

TeleChoice Int'l

1Q11 results update

Overweight

Current Price **S\$0.24**
16 May 2010

Fair Value S\$0.28

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$108.8m
52-HI	S\$0.265
52-LOW	S\$0.21
Avg Vol (1 yr)	82,549
Shares Outstanding	453.61m
Free Float	135.9m

Key Indicators

ROE FY11	20%
ROA FY11	12%
P/BK	1.4x
Net gearing	Net cash

Major Shareholders

Temasek Holdings	50.5%
Leap International	19.5%

Strong free cash flow

- **Below expectations.** Despite sales and gross margins coming in slightly better than expected, 1Q11 net profit of S\$3.0m was 17% below our S\$3.6m expectation mainly due to higher-than-expected depreciation & amortisation and interest expenses (five months consolidation of S&I's accounts).
- **Sales increased 25% yoy to S\$94m** largely driven by its M&A contribution. 1) Info-Comm Technology sales (ICT) surged 688% yoy after consolidating five months sales from S&I. 2) Personal Communications Solutions sales (PCS) slipped 5% yoy due to lower regional sales and other handset customers continue losing market share to Apple's iPhone which the group does not carry. This was mitigated by an increase in prepaid card and retail sales. 3) Engineering revenue decreased by 17% yoy from lower power supply projects in Indonesia and products sales in the region.
- **EBITDA margins expanded by 0.2% pts yoy to 5%.** Despite higher ICT's margins contribution from its newly acquisition S&I, this was offset by a decline in PCS margin due to lower sales from handset business and higher contribution from pre-paid cards, which gives lower profit margins. Including higher amortisation, operating, financial and tax expenses, pretax and net profit increased by 14% and 1% yoy, respectively.
- **Balance sheet remains strong.** TeleChoice generated a positive free cash flow of S\$11m after improving its working capital requirement. After reducing half of its bank loan, net cash still increased by S\$9.7m to S\$35m as at end Mar11 (~8 cts net cash per share).
- **Android OS vs iPhone.** We believe smartphone sales were a bit quiet in 1Q partially due to the delay in the launch of Android 3.0 (for tablet), Android 2.3 (for phone) and iPhone5. Apple expects to launch its iPhone5 in September while Google Android 3.0 and 2.3 have finally released in market recently. Gartner expects Asian smartphone sales to reach 117m units this year (+60% yoy). Of this, sales in Singapore are expected to hit 1.6m. It's also forecast Android OS will overtake Symbian (Nokia) as the world's highest selling OS globally. We view this is a neutral for Telechoice in short-term as Nokia is still a larger contributor. However, any market share gain from iPhone could be beneficial to Telechoice.
- **Lower earnings estimates.** We have trimmed our FY11-13 estimates by 5-10% to factor in higher operating expenses. As such, our fair value slid 1 ct to S\$0.28, still pegged at 8x PER FY11, mean of its 6 years historical. Given its strong balance sheet, the current price also implies an attractive yield of 9-12%. Maintain **Overweight**.

Key Financial Data

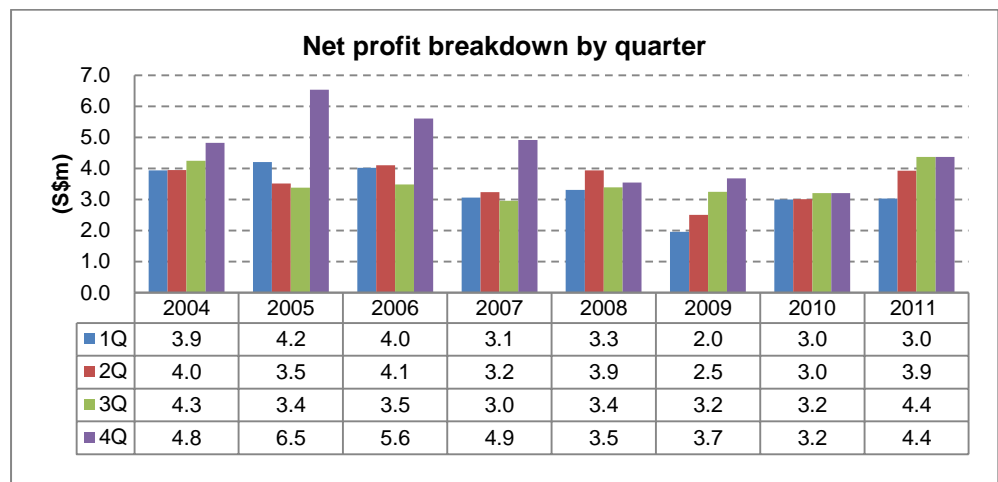
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	273.7	327.5	423.5	489.6	593.6
Gross Profit	28.6	31.1	46.6	53.9	65.3
Net Profit	11.4	12.4	15.7	18.2	22.6
EPS (cents)	2.5	2.7	3.5	4.0	5.0
EPS growth (%)	(19.8)	9.0	26.4	16.2	23.6
PER (x)	9.5	8.8	6.9	6.0	4.8
NTA/share (cents)	15.3	14.1	15.9	18.0	20.5
DPS (cents)	1.8	1.8	2.1	2.4	3.0
Div Yield (%)	7.3	7.5	8.7	10.1	12.4

