

2Q FYE MAY 2013 RESULTS REPORT

23 January 2013

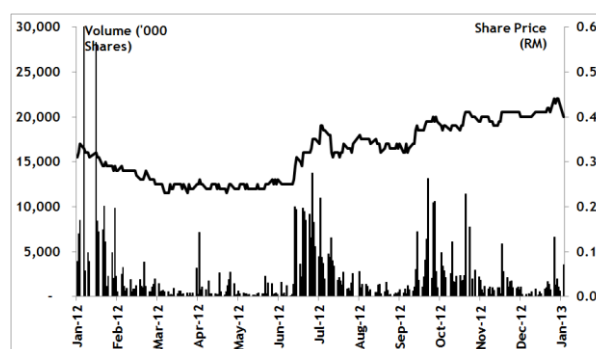
Name of PLC: REDtone International Berhad (REDtone)		Target Price:	RM0.52
Business Summary : Provision of broadband, data and managed network services to corporate and government clients			
Major Shareholders :			
(as at 9 October 2012)			
Indah Pusaka Sdn Bhd			32.8%
Berjaya Group Berhad (indirect shareholding)			10.4%
Warisan Jutamas Sdn Bhd			7.9%
Dato' Wei Chuan Beng			4.0%
PLC Website : www.redtone.com		Recommendation:	BUY
		Market Capitalisation:	RM196.2m
		Current Price :	RM0.41
		Market / Sector:	ACE/ Trading Services
		Stock Code:	0032
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Key Stock Statistics	2011	2012	2013F	2014F
EPS (sen)	(2.6)	0.5	5.2	6.0
P/E (x)	(15.6)	90.5	7.9	6.9
Dividend/Share (sen)	-	-	1.3	1.5
NTA/Share (RM)	0.15	0.15	0.19	0.23
Book Value/Share (RM)	0.17	0.17	0.21	0.25
Issued Capital (mil shares)	447.8	475.6	479.7	479.7
52-weeks Share Price Range (RM)			0.225 - 0.45	

Per Share Data	2011	2012	2013F	2014F
Year-end 31 May				
Book Value (RM)	0.17	0.17	0.21	0.25
Operating Cash Flow (sen)	(2.3)	0.5	5.7	7.9
Earnings (sen)	(2.6)	0.5	5.2	6.0
Dividend (sen)	-	-	1.3	1.5
Payout Ratio (%)	-	-	25.0	25.0
PER (x)	(15.6)	90.5	7.9	6.9
P/Cash Flow (x)	(18.1)	80.7	7.2	5.2
P/Book Value (x)	2.5	2.4	2.0	1.6
Dividend Yield (%)	-	-	3.2	3.6
ROE (%)	(15.7)	2.7	25.3	23.7
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

n.c. - net cash

P&L Analysis (RM mil)	2011	2012	2013F	2014F
Revenue	89.6	107.0	155.1	166.5
Operating Profit	(10.3)	(7.1)	30.9	34.3
Finance, net	(0.7)	(0.6)	(0.4)	0.0
EI	-	10.9	-	-
Pre-tax Profit	(11.0)	3.2	30.1	34.4
Effective Tax Rate (%)	11.5	(42.5)	(17.0)	(17.0)
Net Profit	(11.7)	2.1	25.0	28.5
Operating Margin (%)	(11.5)	(6.6)	19.9	20.6
Pre-tax Margin (%)	(12.3)	3.0	19.4	20.6
Net-Margin (%)	(13.1)	2.0	16.1	17.1

Share Price Chart

1. 2QFY13 Results Highlight

	2Q 2013	2Q 2012	Chg
	RMm	RMm	%
Revenue	26.68	35.96	(25.8)
Operating Profit	4.37	0.27	>100
Finance, net	(0.16)	(0.14)	12.9
Pre-tax Profit	4.21	0.13	>100
Net Profit	3.97	(0.08)	n.m.
Operating Margin (%)	16.4	0.8	
Pre-tax Margin (%)	15.8	0.4	
Net-Margin (%)	14.9	(0.2)	

- REDtone's earnings performance continued to improve into 2QFY13. While turnover declined by 25.8% to RM26.7m, earnings turned around substantially with a net profit of RM3.97m in 2QFY13 as compared with a small loss in 2QFY12.
- Had it not for the impairment loss on other receivables amounting to RM1.5m, profit performance would have been more impressive.

