

## REDtone Likely To Post FY Profit - Managing Director (2009/12/08 14:56PM)

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By Giri Balakrishnan

Of DOW JONES NEWSWIRES

KUALA LUMPUR (Dow Jones)--REDtone International Bhd (0032.KU), one of Malaysia's four high-speed Internet access service providers, expects to turn around and post a profit this fiscal year, helped by its new China business and growth in broadband services in Malaysia.

The broadband and Worldwide Interoperability for Microwave Access, or WiMAX, technology operator expects the growth trajectory to continue with both revenue and profit doubling each year in the next two fiscal years.

"Based on our first quarter figures, I believe...we could register revenue of around MYR100 million in this current financial year and post a net profit of around MYR5 million," Group Managing Director Wei Chuan Beng told Dow Jones Newswires in a recent interview.

REDtone, which sold its loss-making Pakistan operations in 2008 and recently started providing 3G services in China, recorded a net profit of MYR1.2 million in the first quarter to August 31. It posted a loss of MYR354,000 in the same period a year earlier and a loss of MYR2.9 million in the preceding quarter.

The company posted a loss of MYR5.9 million in the fiscal year ended May 31, largely due to a loss of MYR4.5 million from discontinued operations in Pakistan.

"Previously we were only focused on discounted call services and suffered a big set back in Pakistan. We have moved on from that and found new areas of growth, including our business in China, to drive revenue and profits," said Wei.

Over the next two financial years, Wei said annual revenue and profit could double sequentially, supported by strong demand for its customized broadband services for both commercial and government offices in Malaysia, and 3G expansion and discount call services revenue from China.

"The commercial sector in Malaysia could potentially contribute more than MYR200 million in revenue within the next five years. We currently have more than 1,000 corporate and small-to-medium size enterprise subscribers in Peninsular Malaysia alone and this number is growing," Wei said, adding that the total market size is around MYR3.0 billion per annum.

Gross profit margin from this segment is also very healthy around 40%, he said.

The company is now bidding for around MYR300 million worth of government projects under the Universal Service Provision fund. The government-run body last week disbursed MYR264 million of contracts to companies to roll out broadband coverage in underserved areas and is seeking to pump out another MYR1.4 billion before the end of the year.

### China Operations To Contribute Up To 50% Of Revenue

Last month, REDtone completed the acquisition of the remaining 25% of REDtone Telecommunications China, giving the group full control over the company and its subsidiaries in China in order to capitalize on third-generation, or 3G, growth.

"Our business in China could contribute between one-third to 50% of revenue over the next few years due to the rapid growth in demand for 3G. In recognizing this potential, we have also acquired Liang Tong, one of the top 3G distributors in Beijing," Wei said.

The third revenue and earnings growth driver is the discounted call services in China that has now matured and is effectively a "cash-cow" for REDtone.

"Although this division currently contributes to roughly 50% of our total revenue from China, it will soon be eclipsed by the contribution from broadband revenue," he added, noting that current contribution to net profit is stable at MYR2.0 million to MYR3.0 million per annum.

REDtone has proposed to raise up to MYR41.5 million by issuing irredeemable unsecured 10-year loan stocks at 2.75% per annum together with free detachable warrants on a four-for-10 basis.

Proceeds from the fund are primarily earmarked for capital investment to set up infrastructure for broadband and data services, which will start generating revenue immediately and impact earnings positively.

"Not only is this method (of fund raising) cheaper than borrowing from financial institutions, it also provides our shareholders the opportunity to capitalize on the growth of our business directly," Wei said.

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