

4QFY12 RESULTS REPORT

Date: 2 August 2012

Name of PLC: REDtone International Bhd	Target Price:	RM0.43
Business Summary : Provision of broadband, data and managed network services to corporate and government clients		
Substantial Shareholders : Indah Pusaka Sdn Bhd - 32.81% Berjaya Group Berhad * - 9.5% Warisan Jutamas Sdn Bhd - 7.9% Dato' Wei Chuan Beng - 3.4% As at 31 July 2012 * Indirect shareholding		
PLC Website : www.redtone.com	Recommendation:	Buy
IR Contact : Ms. Ng Keng Chai, GM Corporate Affair, kengchai.ng@redtone.com	Market Capitalisation:	RM173.9 million
	Current Price :	RM0.36
	Market / Sector:	ACE/ Trading Services
	Stock Code:	0032
Analyst : Lim Boon Ngee Tel : +603 2163 3200; Email : bnlim@nra.com.my		

Key Stock Statistics	FY11	FY12	FY13F	FY14F
EPS (sen)	(2.7)	0.5	4.2	5.1
P/E (x)	(13.7)	81.0	8.7	7.1
EV/Ebitda (x)	(65.3)	12.5	4.5	3.8
Dividend/Share (sen)	-	-	-	-
NTA/Share (sen)	16.9	17.6	20.3	25.4
Book Value/Share (sen)	16.9	17.6	20.3	25.4
Issued Capital (m shares)	439.5	476.5	476.5	476.5
52-weeks Share Price Range (sen)	14 - 38			

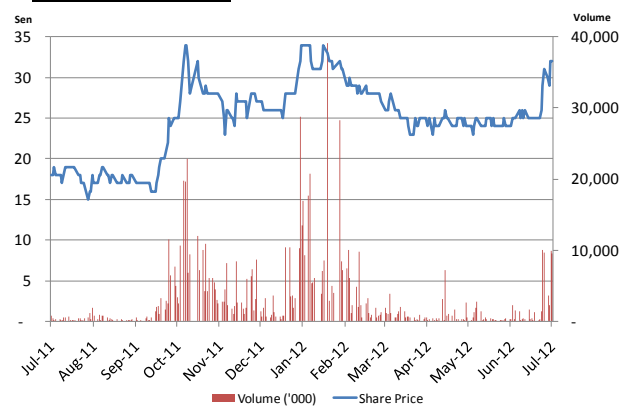
Per Share Data	FY11	FY12	FY13F	FY14F
Year-end 31 May				
Book Value (sen)	16.9	17.6	20.9	25.4
Cash Flow (sen)	(2.3)	0.6	4.6	5.4
Earnings (sen)	(2.7)	0.5	4.3	5.1
Dividend (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
PER (x)	(13.7)	81.0	8.7	7.1
P/Cash Flow (x)	(15.9)	58.9	7.9	6.7
P/Book Value (x)	2.2	2.1	1.7	1.4
Dividend Yield (%)	-	-	-	-
ROE (%)	(15.7)	2.7	20.7	20.2
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. = net cash

P&L Analysis (RMm)	FY11	FY12	FY13F	FY14F
Year-end 31 May				
Revenue	89.6	107.0	139.7	153.2
Depreciation	4.5	8.3	8.0	9.0
Operating Profit	(2.3)	12.3	33.6	39.2
Pre-tax profit	(10.3)	3.2	24.1	29.4
Effective Tax Rate (%)	n.a.	42.5	17.0	17.0
Net Profit	(11.7)	2.1	20.0	24.4
OP margin (%)	-2.5%	11.5%	24.0%	25.6%
Pre-tax margin (%)	-11.5%	3.0%	17.2%	19.2%
Net margin (%)	-13.7%	1.7%	14.3%	15.9%

n.a. = not applicable

1. Share price chart



2. 4QFY12 Results Review

	4QFY12	4QFY11	% Change
Revenue	22.7	23.0	(1.3)
Operating Profit	5.0	(5.4)	n.a.
Pre-tax Profit	2.9	(7.6)	n.a.
Net Profit	2.5	(8.0)	n.a.
Operating Margin	21.9%	-23.6%	
Pre-tax Margin	12.8%	-33.1%	
Net-Margin	10.9%	-34.8%	

- REDtone's 4QFY12 revenue was flat at RM22.7m, but it returned to profits with net profit of RM2.5m in the quarter versus net loss of RM8.0m in 4QFY11.

- This was largely due to a net de-consolidation gain of RM3.4m arising from divestment of its 80% stake in REDtone Multimedia Sdn Bhd, which is involved in the provision of Internet television.

3. FY12 Results Review

	FY12	FY11	% Change
Revenue	107.0	89.6	+19.4
Operating Profit	12.3	(2.3)	n.a.
Pre-tax Profit	3.2	(11.0)	n.a.
Net Profit	2.1	(11.7)	n.a.
Operating Margin	11.5%	-2.5%	
Pre-tax Margin	3.0%	-12.3%	
Net-Margin	2.0%	-13.1%	

- REDtone's FY12 topline grew 19.4% y-o-y to RM107.0m, derived from the securing of data and broadband projects, including the setting up of network infrastructure and Wifi hotspot solutions for government and corporate clients.
- With a positive Ebitda underpinned by higher contribution from such data and broadband projects and de-consolidation gain from divestment of its stake in REDtone Multimedia, the Group returned to the black in FY12 with net profit of RM2.1m versus net loss of RM11.7m in FY11.
- Excluding REDtone Multimedia, the REDtone Group recorded a pre-tax profit of RM2.9m in FY12 versus pre-tax loss of RM4.3m in FY11.

4. Earnings Outlook

- REDtone's prospects from FY13 will be more robust, with the network sharing and alliance ("NSA") agreement with Maxis Broadband Sdn Bhd on its 2,600 Mhz spectrum expected to drive earnings growth. The agreement with Maxis was inked in July 2012 and involves REDtone combining its LTE Spectrum exclusively with Maxis' LTE Spectrum. The tenure of the agreement is for a period of 5 years and may be extended for another 5 years at Maxis' option. The immediate earnings enhancement for REDtone will come from the fees chargeable to Maxis for using its LTE spectrum.
- The LTE network will be commercialised in 1QCY2013. As at end-March 2012, Maxis has over 12 million of mobile subscribers in the post-paid, pre-paid and wireless broadband segment. REDtone's LTE Spectrum is expected to be able to support about 4 million subscribers.
- The new earnings stream from the NSA is expected to have a positive impact on REDtone's earnings from FY13 onwards. In FY13, REDtone's net profit is expected to see strong growth at RM20.0m, from RM2.1m in FY12.
- Also take note that in FY12, REDtone divested its stakes in three non-core businesses, namely REDtone Multimedia, REDtone Software (R&D in VOIP Customer Premise Equipment.) and REDtone Mobile (distribution and selling of prepaid discounted call services to retail market in Malaysia). The exercise is part of its strategy to reposition its business from primarily a voice business into data and broadband services. With these divestments, REDtone's earnings going forward will no longer be weighed down by these loss-making businesses.

5. Valuation & Recommendation

- The NSA agreement will generate a new earnings stream for REDtone, and complement its core focus of providing specialised broadband, data and managed network services to government, corporate and SME clients.
- Based on current share price of RM0.36, REDtone is trading at Enterprise Value/Ebitda of 4.5x in FY13. We maintain a BUY call on REDtone with target price of RM0.43, imputing a forward FY13 EV/Ebitda of about 5.5x, with potential for further rerating depending on the speed by which Maxis commercialises the LTE Spectrum as well as market response.

Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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