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 highspeed 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



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%

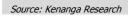
Summary Earnings Table

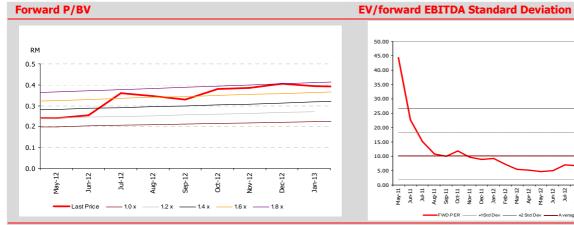
FYE May (RM'm)	2012A	2013E	2014E					
Turnover	107.0	166.5	169.6					
EBIT	4.0	27.3	29.7					
PBT	3.2	26.7	29.3					
Net Profit (NP)	2.1	23.6	25.0					
Core Net Profit	(8.7)	23.6	25.0					
Consensus (NP)		-	-					
Earnings Revision		-	-					
EBITDA margin (%)	10.7	21.7	22.4					
Core EPS (sen)	(1.8)	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					
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REDtone Berhad 03 April 2013

Income Statement					Financial Data & Ratios					
2010A	2011A	2012A	2013E	2014E	FY May (RM'm)	2010A	2011A	2012A	2013E	2014E
82.2	89.6	107.0	166.5	169.6	Growth					
1.8	(2.3)	11.5	36.1	37.9	Turnover (%)	3.5	9.0	19.4	55.6	1.9
5.6	8.0	7.5	8.8	8.2	EBITDA (%)	172.5	-222.5	606.8	214.2	5.2
(3.8)	(10.3)	4.0	27.3	29.7	Operating Profit (%)	33.2	-174.1	139.0	578.8	8.9
0.0	0.0	0.0	0.0	0.0	PBT (%)	-91.0	-149.2	129.4	725.9	9.5
0.7	0.7	0.8	0.6	0.4	Net Profit (%)	9.5	-116.4	25.5	369.7	6.0
0.0	0.0	0.0	0.0	0.0						
0.0	1.0	2.0	3.0	4.0	Profitability (%)					
(4.4)	(11.0)	3.2	26.7	29.3	EBITDA Margin	2.2	-2.5	10.7	21.7	22.4
0.6	1.3	12.3	3.2	4.4	Operating Margin	-4.6	-11.5	3.8	16.4	17.5
(0.4)	0.5	0.3	0.1	0.1	PBT Margin	-5.4	-12.3	3.0	16.0	17.3
	(11.7)		23.6	25.0	Core Net Margin	-6.6		-8.2	14.1	14.7
					Effective Tax Rate					15.0
		_ (- /			ROA					13.6
					ROE					22.0
2010A	2011A	2012A	2013E	2014E						
33.3	51.8	54.0	55.2	57.2	DuPont Analysis					
-	-	-	-	-	Net Margin (%)	-6.6%	-13.1%	-8.2%	14.1%	14.7%
21.6	24.8	18.6	18.6	18.6	Assets Turnover (x)					0.9x
2.0	2.3	0.7	0.9	0.9	Leverage Factor (x)					1.5x
21.6	17.4	13.3	20.7	21.1						22.0
						5.0	20.7	22.0		
53.8	27.9	22.6	28.9	45.5	Leverage					
160.2	134.6	140.6	166.6	183.2	Debt/Asset (x)	0.3	0.1	0.3	0.4	0.4
										1.0
17.3	16.5	17.2	22.3	23.1	Net Cash/(Debt)					39.6
4.9	3.3	3.0	-	-	Net Debt/Equity (x)					-0.3
34.6	26.1	27.0	34.5	32.9						
7.6	6.4	5.9	5.9	5.9	Valuations					
