

24 April 2014

Redtone International

Higher Earnings Tempo Ahead

OUTPERFORM ↔

Price: RM0.775

Target Price: RM0.810 ↔

- Period** ▪ 3Q14/9M14
- Actual vs. Expectations** ▪ Redtone's 9M14 NP of RM14.7m (+48% YoY) came in within expectations which accounted for 54% of our full-year estimates (vs. 39% in 9M13). The results are deemed in line as more corporate & government projects (i.e. T3, WIFI & broadband projects) will be recognized in 4Q14. Furthermore, coupled with better economics of scale, this should bring its full-year NP closer to our estimate of RM27.2m.
- Dividends** ▪ No dividend was declared as expected.
- Key Results Highlights** ▪ **YoY**, 9M14 revenue improved by 10% to RM107.5m, mainly propelled by the strong contribution from its data segment (+48% to RM67.2m) which was driven by various government projects as well as higher data and application revenue contribution. PBT, meanwhile, soared 47% to RM18.1m, due to the cost synergies created post-divestment of non-core and loss-making units as well as from the higher data revenue, which generally provides higher margin than its voice business segment.
- **QoQ**, turnover climbed to RM40.9m (+34%) in 3Q14 due to the higher data segment revenue. PBT, however, dipped by 9.3% to RM6.4m mainly caused by the high-base effect from a one-off RM5.0m disposal gain arising from Redtone Mobile S/B in 2Q14. The lower PBT led margin normalising to 15.6% (vs. 23.2% in the prior quarter).
- The group has purchased a total of 2.56m shares under the share buyback scheme (at an average cost of RM0.66/share) in 3Q14, leading to a drop in its cash & bank balances to RM39m (vs. RM42m in 2Q14). Its total borrowing stood at RM8.8m in 3Q14, implying net cash per share of 5.9 sen. Its reserve, meanwhile, increased to RM70.4m from RM59.3m as at end-FY13.
- Outlook** ▪ Redtone's short-to-mid-term catalysts rely mainly on its RM82.5m Time 3 (T3) government project as well as the synergetic benefits created under the NSA agreement with Maxis.
- The group is also in the final discussion stage of few government & corporate data-related projects, which could provide further earnings growth opportunities.
- Change to Forecasts** ▪ There is no change in our FY14-FY15 earnings forecasts post the release of 3Q14 result.
- Rating** **MAINTAIN OUTPERFORM**
- Valuation** ▪ Maintain our target price at RM0.81 based on unchanged FY15 targeted PER of 14.5x (+0.5SD).
- Risks to Our Call** ▪ Failure to secure more corporate and government projects.

Share Price Performance



KLCI	1867.35
YTD KLCI chg	0.0%
YTD stock price chg	14.0%

Stock Information

Bloomberg Ticker	RIB MK Equity
Market Cap (RM m)	391.7
Issued shares	505.4
52-week range (H)	0.86
52-week range (L)	0.39
3-mth avg daily vol:	1,370,249
Free Float	49%
Beta	1.4

Major Shareholders

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

Summary Earnings Table

FY May (RM'm)	2013A	2014E	2015E
Turnover	142.0	172.4	183.1
EBIT	34.7	32.6	33.3
PBT	33.7	32.9	33.2
Net Profit (NP)	25.2	27.2	28.2
Core Net Profit	25.2	27.2	28.2
Consensus (NP)		27.2	28.2
Earnings Revision (%)		-	-
EBITDA Margin	29.4%	24.2%	23.8%
Core EPS (sen)	4.9	5.4	5.6
EPS growth	369.3	8.6	3.6
NDPS (sen)	1.5	1.6	1.7
BV/Share (RM)	0.2	0.2	0.3
Core PER	15.7	14.5	14.0
Reported PER	15.7	14.5	14.0
Price/NTA (x)	2.1	3.2	2.7
Gearing (%)	(0.3)	(0.3)	(0.4)
Dividend Yield (%)	1.8	2.1	2.1

