

Neratel (NERT SP)

Communications - Telecommunications Infrastructure

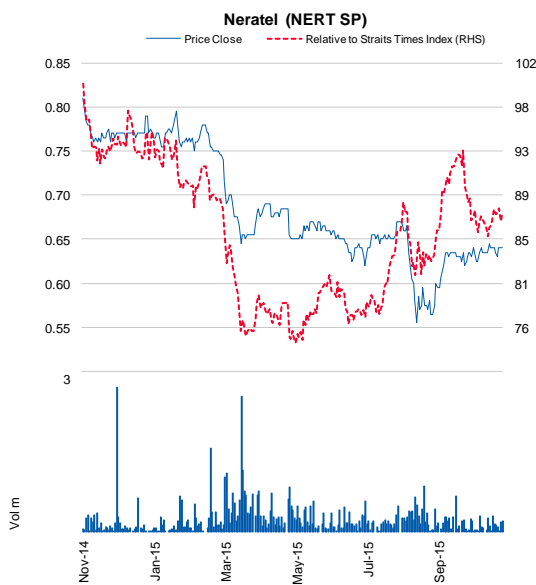
Market Cap: USD165m

Neutral (Maintained)

 Target Price: **SGD0.55**

 Price: **SGD0.59**

Negatively Impacted By Project Delays

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	0.12m/0.09m
Cons. Upside (%)	-14.1
Upside (%)	-6.7
52-wk Price low/high (SGD)	0.56 - 0.81
Free float (%)	47
Share outstanding (m)	362
Shareholders (%)	
Northstar	53.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.0)	3.2	(2.3)	(2.3)	(20.0)
Relative	(8.8)	(2.8)	3.0	10.6	(12.0)

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Neratel booked disappointing 3Q15 results with revenue falling 20.2% YoY to SGD39.6m while NPAT sank 43.3% to SGD2m on declines across all business segments, and project delays in Malaysia and Pakistan. Maintain NEUTRAL with a DCF-based SGD0.55 TP (from SGD0.64, 7% downside). This is after adjusting for a lower network infrastructure business contribution that results in an 11% fall for our FY15F NPAT.

- ◆ **Decline in network infrastructure business.** Major operators locally have delayed purchases to 4Q from 3Q previously. This has caused the decline in Neratel's network infrastructure business. 9M15's order intake of SGD61.2m is 23.1% lower YoY. However, the company has received two large orders in 3Q15 from customers, which involves projects in Australia too. In addition, Neratel also intends to focus its business more on data centres and cloud services, and hopes to derive more recurring income from these segments.
- ◆ **Wireless infrastructure network still stable.** Neratel's order intake, at SGD64.2m, is 13.6% YoY higher due to customers in the Middle East and Africa. It also includes Petronas in Malaysia. Mobile operators are also increasing their data capacities as a result of rising data usage. This is also beneficial for Neratel.
- ◆ **An approved vendor in Singapore that does in-building coverage.** Starting from 4Q15, Neratel is to be invited by all three major operators locally for their in-building project roll outs. According to management, there are only 3-4 approved vendors currently in the local market.
- ◆ **Maintain NEUTRAL with a lower TP of SGD0.55.** Neratel's total orderbook backlog remains strong. Management also expects its order backlog to exceed that of 2014's levels. Going forward, we expect a stronger 4Q15 as the delayed projects should be recognised during this quarter. However, we adjusted for lower contributions from the network infrastructure business, which resulted in an 11.1% decline for our FY15F NPAT. This results in our DCF-based TP to drop to SGD0.55 (from SGD64). We maintain NEUTRAL on Neratel as it is backed by a reasonable FY15F yield of 6.3%.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	178	182	176	178	182
Reported net profit (SGDm)	23.5	16.2	14.4	16.1	18.8
Recurring net profit (SGDm)	17.5	16.2	14.4	16.1	18.8
Recurring net profit growth (%)	(10.0)	(7.0)	(11.4)	12.3	16.2
Recurring EPS (SGD)	0.05	0.04	0.04	0.04	0.05
DPS (SGD)	0.06	0.04	0.04	0.04	0.04
Recurring P/E (x)	13.3	14.3	16.1	14.4	12.3
P/B (x)	3.50	3.80	3.81	3.71	3.47
P/CF (x)	9.5	21.7	7.0	11.5	11.5
Dividend Yield (%)	9.4	6.3	6.3	6.3	6.3
EV/EBITDA (x)	7.57	7.96	9.44	8.59	8.14
Return on average equity (%)	35.5	25.5	23.6	26.2	29.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Figure 1: 3Q15 Results Summary

