

1QFY13 RESULTS REPORT

Date: 31 October 2012

Name of PLC: REDtone International Bhd	Target Price:	RM0.44
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:	RM178.7 million
	Current Price :	RM0.37
	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)	(14.1)	83.2	9.0	7.3
EV/Ebitda (x)	(67.5)	12.9	4.6	3.9
Dividend/Share (sen)	-	-	-	-
NTA/Share (sen)	16.9	17.6	20.2	25.3
Book Value/Share (sen)	16.9	17.6	20.2	25.3
Issued Capital (m shares)	439.5	476.5	478.7	478.7
52-weeks Share Price Range (sen)	22.5 - 41.0			

Per Share Data	FY11	FY12	FY13F	FY14F
Year-end 31 May				
Book Value (sen)	16.9	17.6	20.2	25.3
Cash Flow (sen)	(2.3)	0.6	4.5	5.4
Earnings (sen)	(2.7)	0.5	4.2	5.1
Dividend (sen)	-	-	-	-
Payout Ratio (%)	-	-	-	-
PER (x)	(14.1)	83.2	9.0	7.3
P/Cash Flow (x)	(16.3)	60.5	8.4	6.9
P/Book Value (x)	2.2	2.1	1.9	1.5
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 (OP)	(2.3)	12.3	33.6	39.2
Pre-tax profit	(10.3)	3.2	24.1	29.4
Effective Tax Rate (%)	(12.3)	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. 1QFY13 Results Review

	1QFY13	1QFY12	% Change
Revenue	30.7	24.7	+ 24.2
Operating Profit	3.8	1.8	+109.4
Pre-tax Profit	1.9	(0.7)	n.m.
Net Profit	2.0	(0.7)	n.m.
Operating Margin	12.5%	7.4%	
Pre-tax Margin	6.1%	-2.8%	
Net-Margin	6.5%	-2.7%	

n.m. = not meaningful

- REDtone's 1QFY13 revenue rose 24.2% y-o-y to RM30.7m, due to higher revenue from its data and broadband operations,

where the division's revenue increased 103.0% y-o-y to RM11.4m. This offset the slight decline in revenue from its voice business, which fell 2.4% y-o-y to RM17.7m.

- REDtone showed a pre-tax profit of RM1.9m in 1QFY13, versus pre-tax loss of RM0.7m in 1QFY12. The turnaround is mainly due to disposal of its loss making Internet television business via the divestment of its 80% stake in REDtone Multimedia Sdn Bhd, which made a pre-tax loss of RM1.6m in 1QFY12. As such, in 1QFY13, REDtone's earnings are no longer weighed down by losses in the Internet television business.

3. Earnings Outlook

- REDtone's earnings prospects are expected to improve from FY13. Firstly, REDtone will no longer be saddled with loss making businesses that have been deemed as non-core. To recap, in FY12, REDtone divested its stakes in 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). REDtone is repositioning its business to focus on data and broadband services, from primarily voice business. REDtone 1QFY13 results are showing the intended results.
- Another boost will come when its infrastructure sharing and alliance ("NSA") with Maxis Broadband Sdn Bhd on its 2,600 Mhz spectrum comes on-stream in 1QCY2013. To recap, the agreement involves REDtone combining its LTE Spectrum exclusively with Maxis' LTE Spectrum where fees will be chargeable to Maxis for using REDtone's 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. Maxis' LTE network is expected to be commercialised in 1QCY2013.
- The new earnings stream from the NSA is expected to have a positive impact on REDtone's earnings from FY13 onwards. Together with its profitable voice and data and broadband businesses, REDtone's net profit is expected to see strong growth at RM20.0m in FY13, from RM2.1m in FY12.

4. 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 RM0.37, REDtone is trading at Enterprise Value/Ebitda of 4.6x in FY13. We maintain a BUY call on REDtone with target price of RM0.44, imputing a forward FY13 EV/Ebitda of about 5.5x.

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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