

25 April 2013

REDtone International

Record earnings in the making

OUTPERFORM ↔

Price: RM0.43
Target Price: RM0.56 ↔

- Period** ■ 3Q13/FY13
- Actual vs. Expectations** ■ Redtone's YTD 9M13 NP of RM9.9m came in within our expectations and accounted for 41% of our full-year estimates. We understand that the group will recognise soon a sizeable revenue from the USP project as well as its maiden spectrum sharing fee from Maxis. Together with the significant cost synergy as a result of its larger economic of scale in 4Q13, this should bring its full-year NP close to our estimate of RM23.6m.
- Dividends** ■ No dividend was declared during the quarter as expected. For the full financial year, we expect the group to declare a 1.5 sen DPS, which implies a 3.4% dividend yield and translates to a 30% payout ratio (in line with its dividend policy of a minimum 25% payout ratio).
- Key Result Highlights** ■ **YoY**, Redtone's 9M13 revenue soared by 158% to RM98m, mainly driven by the strong contribution from its data segment (+117% to RM45.4m) as a result of its RM82.5m USP project. Based on our estimate, the group has recognized about 20% of the USP project in 3Q13. The group's PBT meanwhile soared 36-fold to RM12.3m, thanks to the divestment of non-core and loss-making businesses as well as from the higher data revenue. In tandem, the NP also surged by 26-fold to RM9.9m although its rise was restrained by a higher effective tax rate.
- **QoQ**, the turnover improved by 52% due to the higher revenue from the data segment. The group's EBIT surged by 42% to RM6.2m while the margin was lower at 15.3% (vs. 16.4%) as a result of a higher direct cost. The net profit, however, was relatively flat at RM3.9m (-1%), hampered by a higher effective tax rate of 36.8% (vs. 6.2% in 2Q13) due mainly to the higher tax provisions at its subsidiary companies operating in China.
- The group's total borrowings stood at RM2.6m while its cash and bank balances were at RM34.9m in 3Q13, implying a net cash per share of 6.7 sen.
- Outlook** ■ REDtone's near term catalysts will be mainly led by its RM82.5m USP project as well as its RM25.0m spectrum resource sharing fee from Maxis.
- The group's future earnings are likely to depend on (1) the ability to secure more USP projects and (2) the degree of aggressiveness of Maxis' 4G LTE services rollout, which we have yet to impute into our forecasts.
- Change to Forecasts** ■ There is no change in our FY13-FY14 earnings forecasts post the 9M13 results.
- Rating** **Maintain OUTPERFORM**
- We believe that investors have overlooked the potential earnings upside of REDtone for both FY13 and FY14. We expect the group's net profit to reach RM23.6m (more than a 10-fold YoY jump) in FY13 and thereafter to RM25.0m (+6.0% YoY) in FY14.
- Valuation** ■ We are maintaining our target price at RM0.56 based on an unchanged targeted FY13 PER of 11.0x.
- Risks** ■ Dependency on a major partner – Maxis.
- Failure to secure more USP programmes.

Share Price Performance



KLCI	1707.35
YTD KLCI chg	1.1%
YTD stock price chg	6.2%

Stock Information

Bloomberg Ticker	RIB MK Equity
Market Cap (RM m)	205.03
Issued shares	476.81
52-week range (H)	0.45
52-week range (L)	0.23
3-mth avg daily vol:	833,067
Free Float	48.9%
Beta	1.2

Major Shareholders

INDAH PUSAKA S/B	32.8%
BERJAYA GROUP BHD	10.4%
WARISAN JUTAMAS	7.9%

Summary Earnings Table

FYE May (RM'm)	2012A	2013E	2014E
Turnover	107.0	166.4	169.6
EBIT	4.0	27.1	30.0
PBT	3.2	26.7	29.6
Net Profit (NP)	2.1	23.6	25.0
Core Net Profit	(8.7)	23.6	25.0
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
EBITDA margin (%)	10.7%	22.9%	25.0%
Core EPS (sen)	-1.8	5.1	5.3
EPS growth (%)	31.2	376.7	5.5
NDPS (sen)	-	1.5	1.6
BV/Share (RM)	0.2	0.2	0.2
Core PER	(23.5)	8.5	8.0
Reported PER	95.4	8.8	8.3
Price/BV (x)	2.6	2.1	1.8
Net Gearing (x)	(0.2)	(0.3)	(0.4)
Dividend Yield (%)	0.0	3.4	3.6

