$0.21
 2Q12 Results Note

 Price @15/08/12: S\$0.225
 52-week range (S\$): 0.205 – 0.25
 Market cap: S\$101.7m

Results below expectation. Maintain HOLD.

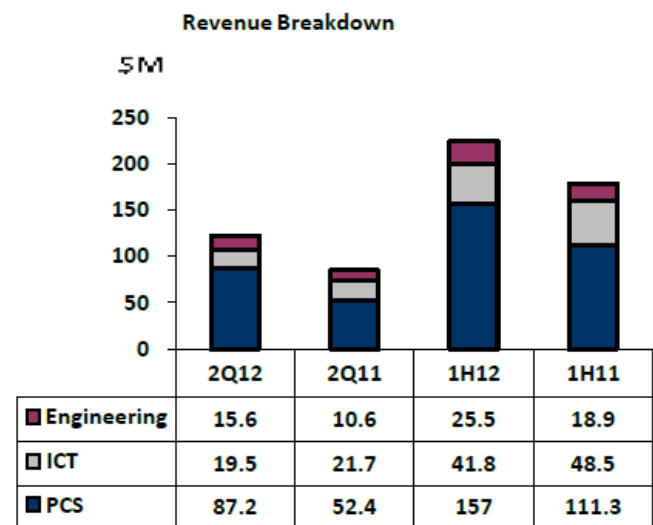
- **Key positives in 2Q12:**
 - 1) Revenue of S\$122.3m, which increased 44.4% yoy, came in in line with our expectation. 1H12 revenue formed 53% of our previous full year forecast.
 - 2) Continued to benefit from the strong demand for Samsung phones.
- **Key negatives:**
 - 1) Gross margin fell further by 2.1% pts yoy and 2.3% pts qoq. This was largely attributed to the lower margins from Telechoice's new fulfillment contract with Starhub to include the iPhone. We expect sales volume to be higher but the low margins to persist going forward.
 - 2) Net profit fell 21.6% yoy to S\$1.3m. On a half year basis, net profit came in at S\$3.0m, forming only 29% of our previous full year forecast, with key variance coming from the big fall in gross margin.
- **Changes in forecast.** We raise our revenue forecast by 20-27% for FY12-14 to factor in higher contributions from the PCS and NES segments. However, we cut our gross margin assumption by about 2% pts to about 8% to factor in the big fall in margins in the PCS segment. Consequently, projected net profit for FY12 is also be reduced to S\$8.6m from S\$10.4 (-17%) previously.
- **Maintain HOLD.** Overall, 1H12 was a weak half for Telechoice, with the decline in margins offsetting the strong growth in revenue. We expect the group to do better in the 2H12 with the new iPhones becoming available at the end of 3Q12 or start of 4Q12. However, due to the low margin nature of its new contract with Starhub, and the already widely expected strong sales for the new iPhones, we do not see this as a catalyst to drive Telechoice's stock price. We maintain our Hold call and leave our target price of S\$0.21 unchanged, still based on 8.3x CY13 P/E. Share price should be supported by its still decent projected dividend yield of 5.9% for FY12.

2Q12 result at a glance

	2Q12	2Q11	Chng (%)
Sales (S\$ m)	122.3	84.7	44.4
Operating profit (S\$ m)	2.2	2.3	-2.1
Net profit (S\$ m)	1.3	1.7	-21.6
EPS (S\$ cts)	0.29	0.37	-21.6
Profit margin			
	2Q12	2Q11	Chng (% pts)
Gross profit margin (%)	7.6	9.7	-2.04
Operating profit margin (%)	1.8	2.7	-0.86
Net profit margin (%)	1.1	2.0	-0.90
Balance sheet ratios			
	2Q12	2Q11	
Net gearing (%)	Net Cash	Net Cash	
ROE (%)	7.8	9.2	
Current ratio (x)	1.8	1.7	

Source: Company, CIMB

Revenue breakdown



Source: Company

Financial summary

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (S\$ m)	327.5	389.6	510.7	574.8	626.7
yoy growth (%)	19.6	19.0	31.1	12.6	9.0
EBITDA (S\$ m)	15.9	12.3	14.3	17.9	20.0
EBITDA margins (%)	4.9	3.2	2.8	3.1	3.2
Pretax profit (S\$ m)	14.7	9.1	11.3	14.9	17.6
Net profit (S\$ m)	12.4	6.6	8.6	11.5	13.6
yoy growth (%)	9.0	(47.1)	31.1	33.2	18.6
EPS (S cts)	2.7	1.5	1.9	2.5	3.0
EPS growth (%)	8.9	(47.0)	31.0	33.2	18.6
P/E (x)	8.2	15.5	11.8	8.9	7.5
Core EPS (S cts)	2.7	2.4	1.9	2.5	3.0
Core EPS growth (%)	8.9	(11.5)	(21.7)	33.2	18.6
Core P/E (x)	8.2	9.3	11.8	8.9	7.5
FD EPS (S cts)	2.7	1.4	1.9	2.5	3.0
FD P/E (x)	8.2	15.5	11.8	8.9	7.5
Gross DPS (S cts)	1.8	1.6	1.3	1.8	2.1
Dividend yield (%)	8.0	7.1	5.9	7.9	9.3
P/NTA (x)	1.6	1.9	1.8	1.6	1.5
NTA/sh (S cts)	14.0	12.0	12.8	13.8	14.8
BVPS (S cts)	16.4	15.9	16.6	17.3	18.2
ROE (%)	17.3	9.0	11.7	14.9	16.9
Net gearing (%)	net cash	net cash	net cash	net cash	net cash
Net cash per share (S cts)	5.6	3.2	3.1	3.0	3.6
P/CF (x)	7.5	10.2	9.0	7.2	6.5
EV/EBITDA (x)	5.5	7.1	6.1	4.9	4.4

Source: Company, CIMB

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