14 May 2013

# **REDtone International**

## Record high profits in the making

With its recent team-up with Telekom Malaysia in wholesale Ethernet, the group is now capable of offering a complete customised and integrated data network technology solution to its customers in different industries. The group is also set to receive its first resource sharing fee from Maxis in May. The fee is expected to boost REDtone's FY13 earnings significantly and reach our targeted net profit forecast of RM23.6m (~10 fold YoY) on a full-year basis. In addition, the group is also set to receive a sustainable recurring resource sharing fee under its NSA agreement with Maxis. Separately, management believes that the recent Sabah Sulu incident will not have any material earnings impact to the group. There are no changes to our REDtone's FY13-FY14 earnings forecasts. We maintain our OUTPERFORM call on REDtone with an unchanged target price of RM0.56, based on a targeted FY13 PER of 11.0x.

A complete data network technology solution portfolio. Its recent team-up with Telekom Malaysia in wholesale Ethernet has allowed REDtone to further enrich its data network technology portfolio. The group is now able to integrate different technologies, customise solutions and offer broadband on demand to cater for the different industry and end-user needs (mainly the SME customers). Its data network technologies include Metro-E, HSBB, WiFi, 4G, data centre and voice services.

On track to achieve a record-high profit. Management indicates that the group is finally set to receive its first resource sharing fee from Maxis in May after months of delay in getting the authority's approval due to technical issues. Although the exact quantum was not disclosed, we estimate that Maxis could potentially pay up to RM25m based on our channel checks with the other industry players. The one-off fee is expected to boost the group's FY13 earnings significantly and meet our net profit estimate of RM23.6m (~10 fold YoY). To recap, REDtone had in July 2012 entered into an infrastructure and spectrum sharing agreement (NSA agreement) with Maxis to fast track both the companies' 4G LTE services rollout.

A sustainable recurring resource sharing fee is on the cards. The NSA agreement with Maxis will not only provide vast synergies to the group (in terms of capex saving) but also enable it to receive a sustainable recurring income from the combined 2.6GHz 4G spectrum over the said period. The recurring income, based on our understanding, will be based on an agreed tier pricing structure for each Maxis 4G subscriber who is using the LTE service under the combined spectrum. To date, Maxis has signed up 100k 4G customers within the Klang Valley and will extend its service to Johor and Penang in 2QCY13. In view of the current small contribution, we have yet to impute the above earnings into our financial model.

Immaterial earnings impact from Sulu incident. The recent attack by Sulu intruders in Sabah's east coast has caused 1-2 months delay in constructing 22 sites (out of the total 75 sites in nine rural areas) in Lahad Datu, which the group had initially targeted to complete by May 2013 under its USP project. Management believes the earnings impact is immaterial given that the above occasion was an unexpected social incident and it should thus be able to get a waiver from any penalties by the authority. To recap, Redtone was awarded a 3-year RM82.5m USP project from MCMC in November 2012 to build, operate and maintain RAN (Radio Access Network) infrastructures to provide voice and data connectivity in nine rural areas in Sabah.

### **OUTPERFORM** +

Price: RM0.455
Target Price: RM0.560



#### **Stock Information**

Bloomberg Ticker	RIB MK Equity
Market Cap (RM m)	216.95
Issued shares	476.82
52-week range (H)	0.46
52-week range (L)	0.23
3-mth avg daily vol:	897,162
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**

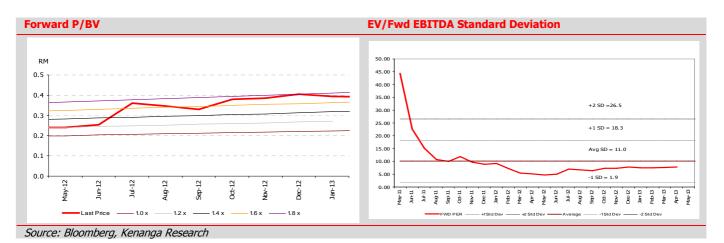
FYE May (RM'm)	2012A	2013E	2014E
Turnover	107.0	166.4	169.6
EBIT	4.0	27.1	30.0
PBT	3.2	26.7	29.6
Net Profit (NP)	2.1	23.6	25.0
Core NP	(8.7)	23.6	25.0
Consensus (NP)		23.5	26.0
Earnings Revision		-	-
EBITDA margin (%)	10.7%	22.9%	25.0%
Core EPS (sen)	-1.8	5.1	5.3
EPS growth (%)	31.2	376.7	5.5
DPS (sen)	-	1.5	1.6
BV/Share (RM)	0.2	0.2	0.2
Core PER	(24.8)	9.3	8.8
Reported PER	100.9	9.3	8.8
Price/BV (x)	2.7	2.1	1.9
Net Gearing (x)	(0.2)	(0.3)	(0.4)
Dividend Yield (%)	0.0	3.2	3.4

Cheow Ming Liang <a href="mailto:cheowml@kenanga.com.my">cheowml@kenanga.com.my</a> +603 2713 2292

