

UPDATE REPORT

Date: 7 December 2012

Name of PLC: REDtone International Bhd	Target Price:	RM0.48
Business Summary : Provision of broadband, data and managed network services to corporate and government clients		
Substantial Shareholders : Indah Pusaka Sdn Bhd - 32.79% Berjaya Group Berhad * - 10.41% Warisan Jutamas Sdn Bhd - 7.93% 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:	RM185.8 million
	Current Price :	RM0.39
	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	5.2	6.0
P/E (x)	(14.6)	86.5	7.5	6.5
EV/Ebitda (x)	(70.6)	13.5	4.1	3.6
Dividend/Share (sen)	-	-	1.3	1.5
NTA/Share (sen)	16.9	17.6	21.2	27.2
Book Value/Share (sen)	16.9	17.6	21.2	27.2
Issued Capital (m shares)	439.5	476.5	478.7	478.7
52-weeks Share Price Range (sen)	22 - 42			

Per Share Data	FY11	FY12	FY13F	FY14F
Year-end 31 May				
Book Value (sen)	16.9	17.6	21.2	27.2
Cash Flow (sen)	(2.3)	0.6	5.5	6.3
Earnings (sen)	(2.7)	0.5	5.2	6.0
Dividend (sen)	-	-	1.3	1.5
Payout Ratio (%)	-	-	25	25
PER (x)	(14.6)	86.5	7.5	6.5
P/Cash Flow (x)	(16.9)	63.0	7.1	6.2
P/Book Value (x)	2.3	2.2	1.8	1.4
Dividend Yield (%)	-	-	3.3	3.8
ROE (%)	(15.7)	2.7	24.5	21.9
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.
<i>n.c. = net cash</i>				

P&L Analysis (RMm)	FY11	FY12	FY13F	FY14F
Year-end 31 May				
Revenue	89.6	107.0	155.1	166.5
Depreciation	4.5	8.3	8.0	9.0
Operating Profit	(2.3)	12.3	39.6	44.2
Pre-tax profit	(10.3)	3.2	30.1	34.4
Effective Tax Rate (%)	(12.3)	42.5	17.0	17.0
Net Profit	(11.7)	2.1	25.0	28.5
OP margin (%)	-2.5%	11.5%	25.5%	26.5%
Pre-tax margin (%)	-11.5%	3.0%	19.4%	20.6%
Net margin (%)	-13.7%	1.7%	16.1%	17.1%
<i>n.a. = not applicable</i>				

1. Share price chart



2. Boost from Radio Access Network project in Sabah

- In November 2012, REDtone secured a RM82.5m contract (Time 3 Project) from the Malaysian Communications & Multimedia Commission (MCMC) to build, operate and maintain RAN (Radio Access Network) infrastructure in rural areas in Sabah.
- The infrastructure will provide voice and data connectivity to these areas. Construction of RAN will be completed in 1HCY13. REDtone will operate and maintain RAN for 3 years.

- The Time 3 Project is part of REDtone's plan to grow its Data/Broadband Solution division. Its other key on-going projects in this division are its Build, Own and Operate (BOO) WiFi infrastructure in Penang and for Telekom Malaysia, as well as the Kampung Tanpa Wayar projects to provide data connectivity to rural areas.

3. REDtone awarded 4G-LTE Spectrum from MCMC

- REDtone is one of the eight companies awarded the 4G-LTE 2,600 Mhz spectrum by MCMC on 5 December 2012. This will serve to cement its network sharing and alliance ('NSA') with Maxis Broadband Sdn Bhd. The agreement involves REDtone combining its LTE Spectrum exclusively with Maxis' LTE Spectrum for a fee. The agreement will be for 5 years and may be extended for another 5 years at Maxis' option. Maxis' LTE network is expected to be commercialised in 1QCY2013.

4. Earnings Outlook

- Earnings prospects for REDtone have improved with these developments. Time 3 Project is expected to contribute positively to group earnings over the next three years from FY13 onwards. Growth will also be boosted by its NSA with Maxis, which will have a favourable impact on REDtone's earnings progressively when Maxis successfully rolls out its 4G-LTE service in 1QCY13.
- REDtone financial performance will also be unencumbered by its loss making businesses following its divestment of 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).
- We expect substantial increase in REDtone's earnings in FY13, with forecast net profit of RM25.0m from RM2.1m recorded in FY12.

5. Valuation & Recommendation

- The Time 3 Project and NSA agreement are part of REDtone's focus to provide specialised broadband, data and managed network services to government, corporate and SME clients. These new initiatives should serve to drive group earnings growth going forward.
- Based on current share price of RM0.39, REDtone is trading at Enterprise Value/Ebitda of 4.1x in FY13. We maintain a BUY call on REDtone with a target price of RM0.48, imputing a forward FY13 EV/Ebitda of about 5.2x.
- REDtone management also guided that in view of the better earnings prospects, it intends to distribute about 25% of its net profit as dividends. Based on its FY13 earnings forecast, the stock has a potential dividend yield of 3.3%.

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)

This report has been prepared by Netresearch-Asia Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") III, administered by Bursa Malaysia Berhad ("Administrator") and has been compensated to undertake the scheme. Netresearch-Asia Sdn Bhd has produced this report independent of any influence from the Administrator or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at:

http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/eResearch.jsp

The information and opinion in this document has been obtained from various sources believed to be reliable. This publication is for information purpose only, and must not be relied upon as authoritative or taken in substitution for the exercise of judgment. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. Opinions expressed in this publication are subject to change without notice and any recommendation herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect or consequential losses (including loss and profit) or damages that may arise from the use of information or opinions in this publication.

Netresearch-Asia Sdn Bhd and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may materially be interested in any such securities. Netresearch-Asia Sdn Bhd and its related companies may from time to time perform advisory, investment, communications or other services for, or solicit such advisory, investment, communications or other services from any entity mentioned in this report. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.