FYE Dec (SGDm)	2Q15	3Q14	3Q15	QoQ (%)	YoY (%)	Comments
Revenue	48.4	49.7	39.6	(18.2)	(20.2)	Turnover declined 20.2% YoY due to both Telecom and Infocomm business segments. These are mainly due to lower sales in Asia Pacific, Middle East and Africa, lower sales of network equipment to Service Provider market and point-of-sale terminals.
EBITDA	6.5	5.7	4.5	(30.9)	(21.4)	
<i>EBITDA margin</i>	<i>13%</i>	<i>11%</i>	<i>11%</i>			
Depreciation and amortisation	(1.6)	(1.4)	(1.7)	10.6	25.4	
EBIT	4.9	4.3	2.8	(44.0)	(36.1)	Changes can be attributed to sales mix in product, project and services.
<i>EBIT margin</i>	<i>10.2%</i>	<i>8.7%</i>	<i>7.0%</i>			
Net finance cost	(0.1)	(0.1)	(0.2)	41.4	208.2	
Pretax profit	4.8	4.3	2.6	(46.3)	(39.6)	Pretax profit declined 39.6% YoY mainly due to lower gross profit from lower turnover, partially offset by lower operating expenses.
<i>Pretax margin</i>	<i>10%</i>	<i>9%</i>	<i>7%</i>			
Tax	(0.9)	(0.7)	(0.6)	(32.7)	(21.5)	
<i>Effective tax rate (%)</i>	<i>-18%</i>	<i>-17%</i>	<i>-22%</i>			
Net profit	4.0	3.5	2.0	(49.3)	(43.3)	
<i>Net margin</i>	<i>8%</i>	<i>7%</i>	<i>5%</i>			

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	178	182	176	178	182
Cost of sales	(118)	(122)	(115)	(115)	(118)
Gross profit	61	60	61	63	65
Gen & admin expenses	(12)	(12)	(20)	(20)	(21)
Selling expenses	(28)	(29)	(25)	(25)	(26)
Other operating costs	(1)	1	1	1	1
Operating profit	20	20	17	19	19
Operating EBITDA	25	26	21	24	24
Depreciation of fixed assets	(5)	(5)	(4)	(5)	(5)
Amortisation of intangible assets	(0)	(0)	(0)	(0)	(0)
Operating EBIT	20	20	17	19	19
Net income from investments	0	-	-	-	3
Interest income	0	0	0	-	-
Interest expense	(0)	(0)	(0)	-	-
Exceptional income - net	7	-	-	-	-
Pre-tax profit	28	20	17	19	22
Taxation	(4)	(4)	(2)	(3)	(3)
Profit after tax & minorities	23	16	14	16	19
Reported net profit	23	16	14	16	19
Recurring net profit	17	16	14	16	19

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	20	20	17	19	19
Depreciation & amortisation	5	5	4	5	5
Change in working capital	2	(11)	15	(1)	(1)
Other operating cash flow	1	-	-	-	-
Operating cash flow	29	15	36	23	23
Interest received	0	0	0	-	-
Interest paid	-	(0)	(0)	-	-
Tax paid	(5)	(5)	(2)	(3)	(3)
Cash flow from operations	24	11	33	20	20
Capex	(12)	-	(10)	(10)	(10)
Other investing cash flow	5	(7)	-	-	-
Cash flow from investing activities	(6)	(7)	(10)	(10)	(10)
Dividends paid	(22)	(15)	(15)	(15)	(15)
Other financing cash flow	(0)	(3)	-	-	-
Cash flow from financing activities	(22)	(18)	(15)	(15)	(15)
Cash at beginning of period	44	39	25	34	29
Total cash generated	(4)	(14)	9	(4)	(4)
Forex effects	(1)	0	-	-	-
Implied cash at end of period	39	25	34	29	25