2.5	0.8	0.1	0.0	0.0	EPS (sen)	-1.4	-2.7	-1.8	5.1	5.3
0.5	7.0	7.8	7.7	7.7	NDPS (sen)					1.5
92.8	74.4	79.6	96.1	113.6	NTA (RM)	0.2	0.2	0.2	0.2	0.2
					PER (x)	-30.3	-15.4	-22.4	8.1	7.7
43.2	44.8	47.6	47.6	47.6	Net Div. Yield (%)	0.0	0.0	0.0	3.6	3.8
49.6	29.6	32.0	48.6	66.0	P/NTA (x)	1.8	2.4	2.5	2.0	1.7
92.8	74.4	79.6	96.1	113.6	EV/EBITDA (x)	110.8	-87.9	18.2	6.1	6.2
	(24.6) (15.2)	(5.9)	16.3	16.6 24.1						
(4.2)										
	2010A 82.2 1.8 5.6 (3.8) 0.0 0.7 0.0 0.0 (4.4) 0.6 (0.4) (5.4) (5.4) 2010A 33.3 - 21.6 2.0 21.6 27.9 53.8 160.2 17.3 4.9 34.6 7.6 2.5 0.5 92.8	2010A 2011A 82.2 89.6 1.8 (2.3) 5.6 8.0 (3.8) (10.3) 0.0 0.0 0.7 0.7 0.0 0.0 0.0 1.0 (4.4) (11.0) 0.6 1.3 (0.4) 0.5 (5.4) (11.7) (5.4) (11.7) (5.4) (11.7) 2010A 2011A 33.3 51.8	2010A 2011A 2012A 82.2 89.6 107.0 1.8 (2.3) 11.5 5.6 8.0 7.5 (3.8) (10.3) 4.0 0.0 0.0 0.0 0.7 0.7 0.8 0.0 0.0 0.0 0.0 1.0 2.0 (4.4) (11.0) 3.2 0.6 1.3 12.3 (0.4) 0.5 0.3 (5.4) (11.7) (8.7) 2010A 2011A 2012A 33.3 51.8 54.0 - - - 21.6 24.8 18.6 2.0 2.3 0.7 21.6 17.4 13.3 27.9 10.3 31.4 53.8 27.9 22.6 160.2 134.6 140.6 17.3 16.5 17.2 4.9 3.3 3.0 <t< td=""><td>2010A 2011A 2012A 2013E 82.2 89.6 107.0 166.5 1.8 (2.3) 11.5 36.1 5.6 8.0 7.5 8.8 (3.8) (10.3) 4.0 27.3 0.0 0.0 0.0 0.0 0.7 0.7 0.8 0.6 0.0 0.0 0.0 0.0 0.0 1.0 2.0 3.0 (4.4) (11.0) 3.2 26.7 0.6 1.3 12.3 3.2 (0.4) 0.5 0.3 0.1 (5.4) (11.7) (8.7) 23.6 2.4 (11.7) (8.7) 23.6 2.5 0.3 0.1 0.2 0.3 0.1 (5.4) (11.7) (8.7) 23.6 0.1 2010A 2011A 2012A 2013E 20.2 21.6 17.4 13.3 20.7 2.9</td><td>2010A 2011A 2012A 2013E 2014E 82.2 89.6 107.0 166.5 169.6 1.8 (2.3) 11.5 36.1 37.9 5.6 8.0 7.5 8.8 8.2 (3.8) (10.3) 4.0 27.3 29.7 0.0 0.0 0.0 0.0 0.0 0.7 0.7 0.8 0.6 0.4 0.0 0.0 0.0 0.0 0.0 0.0 1.0 2.0 3.0 4.0 (4.4) (11.0) 3.2 26.7 29.3 0.6 1.3 12.3 3.2 4.4 (0.4) 0.5 0.3 0.1 0.1 (5.4) (11.7) (2.1 23.6 25.0 (5.4) (11.7) (8.7) 23.6 25.0 2010A 2011A 2012A 2013E 2014E 33.3 51.8 54.0 55.2 57.2<td> 2010A 2011A 2012A 2013E 2014E </td><td> 2010A 2011A 2012A 2013E 2014E FY May (RM'm) 2010A 82.2 89.6 107.0 166.5 169.6</td><td> 2010A 2011A 2012A 2013E 2014E R2.2 89.6 107.0 166.5 169.6 Growth Turnover (%) 3.5 9.0 5.6 8.0 7.5 8.8 8.2 EBITDA (%) 172.5 -222.5 (3.8) (10.3) 4.0 27.3 29.7 Operating