- The lower topline turnover growth was due to the absence of lumpy contracts as revenue for 2QFY13 was mainly from recurring maintenance services.
- PBT improved substantially to RM4.21m (2QFY13) from RM0.13m (2QFY12) due to higher-margin maintenance services and the absence of loss from its digital television division. In 2QFY12, its digital television services recorded a pretax loss of RM1.23m.
- Major improvement was evident in all divisions. PBT at voice division nearly tripled to RM2.44m (2QFY13) from RM0.88m (2QFY12) after the disposal of REDtone Mobile (distribution and selling of prepaid discounted call services to retail market in Malaysia). Data division recorded a PBT of RM1.64m in 2QFY13 as compared with RM0.44m in 2QFY12 due to higher-margin maintenance and recurring WiFi services.

6MFY13 Results Highlight

	6M 2013	6M 2012	Chg
	RMm	RMm	%
Revenue	57.35	60.66	(5.5)
Operating Profit	6.38	(0.12)	n.m.
Finance, net	(0.29)	(0.44)	(34.0)
Pre-tax Profit	6.10	(0.56)	n.m.
Net Profit	5.98	(0.75)	n.m.
Operating Margin (%)	11.1	(0.2)	
Pre-tax Margin (%)	10.6	(0.9)	
Net-Margin (%)	10.4	(1.2)	

- For 6MFY12, while turnover declined slightly to RM57.35m in 6MFY13, bottomline earnings sprang to net profit of RM5.98m from a small net loss in 2QFY12. It was attributed by the same factors namely divestment of non-core and loss-making businesses and higher margin recurring WiFi services.

2. Earnings Outlook

- Starting FY13, REDtone has established a sustainable earnings base after the divestment of loss-making businesses and recurring maintenance services from its existing businesses. REDtone would have reported a net profit of around RM7.5m in 1HFY13 if the impairment loss of RM1.5m was excluded.
- In addition, its earnings base will be further driven by other avenues in the data and broadband division as explained below:
 - Recurring income from its current 4,500 WiFi hotspots;
 - The completion of Universal Service Provision (USP) project under the government's "Kampung Tanpa Wayar" initiative in Sabah and Sarawak and the subsequent recurring maintenance service;
 - Contribution from the MCMC's Time 3 project to build, operate and maintain Radio Access Network (RAN) infrastructure in Sabah and Sarawak which is scheduled for completion by end-FY13. This project, worth a total RM82.5m has 2 portions – one-off capex and 3-years maintenance contract; and
 - Earnings contribution from the infrastructure sharing and alliance with Maxis, which involves REDtone combines its LTE Spectrum exclusively with Maxis' LTE Spectrum for a fee. On 5-Dec-2012, REDtone is one of the eight companies awarded the 4G-LTE 2,600 Mhz spectrum by MCMC.
- REDtone also announced the adoption of a dividend policy of a minimum payout of 25% to reward its shareholders.

3. Valuation and Recommendation

- 1HFY13 net profit, if annualised, is below our earnings forecast. However, we are still maintaining our forecast as we expect net profit to pick up strongly in 2HFY13 due to earnings contribution from its growing WiFi services, Time 3 project and Maxis' alliance.
- We are maintaining our BUY recommendation on REDtone. Its repositioning into data and broadband services has led to strong turn-around in earnings beginning FY13. Its earnings will receive a boost with the implementation of major broadband projects.
- The stock is currently trading at a P/E of 7.9x for FY13 based on our EPS forecast of 5.2 sen. Its current P/E valuation is at a discount as compared with telco sector of 20x for CY13. We have increased our target price to RM0.52 from RM0.48 based on a target P/E of 10x for FY13.
- Based on our projected enlarged net profit in FY13 and REDtone's adoption of 25% dividend payout, we project a net dividend of 1.3 sen/share for FY13, translating into a yield of 3.2% based on its current share price of RM0.41.

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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