PP7004/02/2013(031762) KENANGA RESEARCH

Income Statement					Financial Data & Ratios						
FY May (RM m)	2010A	2011A	2012A	2013E	2014E	FY May (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	82.2	89.6	107.0	166.4	169.6	Growth					
EBITDA	1.8	(2.3)	11.5	38.2	42.3	Turnover (%)	3.5	9.0	19.4	55.6	1.9
Depreciation	5.6	8.0	7.5	11.1	12.3	EBITDA (%)	172.5	-222.5	606.8	232.6	10.9
Operating Profit	(3.8)	(10.3)	4.0	27.1	30.0	Operating Profit (%)	33.2	-174.1	139.0	574.6	10.7
Other Income	0.0	0.0	0.0	0.0	0.0	PBT (%)	-91.0	-149.2	129.4	727.0	10.5
Interest Exp	0.7	0.7	0.8	0.4	0.4	Core Net Profit (%)	9.5	-116.4	25.5	370.0	6.2
Associate	0.0	0.0	0.0	0.0	0.0						
Exceptional Items	0.0	1.0	2.0	3.0	4.0	Profitability (%)					
PBT	(4.4)	(11.0)	3.2	26.7	29.6	EBITDA Margin	2.2	-2.5	10.7	22.9	25.0
Taxation	0.6	1.3	12.3	3.2	4.4	Operating Margin	-4.6	-11.5	3.8	16.3	17.7
Minority Interest	(0.4)	0.5	0.3	(0.0)	(0.1)	PBT Margin	-5.4	-12.3	3.0	16.1	17.4
Net Profit	(5.4)	(11.7)	2.1	23.6	25.0	Core Net Margin	-6.6	-13.1	-8.2	14.2	14.8
Core Net Profit	(5.4)	(11.7)	(8.7)	23.6	25.0	Effective Tax Rate	-13.3	-11.5	378.9	11.8	15.0
	,		. ,			ROA	-3.4	-8.7	-6.2	14.1	13.7
<b>Balance Sheet</b>						ROE	-5.8	-15.7	-11.0	24.5	22.0
FY May (RM m)	2010A	2011A	2012A	2013E	2014E						
Fixed Assets	33.3	51.8	54.0	52.9	50.8	DuPont Analysis					
Intangible Assets	-	-	-	-	-	Net Margin (%)	-6.6%	-13.1%	-8.2%	14.2%	14.8%
Other FA	21.6	24.8	18.6	18.6	18.6	Assets Turnover (x)	0.5x	0.7x	0.8x	1.0x	0.9x
Inventories	2.0	2.3	0.7	0.9	0.9	Leverage Factor (x)	1.7x	1.7x	1.6x	1.6x	1.5x
Receivables	21.6	17.4	13.3	20.7	21.1	ROE (%)	-5.8	-15.7	-11.0	24.5	22.0
Other CA	27.9	10.3	31.4	42.3	39.9						
Cash	53.8	27.9	22.6	31.2	52.1	Leverage					
Total Assets	160.2	134.6	140.6	166.6	183.4	Debt/Asset (x)	0.3	0.1	0.3	0.4	0.4
						Debt/Equity (x)	0.6	0.1	0.7	0.9	1.0
Payables	17.3	16.5	17.2	22.3	23.0	Net Cash/(Debt)	41.3	18.2	13.7	25.3	46.1
ST Borrowings	4.9	3.3	3.0	_	-	Net Debt/Equity (x)	-0.4	-0.2	-0.2	-0.3	-0.4
Other ST Liability	34.6	26.1	27.0	34.5	32.9	, , ()		•			• • • • • • • • • • • • • • • • • • • •
LT Borrowings	7.6	6.4	5.9	5.9	5.9	Valuations					
Other LT Liability	2.5	0.8	0.1	0.0	0.0	EPS (sen)	-1.4	-2.7	-1.8	5.1	5.3
Minorities Int.	0.5	7.0	7.8	7.8	7.9	GDPS (sen)	0.0	0.0	0.0	1.5	1.6
Net Assets	92.8	74.4	79.6	96.1	113.6	NTA (RM)	0.2	0.2	0.2	0.2	0.2
						PER (x)	-33.6	-17.1	-24.8	9.3	8.8
Share Capital	43.2	44.8	47.6	47.6	47.6	Gross Div. Yield (%)	0.0	0.0	0.0	3.2	3.4
Reserves	49.6	29.6	32.0	48.5	66.1	P/NTA (x)	2.0	2.7	2.7	2.3	1.9
Equity	92.8	74.4	79.6	96.1	113.6	EV/EBITDA (x)	120.6	-96.6	20.1	6.3	6.2
Cashflow State											
FY May (RM m)	<b>2010A</b>	2011A	<b>2012A</b>	2013E	2014E						
Operating CF	(0.1)	(10.1)	3.0	28.7	38.5						
Investing CF	(20.3)	(11.1)	(8.3)	(10.0)	(10.2)						
Financing CF	43.1	(3.3)	(0.5)	(10.1)	(7.5)						
Change In Cash	22.6	(24.6)	(5.9)	8.7	20.8						
Free CF	(4.2)	(15.2)	(4.6)	18.7	28.3						

Source: Kenanga Research



Page 2 of 3 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.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

### **KENANGA INVESTMENT BANK BERHAD (15678-H)**

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 WeBangsar South Cityite: <a href="www.kenangaresearch.com">www.kenangaresearch.com</a>

Chan Ken Yew Head of Research

Page 3 of 3 KENANGA RESEARCH