Profit (%) 33.2 -174.1 0.0 0.0 0.0 0.0 0.0 0.0 O.0 O.0 </td><td> 2010A 2011A 2012A 2013E 2014E 82.2 89.6 107.0 166.5 169.6</td><td> 2010A 2011A 2012A 2013E 2014E 62.2 89.6 107.0 1166.5 169.6 670wth </td></td></t<>	2010A 2011A 2012A 2013E 82.2 89.6 107.0 166.5 1.8 (2.3) 11.5 36.1 5.6 8.0 7.5 8.8 (3.8) (10.3) 4.0 27.3 0.0 0.0 0.0 0.0 0.7 0.7 0.8 0.6 0.0 0.0 0.0 0.0 0.0 1.0 2.0 3.0 (4.4) (11.0) 3.2 26.7 0.6 1.3 12.3 3.2 (0.4) 0.5 0.3 0.1 (5.4) (11.7) (8.7) 23.6 2.4 (11.7) (8.7) 23.6 2.5 0.3 0.1 0.2 0.3 0.1 (5.4) (11.7) (8.7) 23.6 0.1 2010A 2011A 2012A 2013E 20.2 21.6 17.4 13.3 20.7 2.9	2010A 2011A 2012A 2013E 2014E 82.2 89.6 107.0 166.5 169.6 1.8 (2.3) 11.5 36.1 37.9 5.6 8.0 7.5 8.8 8.2 (3.8) (10.3) 4.0 27.3 29.7 0.0 0.0 0.0 0.0 0.0 0.7 0.7 0.8 0.6 0.4 0.0 0.0 0.0 0.0 0.0 0.0 1.0 2.0 3.0 4.0 (4.4) (11.0) 3.2 26.7 29.3 0.6 1.3 12.3 3.2 4.4 (0.4) 0.5 0.3 0.1 0.1 (5.4) (11.7) (2.1 23.6 25.0 (5.4) (11.7) (8.7) 23.6 25.0 2010A 2011A 2012A 2013E 2014E 33.3 51.8 54.0 55.2 57.2 <td> 2010A 2011A 2012A 2013E 2014E </td> <td> 2010A 2011A 2012A 2013E 2014E FY May (RM'm) 2010A 82.2 89.6 107.0 166.5 169.6</td> <td> 2010A 2011A 2012A 2013E 2014E R2.2 89.6 107.0 166.5 169.6 Growth Turnover (%) 3.5 9.0 5.6 8.0 7.5 8.8 8.2 EBITDA (%) 172.5 -222.5 (3.8) (10.3) 4.0 27.3 29.7 Operating Profit (%) 33.2 -174.1 0.0 0.0 0.0 0.0 0.0 0.0 O.0 O.0 </td> <td> 2010A 2011A 2012A 2013E 2014E 82.2 89.6 107.0 166.5 169.6</td> <td> 2010A 2011A 2012A 2013E 2014E 62.2 89.6 107.0 1166.5 169.6 670wth </td>	2010A 2011A 2012A 2013E 2014E	2010A 2011A 2012A 2013E 2014E FY May (RM'm) 2010A 82.2 89.6 107.0 166.5 169.6	2010A 2011A 2012A 2013E 2014E R2.2 89.6 107.0 166.5 169.6 Growth Turnover (%) 3.5 9.0 5.6 8.0 7.5 8.8 8.2 EBITDA (%) 172.5 -222.5 (3.8) (10.3) 4.0 27.3 29.7 Operating Profit (%) 33.2 -174.1 0.0 0.0 0.0 0.0 0.0 0.0 O.0 O.0	2010A 2011A 2012A 2013E 2014E 82.2 89.6 107.0 166.5 169.6	2010A 2011A 2012A 2013E 2014E 62.2 89.6 107.0 1166.5 169.6 670wth





+2 SD =26.5 +1 SD = 18.3

Source: Bloomberg, Kenanga Research

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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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