Source: Company data, RHB

Financial Exhibits

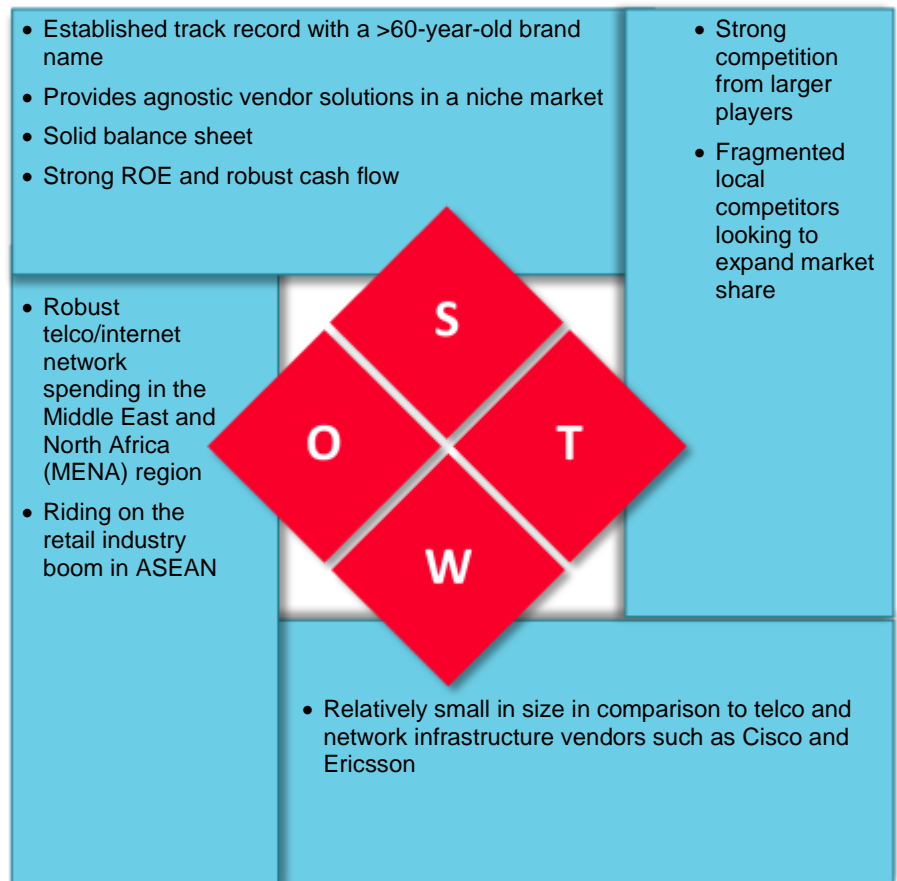
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	39	25	34	29	25
Inventories	26	29	23	23	24
Accounts receivable	52	70	54	55	57
Other current assets	3	4	4	4	4
Total current assets	121	128	115	111	109
Total investments	-	-	-	-	3
Tangible fixed assets	15	16	22	28	33
Intangible assets	1	1	1	1	1
Total other assets	2	1	1	1	1
Total non-current assets	17	19	25	30	38
Total assets	138	146	139	141	146
Accounts payable	44	53	46	46	47
Other current liabilities	28	26	26	26	26
Total current liabilities	72	79	72	72	73
Other liabilities	0	6	6	6	6
Total non-current liabilities	0	6	6	6	6
Total liabilities	72	86	79	79	80
Share capital	30	30	30	30	30
Retained earnings reserve	41	35	35	37	41
Other reserves	(4)	(4)	(4)	(4)	(4)
Shareholders' equity	66	61	61	62	67
Other equity	(0)	(0)	(0)	(0)	(0)
Total equity	66	61	60	62	66
Total liabilities & equity	138	146	139	141	146

