

10 January 2014

Redtone International

Moving On

The failure to secure the DTTB infrastructure contract by Redtone Network S/B (49% owned by Redtone International) may not necessarily be a major negative to the group given that some of the key criteria have come in at the lower end which may affect the project's ROI. These include: (i) non-inclusion of the vital 695Mhz-742Mhz frequency band and (ii) longer-than-expected gestation period. We also notice that of late, Redtone International (Redtone) has been executing share buy-back which lend credence to the stock's prospects. Meanwhile, the group is confident of achieving a 50% QoQ jump in PBT for 2Q14 results, scheduled to be released late-January. There are no changes to our FY14 and FY15 earnings estimates as we did not assume any DTTB earnings contribution in our financial model. We maintain our **OUTPERFORM** call on Redtone with an unchanged target price of **RM0.81**, based on targeted FY14 PER of 14.5x.

Failed to secure DTTB infrastructure project but... Puncak Semangat S/B (PS), controlled by tycoon Tan Sri Syed Mokhtar Al-Bukhary, has been named as the successful bidder (edging out two other bidders namely Redtone Network S/B and i-Media broadcasting Solutions S/B) by the Malaysian Communications and Multimedia Commission (MCMC) to build, operate and manage the infrastructure for Digital Terrestrial Television Broadcast (DTTB) service in Malaysia yesterday. The concession is for a period of 15 years (from the date of award) including simulcast and implementation period. (Please refer to our Media sector report dated 24 Oct. 2013 for the detailed information on DTTB).

...could be better-off. While the news appears to be unfavourable to Redtone at first glance, the group could be better-off by not securing the DTTB contract given that some of the key criteria (as set out in the earlier tender documents) have come in at the lower end. These include: (i) **non-inclusion of the vital 695Mhz – 742Mhz band**, where PS will only have right to use the frequency of 470MHz-694MHz before and after the analogue switch off (ASO) instead of both frequency bands. The 48MHz lesser band frequency implied fewer digital TV channels which could be introduced in the future. Note that MCMC has allocated the 695MHz-742MHz band, which have a strong in-building mobile signal penetration capability, for high speed mobile broadband services post ASO and (ii) **longer-than-expected gestation period**. While the first roll-out of DTTB services is projected to be in 3QCY14, for a start in a few test areas, the full nationwide coverage is only expected to be completed by 2017 in contrast to the previous target of end-CY15. Meanwhile, the Communication and Multimedia Minister was also recently being quoted by the press that the government will only decide to end analogue TV broadcast services by 2020. Based on our earlier understanding, the successful bidder can only commence billing charges post the ASO, thus making the ROI a big challenge under the project deferment.

Executing share buy-back account. Following the renewed approval received from its shareholders, Redtone has started to execute its share buy-back account to re-accumulate its shares since last November. The group has, thus far, accumulated a total of 1.67m shares with an estimated average price of RM0.67/share as of 9th January.

Divestment gain. The recent disposal of the remaining 35% shareholding held in its associate, Redtone Mobile S/B (RMSB) to Theo Networks S/B is expected to generate RM5m divestment gain for Redtone Group in FY14. Note that the group had earlier on 3 January 2012 divested its 65% stake in RMSB, which principal activity is the operating of a mobile virtual network and research, design, develop and commercialise the VOIP customer premise equipment. The rationale of the disposal is to enable the group to focus on its core business offerings as a total service solution provider to corporate/SME/government segments as well as the management and building of WiFi network.

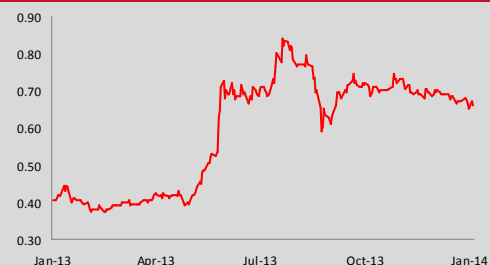
Confidence to achieve 50% QoQ growth in PBT in 2Q14, where Redtone is scheduled to release its report card by late January, underpinned by the healthy growth of its core businesses, on-going various government projects as well as the synergic benefits created under the NSA agreement with Maxis.

