

03 April 2013

REDtone

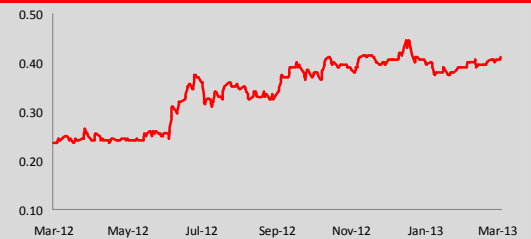
Inks Ethernet agreement with TM

- News**
- Redtone has teamed up with Telekom Malaysia (TM) in a wholesale ethernet deal, where TM will provide the former with instant access to all TM's Metro-E infrastructure nationwide.
 - Management indicated that the latest partnership with TM will allow the group to have the opportunity to provide the high-capacity Metro-E product as an additional offering to its corporate customers numbering more than 10k currently.
- Comments**
- We welcome the above partnership, which we believe will allow Redtone to further widen and strengthen its corporate segment via its upcoming new products launches (i.e. high-speed internet, video conferencing and collaboration, video/media streaming and data centre/data recovery centre).
 - We understand that TM's wholesale Ethernet is a high-speed Wide Area Network (WAN) based on Carrier Class Ethernet standards that offers high-speed and flexible bandwidth. It connects multiple locations of a business, whether located in the metropolitan areas or nationwide and is capable of offering scalable bandwidth capacity from 100Mbps to 1Gbps. Wholesale Ethernet is targeted for the business segment and applicable for various industries of different sizes.
- Outlook**
- REDtone's near term catalysts will be mainly led by its RM82.5m USP project as well as its upcoming RM25.0m spectrum resource sharing fee.
 - The group's future earnings are likely to depend on: 1) the ability to secure more USP projects and 2) the degree of aggressiveness of Maxis' 4G LTE services rollout, which we have yet to impute into our forecasts.
- Forecast**
- There are no changes in our FY13-FY14 earnings forecasts.
- Rating**
- Maintain OUTPERFORM**
- We believe that investors have overlooked the potential earnings upside of REDtone for both FY13 and FY14. We expect the group's net profit to reach RM23.6m (more than a 10-fold YoY jump) in FY13 and thereafter to RM25.0m (+6.0% YoY) in FY14.
- Valuation**
- We are maintaining our target price at RM0.56 based on an unchanged targeted FY13 PER of 11.0x.
- Risks**
- Dependency on a major partner – Maxis.
 - Failure to secure more USP programmes.

OUTPERFORM ↔

Price: RM0.41
Target Price: RM0.56 ↔

Share Price Performance



KLCI	1,685.00
YTD KLCI chg	-0.2%
YTD stock price chg	1.2%

Stock Information

Bloomberg Ticker	RIB MK Equity
Market Cap (RM'm)	195.3
Issued shares	476.3
52-week range (H)	0.45
52-week range (L)	0.23
3-mth avg daily vol:	861,831
Free Float	49%
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	166.5	169.6
EBIT	4.0	27.3	29.7
PBT	3.2	26.7	29.3
Net Profit (NP)	2.1	23.6	25.0
Core Net Profit	(8.7)	23.6	25.0
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
EBITDA margin (%)	10.7	21.7	22.4
Core EPS (sen)	(1.8)	5.1	5.3
EPS growth (%)	31.2	376.4	5.2
NDPS (sen)	-	1.5	1.6
BVPS (RM)	0.2	0.2	0.2
Core PER	(22.4)	8.1	7.7
Reported PER	90.9	8.4	8.0
PBV (x)	2.5	2.0	1.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	0.0	3.6	3.8

Cheow Ming Liang
cheowml@kenanga.com.my
 +603 2713 2292

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.***

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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 Website: www.kenangaresearch.com



Chan Ken Yew
Head of Research