

## 9MFY12 RESULTS REPORT

Date: 3 May 2012

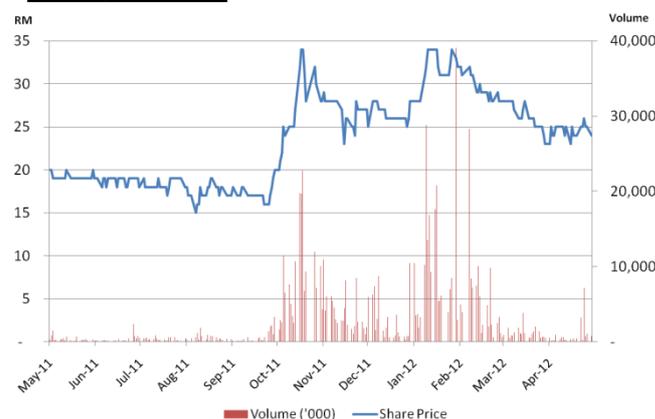
<b>Name of PLC:</b> REDtone International Bhd	<b>Target Price:</b>	RM0.26
<b>Business Summary :</b> Provision of broadband, data and managed network services to corporate and government clients		
<b>Major Shareholders :</b> Indah Pusaka Sdn Bhd - 27.4% Warisan Jutamas Sdn Bhd - 8.0% Dato' Wei Chua Beng - 3.0% <i>As at 30 April 2012</i>		
<b>PLC Website :</b> www.redtone.com	<b>Recommendation:</b>	Hold
<b>IR Contact :</b> Ms. Ng Keng Chai, GM Corporate Affair, <a href="mailto:kengchai.ng@redtone.com">kengchai.ng@redtone.com</a>	<b>Market Capitalisation:</b>	RM111.0 million
	<b>Current Price :</b>	RM0.24
	<b>Market / Sector:</b>	ACE/ Trading Services
	<b>Stock Code:</b>	0032
<b>Analyst : Lim Boon Ngee</b> Tel : +603 2163 3200; Email : bnlim@nra.com.my		

Key Stock Statistics	FY10	FY11	FY12e	FY13F
EPS (sen)	(1.5)	(2.7)	0.5	0.7
P/E (x)	-	-	47.5	32.6
EV/Ebitda (x)	-	-	6.4	5.3
Dividend/Share (sen)	-	-	-	-
NTA/Share (sen)	17.8	16.9	16.6	17.3
Book Value/Share (sen)	17.8	16.9	16.6	17.3
Issued Capital (m shares)	400.0	439.5	462.8	462.8
52-weeks Share Price Range (sen)	14 - 37			

Per Share Data	FY10	FY11	FY12e	FY13F
Year-end 31 May				
Book Value (sen)	17.8	16.9	16.6	17.3
Cash Flow (sen)	-	-	0.8	1.2
Earnings (sen)	-	-	0.5	0.7
Dividend (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
PER (x)	-	-	47.5	32.6
P/Cash Flow (x)	-	-	30.5	19.3
P/Book Value (x)	1.3	1.4	1.4	1.4
Dividend Yield (%)	-	-	-	-
ROE (%)	-	-	3.0	4.3
Net Gearing (%)	-	-	-	-

P&L Analysis (RMm)	FY10	FY11	Y12e	FY13F
Year-end 31 May				
Revenue	82.2	89.6	113.2	121.7
Depreciation	3.8	4.5	7.1	8.0
Operating Profit	(2.1)	(9.6)	12.9	15.6
Pre-tax profit	(5.1)	(11.0)	4.3	6.1
Effective Tax Rate (%)	-	-	40.1	30.0
Net Profit	(5.7)	(12.3)	2.1	4.3
Operating Profit margin (%)	-	-	11.4	12.8
Pre-tax margin (%)	-	-	3.8	5.0
Net margin (%)	-	-	1.9	3.5

### 1. Share price chart



### 2. 3QFY12 Results Review

	3QFY11	3QFY12	% Change
Revenue	21.0	23.6	+12.5
Operating Profit	0.3	3.1	>100%
Pre-tax Profit	(1.6)	0.9	-
Net Profit	(1.9)	0.4	-
Operating Margin	1.3%	13.2%	-
Pre-tax Margin	-	3.8%	-
Net-Margin	-	1.8%	-

- REDtone's revenue in 3QFY12 rose 12.5% y-o-y to RM23.6m. Topline growth mainly came from its China operation of selling and distribution of prepaid telecommunication services.
- It achieved pre-tax profit of RM0.9m in 3QFY12 mainly due to a RM2.3m gain

on deconsolidation arising from divestment of its 65% stake in REDtone Mobile Sdn Bhd. In 3QFY11, it posted a pre-tax loss of RM1.6m.