OUTPERFORM ↔

Price: **RM0.640**

Target Price: **RM0.810** ↔

Share Price Performance



KLCI	1828.2
YTD KLCI chg	-2.1%
YTD stock price chg	-5.9%

Stock Information

Bloomberg Ticker	RIB MK Equity
Market Cap (RM m)	323.45
Issued shares	505.39
52-week range (H)	0.86
52-week range (L)	0.37
3-mth avg daily vol:	761,140
Free Float	49.2%
Beta	1.2

Major Shareholders

INDAH PUSAKA S/B	30.9%
BERJAYA GROUP BHD	12.4%
WARISAN JUTAMAS	7.5%

Summary Earnings Table

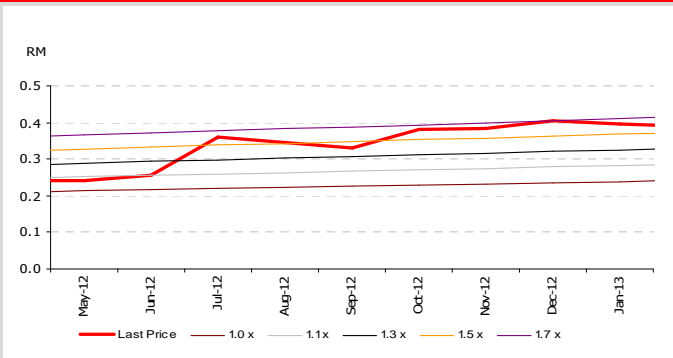
FY May (RM'm)	2013A	2014E	2015E
Turnover	142.0	170.4	181.6
EBIT	34.7	32.0	33.0
PBT	33.7	31.9	32.9
Net Profit (NP)	25.2	26.9	27.8
Core NP	25.2	26.9	27.8
Consensus (NP)		26.9	27.8
Earnings Revision		-	-
EBITDA margin (%)	29.4%	24.1%	23.4%
Core EPS (sen)	5.2	5.6	5.8
EPS growth (%)	384.8	6.7	3.4
DPS (sen)	1.5	1.7	1.7
BV/Share (RM)	0.2	0.3	0.3
Core PER	12.3	11.5	11.1

