

15 July 2013

REDtone International

Exciting Developments in Pipeline

OUTPERFORM ↔

Price: RM0.690
Target Price: RM0.770 ↑

The group indicated that the digital terrestrial television broadcast ("DTTB") bidding process could be concluded as early as end-3Q. Meanwhile, the recent launch of dedicated broadband services via Telekom Malaysia's network has further widened the technology solution services available to its SME customers. On top of that, Redtone also indicated its intention to participate in the country's tele-health project which was followed up by the setting up of a JV company. We believe the group's FY13 results may come in above our initial expectation due to higher than expected margins, compelling us to raise our Redtone's FY13-FY14 net profit forecasts to RM25.5m and RM26.5m, respectively. Valuation-wise, to align with our earnings upgrade, we have raised our Redtone target price to RM0.77 (from RM0.75 previously), based on an unchanged targeted FY14 PER of 14.5x (+0.5SD). Maintain **OUTPERFORM**.

The DTTB winner is expected to be unveiled by end-3Q. Redtone has submitted a detailed digital terrestrial television broadcast ("DTTB") business plan to MCMC on 3rd of June for the final evaluation and the latter is expected to conclude the bidding process and name a winner by end-3Q. To recap, Redtone Network S/B, Puncak Semangat and i-Media had been shortlisted by MCMC for the DTTB tender in November 2012. The winner will provide the platform for free-to-air broadcasters to migrate from the current analogue system to a digital broadcasting format. Based on our understanding, the successful bidder will receive a block of spectrums, which will be capable to provide up to 45 standard definition or 15 high-definition channels.

Launches dedicated broadband service for SMEs. Redtone has finally launched a broadband service for small and medium enterprises (SMEs) in mid-June in a 5-year HSBB collaboration agreement with Telekom Malaysia. The service, called Redtone Fibre+, came in four packages starting at RM199/month for 5 Mbps to RM999 for 30 Mbps. By riding on TM's HSBB services, the group is now able to provide more value-added services as well as complete technology solutions (that including wireless point to point, 3G, Wimax, 4G, Satellite, WiFi, Metro E, and ADSL) to its SME customers.

Establish a JV company for tele-health services. The group had on 3 July 2013 incorporated a 70%-owned subsidiary in Malaysia, namely REDtone MEX S/B ("RMSB"), with an intention to provide tele-health services as its principal activity. The remaining 30% of the equity interest in RMSB is owned by People Health S/B. Tele-health or tele-medicine involves the use of proprietary software and electronic devices with audio and visual capabilities to assist in the provision of medical care to patients. No details or financial numbers were provided by the management given the set-up of the JV company is still in the preliminary stage.

FY13 results may come in above our expectation as a result of the higher than expected margins, thanks to a better network efficiency as well as cost synergies created from various collaborations. We have, thus, raised our Redtone's FY13-FY14 GP margin assumptions by another 100 bps each to 42.4% and 41.5%, respectively. The higher GP margin assumptions have also led us to raise the group's net profit forecast to RM25.5m in FY13 and RM26.5m in FY14 (from RM23.6m and RM25.0m previously). Meanwhile, the group's FY13 dividend per share forecast has also been raised to 1.6 sen (from 1.5 sen previously) based on an unchanged 30% targeted payout ratio. Note that, Redtone has a formal dividend policy to distribute a minimum 25% of its net profit to reward shareholders.

Share Price Performance



KLCI	1,785.65
YTD KLCI chg	5.7%
YTD stock price chg	70.4%

Stock Information

Bloomberg Ticker	RIB MK Equity
Market Cap (RM m)	332.6
Issued shares	482.1
52-week range (H)	0.78
52-week range (L)	0.31
3-mth avg daily vol:	3,852,880
Free Float	46%
Beta	1.2

Major Shareholders

INDAH PUSAKA S/B	32.4%
BERJAYA CORP	13.7%
WARISAN JUTAMAS	7.8%

Summary Earnings Table

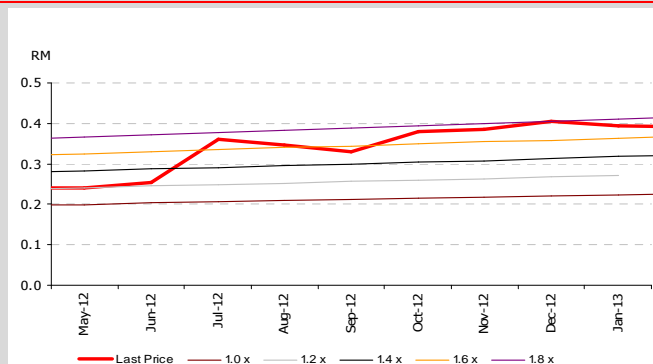
FYE May (RM'm)	2012A	2013E	2014E
Turnover	107.0	166.4	169.6
EBIT	4.0	29.2	31.7
PBT	3.2	28.8	31.3
Net Profit (NP)	2.1	25.5	26.5
Core NP	(8.7)	25.5	26.5
Consensus (NP)		23.3	26.0
Earnings Revision		8.3%	5.8%
EBITDA margin (%)	10.7	24.2	26.0
Core EPS (sen)	-1.8	5.3	5.5
EPS growth (%)	31.2	389.3	3.2
DPS (sen)	-	1.6	1.7
BV/Share (RM)	0.2	0.2	0.2
Core PER	(37.4)	12.9	12.5
Reported PER	151.9	12.9	12.5
Price/BV (x)	4.1	2.1	2.8
Net Gearing (x)	(0.2)	(0.3)	(0.4)
Dividend Yield (%)	0.0	2.3	2.4