### 3. 9MFY12 Results Review

	9MFY11	9MFY12	% Change
Revenue	66.4	84.2	+26.8
Operating Profit	3.5	7.4	+108.0
Pre-tax Profit	(2.5)	0.3	-
Net Profit	(3.6)	(0.7)	-
Operating Margin	5.3%	8.7%	
Pre-tax Margin	-	0.4%	
Net-Margin	-	-	

- REDtone 9MFY12 topline grew 26.8% y-o-y to RM84.2m. Growth came from its data and broadband services and higher contribution from China. Among the broadband, data and managed network services jobs being undertaken by REDtone are setting up of network infrastructure and Wifi hotspot solutions for government and corporate clients.
- REDtone divested 65% of its stake in previously wholly-owned REDtone Multimedia Sdn Bhd in 4QFY12, as well as disposing its entire stake in REDtone Software Sdn Bhd in 3QFY12. The purpose of these exercises is to cut off non-core and non-profitable subsidiaries.
- The topline growth and divestment of non-profitable subsidiaries have helped REDtone to post pre-tax profit of RM0.3m in 9MFY12, against a pre-tax loss of RM2.5m in 9MFY11.

### 4. Strategy

- REDtone is repositioning its businesses to focus on specialised broadband, data and managed network services targeting government and corporate clients.
- Under this new strategy, REDtone's major areas of focus are:
  - Provision of network solutions to government agencies.
  - Building mobile and internet connectivity to rural areas that are not covered by telecommunications players, with funds from Universal Service Fund initiated by Malaysian Communications and Multimedia Commission. This fund consists of contribution from telecommunications players in Malaysia, aimed at providing mobile and internet connectivity in underserved areas, where due to sparse population it does not make financial sense for telecommunications players to build such network themselves.
  - Provision of managed network services to corporations and SMEs. This service is to provide broadband and data network for corporations and government agencies that have operations in various locations.
  - Wifi hotspots solution provider where REDtone provides wireless internet connectivity within large proximity. The company is currently undertaking such work for the Penang state government and Telekom Malaysia.
- Its discounted call service in Malaysia and selling and distribution of prepaid telecommunication service in China remain as steady providers of revenue for REDtone. However, due to price competition from similar service providers and telecommunications players, as well as advancement in technology, these are not earmarked as REDtone's growth engines.
- Concurrent with this strategy, REDtone has been divesting its stakes in non-core and non-profitable subsidiaries. The net effect from this exercise is REDtone will reduce its exposure to these loss making entities and partially recover its shareholder advances.
  - Divested its 65% stake in REDtone Mobile, which is in distribution and selling of prepaid discounted call services to retail market in Malaysia. REDtone Mobile is a 35% associate company of REDtone after the exercise.
  - In end-April 2012, it divested its 80% stake in REDtone Multimedia Sdn Bhd, which is in provision of Internet television. REDtone Multimedia is a 20% associate company of REDtone after the exercise.

## 5. Earnings Outlook

- We believe the new growth strategy REDtone is employing is sound. It is drawing on its core competencies of having an established network infrastructure and strong emphasis on R&D in providing cost effective and innovative broadband, data and network solutions that is bringing in contracts from both government and private (corporations/SMEs) sectors. This has successfully translated to improved financial performance as reflected in its last two quarters financial results.
- REDtone is working on securing network solutions, mobile and internet connectivity and Wifi hotspots contracts from government related agencies and corporations. Its current tenderbook is in the region of hundreds million RM. This will be REDtone's main growth area.
- After the divestment exercises, REDtone will also no longer be dragged down by non-profitable businesses.
- Due to these initiatives, REDtone is expected to return to profitability with EBITDA of RM12.9m and RM15.6m in FY12 and FY13 respectively. At pre-tax level, we expect REDTone to post pre-tax profit of RM4.3m and RM6.1m in FY12 and FY13 respectively.
- REDtone has also secured a 4G LTE spectrum. The company is working on plans to utilise this spectrum. We will revisit this area when plans have been firmed up.

## 6. Valuation & Recommendation

- On an EV/EBITDA basis, the stock is trading at a reasonable valuation of 6.4x and 5.3x for FY12 and FY13 respectively. Factoring in its net cash per share of 4.5 sen brings its FY12 EV/EBITDA to an attractive 5.5x. We commenced coverage on REDtone with a HOLD recommendation, with near term catalyst being its ability to grow its contracts base.
- We believe REDtone is at the initial stage of building a new core profit centre, i.e. provision of specialised broadband, data and managed network services. We believe this new strategy is within REDtone's core competencies, and that growth momentum may well accelerate once it gains traction.
- Further we have yet to factor in possible boost from REDtone's 4G LTE spectrum. We believe the outcome will be positive because such spectrum is essential to telecommunications providers in rolling out high speed mobile data connectivity.

## 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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