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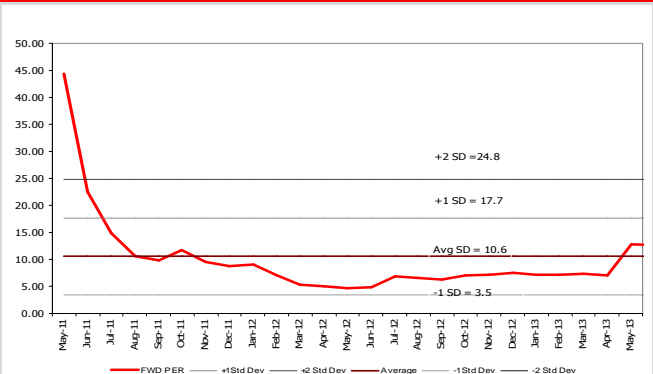
Income Statement						Financial Data & Ratios					
FY May (RM m)	2011A	2012A	2013A	2014E	2015E	FY May (RM m)	2011A	2012A	2013A	2014E	2015E
Revenue	89.6	107.0	142.0	170.4	181.6	Growth					
EBITDA	(2.3)	11.5	41.8	41.1	42.5	Turnover (%)	9.0	19.4	32.8	20.0	6.5
Depreciation	8.0	7.5	7.1	9.1	9.5	EBITDA (%)	-222.5	606.8	264.3	-1.8	3.6
Operating Profit	(10.3)	4.0	34.7	32.0	33.0	Operating Profit (%)	-174.1	139.0	763.2	-7.7	3.2
Other Income	0.0	0.0	0.0	0.0	0.0	PBT (%)	-149.2	129.4	940.9	-5.3	3.2
Interest Exp	0.7	0.8	1.0	0.1	0.1	Core Net Profit (%)	-116.4	25.5	388.5	6.6	3.4
Associate	0.0	0.0	0.0	0.0	0.0						
Exceptional Items	1.0	2.0	3.0	4.0	5.0	Profitability (%)					
PBT	(11.0)	3.2	33.7	31.9	32.9	EBITDA Margin	-2.5	10.7	29.4	24.1	23.4
Taxation	1.3	12.3	8.5	3.0	3.1	Operating Margin	-11.5	3.8	24.4	18.8	18.2
Minority Interest	0.5	0.3	0.0	(2.0)	(2.0)	PBT Margin	-12.3	3.0	23.7	18.7	18.1
Net Profit	(11.7)	2.1	25.2	26.9	27.8	Core Net Margin	-13.1	-8.2	17.7	15.8	15.3
Core Net Profit	(11.7)	(8.7)	25.2	26.9	27.8	Effective Tax Rate	-11.5	378.9	25.3	9.4	9.5
						ROA	-8.7	-6.2	12.4	11.6	10.7
						ROE	-15.7	-11.0	23.8	21.6	19.3
Balance Sheet											
FY May (RM m)	2011A	2012A	2013A	2014E	2015E	DuPont Analysis					
Fixed Assets	51.8	54.0	30.4	31.6	33.0	Net Margin (%)	-13.1%	-8.2%	17.7%	15.8%	15.3%
Intangible Assets	-	-	-	-	-	Assets Turnover (x)	0.7x	0.8x	0.7x	0.7x	0.7x
Other FA	24.8	18.6	30.5	30.5	30.5	Leverage Factor (x)	1.7x	1.6x	1.8x	1.7x	1.7x
Inventories	2.3	0.7	1.1	1.5	1.6	ROE (%)	-15.7	-11.0	23.8	21.6	19.3
Receivables	17.4	13.3	78.3	94.5	100.6						
Other CA	10.3	31.4	26.0	24.1	24.1	Leverage					
Cash	27.9	22.6	36.6	50.1	68.5	Debt/Asset (x)	0.1	0.3	0.4	0.4	0.4
Total Assets	134.6	140.6	202.9	232.1	258.3	Debt/Equity (x)	0.1	0.7	0.9	1.0	1.1
						Net Cash/(Debt)	18.2	13.7	27.9	44.8	63.2
Payables	16.5	17.2	26.0	35.3	38.5	Net Debt/Equity (x)	-0.2	-0.2	-0.3	-0.4	-0.4
ST Borrowings	3.3	3.0	3.4	-	-						
Other ST Liability	26.1	27.0	55.1	57.6	59.1	Valuations					
LT Borrowings	6.4	5.9	5.3	5.3	5.3	EPS (sen)	-2.7	-1.8	5.2	5.6	5.8
Other LT Liability	0.8	0.1	0.1	0.0	0.0	GDPS (sen)	0.0	0.0	1.5	1.7	1.7
Minorities Int.	7.0	7.8	7.4	9.4	11.5	NTA (RM)	0.2	0.2	0.2	0.3	0.3
Net Assets	74.4	79.6	105.7	124.5	143.9	PER (x)	-24.0	-34.9	12.3	11.5	11.1
						Gross Div. Yield (%)	0.0	0.0	2.3	2.6	2.7
Share Capital	44.8	47.6	48.3	48.3	48.3	P/NTA (x)	3.8	3.8	2.9	2.5	2.1
Reserves	29.6	32.0	57.4	76.2	95.6	EV/EBITDA (x)	-132.5	27.8	8.0	8.5	8.7
Equity	74.4	79.6	105.7	124.5	143.9						
Cashflow Statement											
FY May (RM m)	2011A	2012A	2013A	2014E	2015E						
Operating CF	(10.1)	2.4	17.5	35.1	37.6						
Investing CF	(11.1)	(6.9)	(0.0)	(10.2)	(10.9)						
Financing CF	(3.3)	(1.1)	(1.5)	(11.4)	(8.3)						
Change In Cash	(24.6)	(5.6)	15.8	13.5	18.4						
Free CF	(15.2)	(5.2)	23.6	24.9	26.7						

Source: Kenanga Research

Forward P/BV



Forward PER



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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