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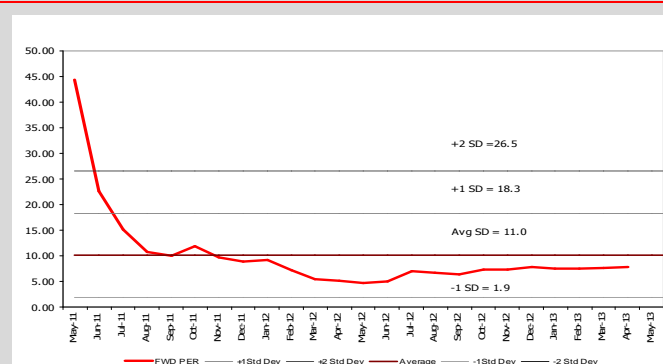
Income Statement						Financial Data & Ratios					
FY May (RM m)	2010A	2011A	2012A	2013E	2014E	FY May (RM m)	2010A	2011A	2012A	2013E	2014E
Revenue	82.2	89.6	107.0	166.4	169.6	Growth					
EBITDA	1.8	(2.3)	11.5	40.2	44.0	Turnover (%)	3.5	9.0	19.4	55.6	1.9
Depreciation	5.6	8.0	7.5	11.1	12.3	EBITDA (%)	172.5	-222.5	606.8	250.5	9.5
Operating Profit	(3.8)	(10.3)	4.0	29.2	31.7	Operating Profit (%)	33.2	-174.1	139.0	625.8	8.7
Other Income	0.0	0.0	0.0	0.0	0.0	PBT (%)	-91.0	-149.2	129.4	790.6	8.5
Interest Exp	0.7	0.7	0.8	0.4	0.4	Core Net Profit (%)	9.5	-116.4	25.5	392.4	3.8
Associate	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
Exceptional Items	0.0	1.0	2.0	3.0	4.0	EBITDA Margin	2.2	-2.5	10.7	24.2	26.0
PBT	(4.4)	(11.0)	3.2	28.8	31.3	Operating Margin	-4.6	-11.5	3.8	17.5	18.7
Taxation	0.6	1.3	12.3	3.3	4.7	PBT Margin	-5.4	-12.3	3.0	17.3	18.4
Minority Interest	(0.4)	0.5	0.3	(0.0)	(0.1)	Core Net Margin	-6.6	-13.1	-8.2	15.3	15.6
Net Profit	(5.4)	(11.7)	2.1	25.5	26.5	Effective Tax Rate	-13.3	-11.5	378.9	11.3	15.0
Core Net Profit	(5.4)	(11.7)	(8.7)	25.5	26.5	ROA	-3.4	-8.7	-6.2	15.2	14.3
						ROE	-5.8	-15.7	-11.0	26.2	22.8
Balance Sheet											
FY May (RM m)	2010A	2011A	2012A	2013E	2014E	DuPont Analysis					
Fixed Assets	33.3	51.8	54.0	52.9	50.8	Net Margin (%)	-6.6	-13.1	-8.2	15.3	15.6
Intangible Assets	-	-	-	-	-	Assets Turnover (x)	0.5x	0.7x	0.8x	1.0x	0.9x
Other FA	21.6	24.8	18.6	18.6	18.6	Leverage Factor (x)	1.7x	1.7x	1.6x	1.6x	1.5x
Inventories	2.0	2.3	0.7	0.9	0.9	ROE (%)	-5.8	-15.7	-11.0	26.2	22.8
Receivables	21.6	17.4	13.3	20.7	21.1	Leverage					
Other CA	27.9	10.3	31.4	42.3	40.0	Debt/Asset (x)	0.3	0.1	0.3	0.4	0.4
Cash	53.8	27.9	22.6	32.1	54.0	Debt/Equity (x)	0.6	0.1	0.7	0.9	1.0
Total Assets	160.2	134.6	140.6	167.5	185.4	Net Cash/(Debt)	41.3	18.2	13.7	26.2	48.1
						Net Debt/Equity (x)	-0.4	-0.2	-0.2	-0.3	-0.4
Payables	17.3	16.5	17.2	21.8	22.6	Valuations					
ST Borrowings	4.9	3.3	3.0	-	-	EPS (sen)	-1.4	-2.7	-1.8	5.3	5.5
Other ST Liability	34.6	26.1	27.0	34.5	33.0	GDPS (sen)	0.0	0.0	0.0	1.6	1.6
LT Borrowings	7.6	6.4	5.9	5.9	5.9	NTA (RM)	0.2	0.2	0.2	0.2	0.2
Other LT Liability	2.5	0.8	0.1	0.0	0.0	PER (x)	-50.6	-25.7	-37.4	12.9	12.5
Minorities Int.	0.5	7.0	7.8	7.8	7.9	Gross Div. Yield (%)	0.0	0.0	0.0	2.3	2.4
Net Assets	92.8	74.4	79.6	97.5	116.0	P/NTA (x)	3.0	4.0	4.1	3.3	2.8
Share Capital	43.2	44.8	47.6	47.6	47.6	EV/EBITDA (x)	170.3	-141.2	29.7	8.8	8.5
Reserves	49.6	29.6	32.0	49.9	68.4						
Equity	92.8	74.4	79.6	97.5	116.0						
Cashflow Statement											
FY May (RM m)	2010A	2011A	2012A	2013E	2014E						
Operating CF	(0.1)	(10.1)	3.0	30.2	40.0						
Investing CF	(20.3)	(11.1)	(8.3)	(10.0)	(10.2)						
Financing CF	43.1	(3.3)	(0.5)	(10.7)	(7.9)						
Change In Cash	22.6	(24.6)	(5.9)	9.6	21.9						
Free CF	(4.2)	(15.2)	(4.6)	20.2	29.8						

Source: Kenanga Research

Forward P/BV



EV/Fwd EBITDA Standard Deviation



Source: Bloomberg, 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.***

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