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Result Highlight

Y/E : May (RM m)	3Q13	2Q13	QoQ Chg	3Q12	YoY Chg	9M13	9M12	YoY Chg
Turnover	40.5	26.7	52%	23.6	72%	97.8	84.2	16%
EBITDA	8.0	6.2	30%	3.1	158%	18.0	7.4	145%
EBIT	6.2	4.4	42%	1.0	491%	12.6	0.9	1256%
PBT	6.2	4.2	48%	6.2	0%	12.3	0.3	3638%
Taxation	(2.3)	(0.3)	787%	(2.3)	0%	(2.4)	(1.0)	147%
Net Profit (NP)	3.9	4.0	-1%	3.9	0%	9.9	(0.4)	2614%
EPS (sen)	0.8	0.8	-1%	0.8	N.M.	2.1	(0.1)	2688%
DPS (sen)	-	-	NA	-	N.M.	-	-	N.M.
EBITDA margin	19.8%	23.2%		13.2%		18.4%	8.7%	
EBIT margin	15.3%	16.4%		4.4%		12.9%	1.1%	
PBT margin	15.4%	15.8%		26.5%		12.6%	0.4%	
NP margin	9.7%	14.9%		16.6%		10.1%	-0.5%	
Effective tax rate	36.8%	6.2%		36.8%		19.8%	299.4%	

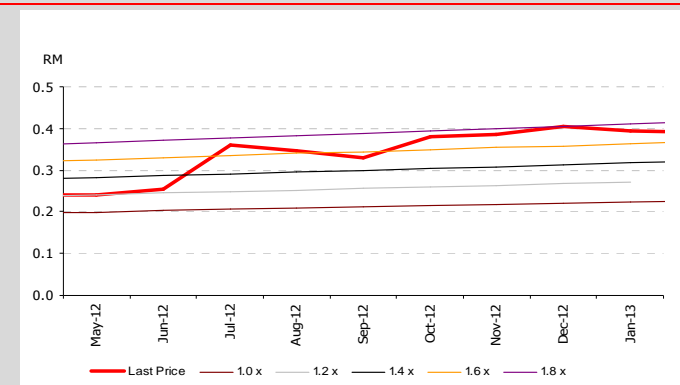
Source: Company, Kenanga Research

Segmental Breakdown

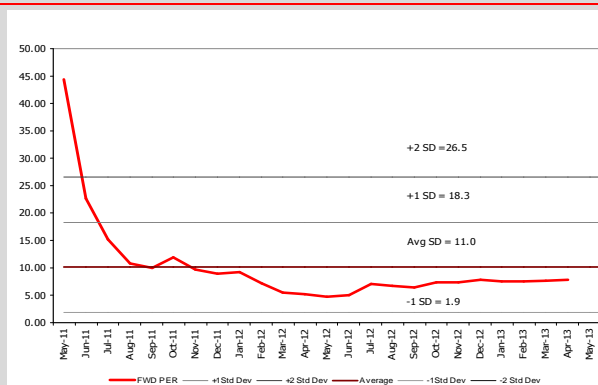
Y/E : May (RM m)	3Q13	2Q13	QoQ Chg	3Q12	YoY Chg	9M13	9M12	YoY Chg
Revenue by line of business								
- Voice	13.5	14.6	-8%	23.4	-42%	45.8	59.4	-23%
- Data	24.0	10.1	138%	11.8	103%	45.4	20.9	117%
- IPTV	-	-	NA	0.0	-100%	-	0.2	-100%
- Others	3.0	2.0	53%	0.8	303%	6.6	3.7	80%
Total	40.5	26.7	52%	36.0	13%	97.8	84.3	16%
PBT by line of business								
- Voice	2.2	2.4	-8%	1.4	64%	5.8	2.9	99%
- Data	3.4	1.6	107%	0.3	1155%	5.7	0.9	525%
- IPTV	0.0	0.0	NA	(0.9)	-100%	0.0	(3.7)	-100%
- Others	0.6	0.1	371%	0.2	303%	0.8	0.2	292%
Total	6.2	4.2	48%	0.9	603%	12.3	0.3	3638%
PBT margin by line of business								
- Voice	16.7%	16.7%		5.9%		12.6%	4.9%	
- Data	14.1%	16.3%		2.3%		12.6%	4.4%	
- IPTV	NA	NA		-3917.4%		NA	-1499.2%	
- Others	20.0%	6.5%		20.0%		12.6%	5.8%	
Total	15.4%	15.8%		2.5%		12.6%	0.4%	

Source: Company, Kenanga Research

Forward P/BV



EV/Fwd EBITDA Standard Deviation



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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