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Result Highlight

Y/E : May (RM m)	3Q14	2Q14	QoQ Chg	3Q13	YoY Chg	9M14	9M13	YoY Chg
Turnover	40.9	30.5	34%	40.5	1%	107.5	97.8	10%
EBITDA	8.3	8.7	-5%	8.0	4%	23.7	18.0	31%
EBIT	6.3	6.8	-8%	6.2	1%	17.8	12.6	41%
PBT	6.4	7.1	-9%	6.2	3%	18.1	12.3	47%
Taxation	1.6	(1.2)	-236%	2.3	-32%	3.2	2.4	32%
Net Profit (NP)	5.0	6.0	-17%	3.9	27%	14.7	9.9	48%
EPS (sen)	1.0	1.2	-18%	0.8	N.M.	2.9	2.1	41%
DPS (sen)	-	-	NA	-	N.M.	-	-	N.M.
EBITDA margin	20.3%	28.7%		19.8%		22.0%	18.4%	
EBIT margin	15.3%	22.4%		15.3%		16.5%	12.9%	
PBT margin	15.6%	23.2%		15.4%		16.9%	12.6%	
NP margin	12.2%	19.8%		9.7%		13.7%	10.1%	
Effective tax rate	24.5%	(16.4%)		36.8%		17.8%	19.8%	

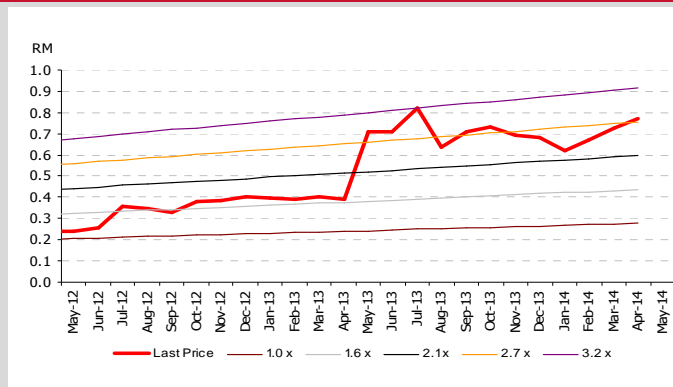
Source: Company, Kenanga Research

Segmental Breakdown

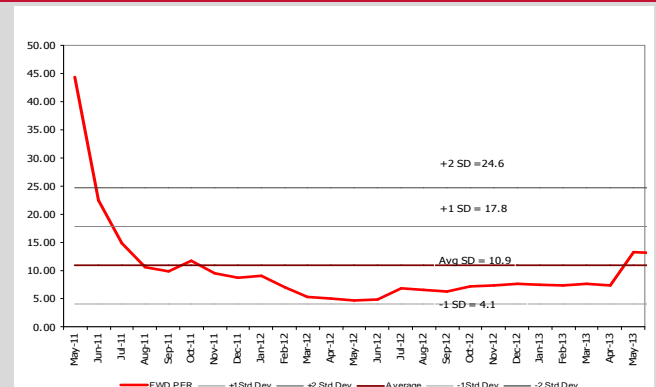
Y/E : May (RM m)	3Q14	2Q14	QoQ Chg	3Q13	YoY Chg	9M14	9M13	YoY Chg
Revenue by line of business								
- Voice	13.3	13.2	0%	16.0	-17%	40.1	48.8	-18%
- Data	27.6	17.1	61%	24.0	15%	67.2	45.4	48%
- Others	0.0	0.1	-76%	0.5	-94%	0.2	3.6	-94%
Total	40.9	30.5	34%	40.5	1%	107.5	97.8	10%
GP by line of business								
- Voice	4.8	5.4	-11%	4.0	21%	14.1	13.0	8%
- Data	10.8	6.0	79%	9.1	19%	26.1	20.2	29%
- Others	0.0	0.1	-96%	0.5	-99%	0.2	3.2	-95%
Total	15.6	11.6	35%	13.6	15%	40.3	36.3	11%
GP margin by line of business								
- Voice	36.4%	41.1%		24.9%		35.1%	26.6%	
- Data	39.0%	35.1%		37.9%		38.8%	44.5%	
- Others	16.7%	100.0%		116.0%		77.3%	87.3%	
Total	38.1%	38.0%		33.6%		37.5%	37.2%	

Source: Company, 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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