Source: Company, NRA Capital

Results comparison

FYE Dec (S\$ m)	1Q11	1Q10	yoy % chg	4Q10	qoq % chg	Prev. 1Q11F	Comments
Revenue	94.0	75.3	25	79.7	18	89.4	5% above expectation
Operating costs	(89.3)	(71.8)	24	(75.8)	18	(84.9)	In line
EBITDA	4.7	3.6	31	3.9	19	4.4	In line
EBITDA margin (%)	5.0	4.7		4.9		5.0	In line
Depn & amort.	(0.7)	(0.2)	240	(0.4)	81	(0.3)	Above
EBIT	3.9	3.3	17	3.5	12	4.1	Below, higher-than-expected depn & amort expenses
Interest expense	(0.1)	(0.0)	542	(0.0)	nm	(0.0)	Above
Interest & invt inc	0.1	0.1	4	0.1	40	0.3	Below
Associates' contrib	(0.1)	(0.0)	578	(0.0)	97	0.0	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.9	3.4	14	3.5	10	4.4	Below, higher-than-expected depn & amort expenses and financial expenses
Tax	(0.6)	(0.4)	53	(0.3)	87	(0.7)	Below, lower taxation
Tax rate (%)	15.4	11.5		9.0		17.0	
Minority interests	(0.2)	(0.0)	nm	(0.0)	nm	0.0	
Net profit	3.0	3.0	1	3.2	(6)	3.6	17% below expectation
EPS (cts)	0.7	0.7	1	0.7	(6)	0.8	

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	273.7	327.5	423.5	489.6	593.6
Operating expenses	(260.1)	(312.1)	(401.8)	(465.0)	(564.4)
EBITDA	13.6	15.4	21.7	24.6	29.1
Depreciation & amortisation	(1.3)	(1.3)	(3.0)	(3.0)	(3.0)
EBIT	12.3	14.1	18.7	21.6	26.2
Net interest & invt income	1.1	0.5	0.6	0.8	1.5
Associates' contribution	0.3	0.1	0.2	0.2	0.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	13.6	14.7	19.4	22.6	27.9
Tax	(2.2)	(2.2)	(3.1)	(3.6)	(4.5)
Minority interests	(0.0)	(0.0)	(0.6)	(0.7)	(0.8)
Net profit	11.4	12.4	15.7	18.2	22.6
Wt. shares (m)	453.1	453.4	453.4	453.4	453.4
Shares at year-end (m)	453.1	453.4	453.4	453.4	453.4

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	2.3	2.8	2.7	2.6	2.5
Intangible assets	0.1	10.5	9.1	7.6	6.2
Other long-term assets	1.4	1.8	1.8	1.8	1.8
Total non-current assets	3.8	15.1	13.5	12.0	10.4
Cash and equivalents	46.6	34.7	42.0	42.8	40.5
Stocks	25.0	37.7	37.7	43.6	52.8
Trade debtors	29.2	44.7	42.2	53.6	70.8
Other current assets	(0.0)	2.9	0.0	0.0	0.0
Total current assets	100.9	120.0	121.9	139.9	164.2
Trade creditors	27.8	42.3	42.4	49.0	59.4
Short-term borrowings	3.0	8.3	2.1	2.4	3.0
Other current liabilities	3.9	7.1	6.3	7.1	8.1
Total current liabilities	34.8	57.7	50.8	58.5	70.4
Long-term borrowings	0.0	0.8	0.4	0.5	0.6
Other long-term liabilities	0.2	1.1	1.1	1.1	1.1
Total long-term liabilities	0.2	1.9	1.5	1.6	1.7
Shareholders' funds	69.6	74.2	81.2	89.3	99.1
Minority interests	0.0	1.3	1.9	2.6	3.5
NTA/share (S\$)	0.15	0.14	0.16	0.18	0.20
Total Assets	104.6	135.1	135.4	151.9	174.6
Total Liabilities + S'holders' funds	104.6	135.1	135.4	151.9	174.6

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	13.6	14.7	19.4	22.6	27.9
Depreciation & non-cash adjustments	(8.7)	4.5	3.0	3.0	3.0
Working capital changes	3.7	(13.7)	2.6	(10.7)	(16.1)
Cash tax paid	(2.9)	(2.4)	(3.7)	(2.6)	(2.9)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5.7	3.1	21.3	12.3	11.9
Capex	(1.8)	(8.8)	(2.9)	(2.9)	(2.9)
Net investments & sale of FA	10.8	0.1	0.0	0.0	0.0
Others	0.2	0.1	0.3	0.3	0.3
Cash flow from investing	9.2	(8.7)	(2.6)	(2.5)	(2.6)
Debt raised/(repaid)	(2.0)	5.9	(6.6)	0.4	0.6
Equity raised/(repaid)	0.0	(0.1)	0.0	0.0	0.0
Dividends paid	(9.1)	(7.9)	(8.2)	(9.4)	(10.9)
Cash interest & others	0.2	(4.5)	(0.2)	(0.1)	(0.1)
Cash flow from financing	(10.9)	(6.6)	(14.9)	(9.1)	(10.4)
Change in cash	4.0	(12.1)	3.9	0.6	(1.1)
Change in net cash/(debt)	6.0	(18.0)	10.4	0.2	(1.7)
Ending net cash/(debt)	43.6	25.6	36.0	36.2	34.5

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	(22.7)	19.6	29.3	15.6	21.2
EBITDA growth (%)	(28.0)	12.8	41.3	13.3	18.6
Pretax margins (%)	5.0	4.5	4.6	4.6	4.7
Net profit margins (%)	4.2	3.8	3.7	3.7	3.8
Interest cover (x)	78.1	774.3	130.4	301.7	744.0
Effective tax rates (%)	16.3	15.3	16.0	16.0	16.0
Net dividend payout (%)	69.6	65.7	60.0	60.0	60.0
Debtors turnover (days)	39.0	49.8	36.4	40.0	43.5
Stock turnover (days)	37.2	46.4	36.5	36.5	36.5
Creditors turnover (days)	37.1	47.1	36.5	36.5	36.5

Source: Company, NRA Capital Estimates

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