Source: Company data, RHB

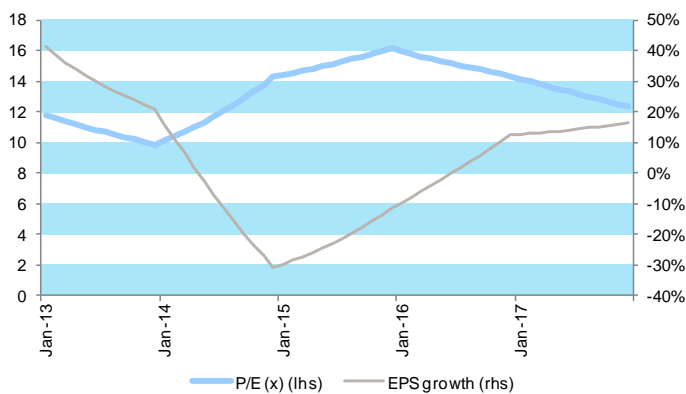
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(0.3)	2.3	(3.7)	1.2	2.6
Operating profit growth (%)	(11.4)	0.7	(17.5)	11.9	1.2
Net profit growth (%)	21.0	(30.9)	(11.4)	12.3	16.2
EPS growth (%)	21.0	(30.9)	(11.4)	12.3	16.2
BVPS growth (%)	0.5	(7.9)	(0.2)	2.7	6.8
Operating margin (%)	11.4	11.2	9.6	10.6	10.5
Net profit margin (%)	13.2	8.9	8.2	9.1	10.3
Return on average assets (%)	16.7	11.4	10.1	11.5	13.1
Return on average equity (%)	35.5	25.5	23.6	26.2	29.0
Net debt to equity (%)	(59.3)	(41.1)	(55.8)	(47.2)	(37.5)
DPS	0.06	0.04	0.04	0.04	0.04
Recurrent cash flow per share	0.07	0.03	0.09	0.06	0.06

Source: Company data, RHB

SWOT Analysis

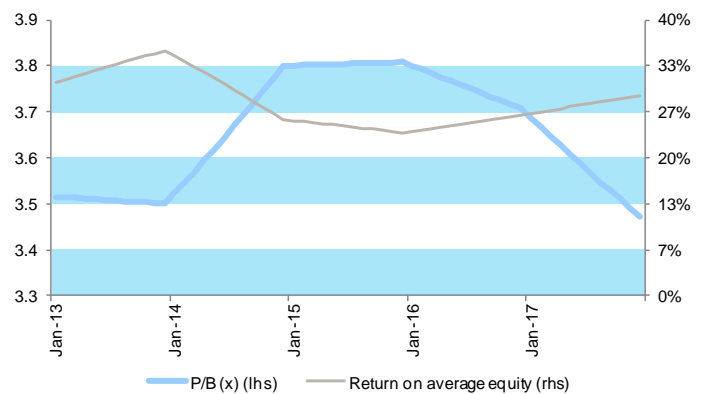


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Neratel is a premier solution provider and system integrator engages mainly in the design, engineering, sale, distribution, installation, servicing and maintenance of telecommunication systems and information technology networks.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-10	Neutral	0.64	0.67
2015-05-07	Neutral	0.66	0.65
2015-02-26	Neutral	0.72	0.76
2014-11-09	Neutral	0.83	0.80
2014-02-24	Neutral	0.72	0.72
2013-11-11	Buy	0.80	0.71
2013-08-07	Buy	0.93	0.79
2013-08-05	Buy	0.93	0.78
2013-07-01	Buy	0.79	0.65
2013-04-29	Buy	0.79	0.68

Source: RHB, Bloomberg

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