

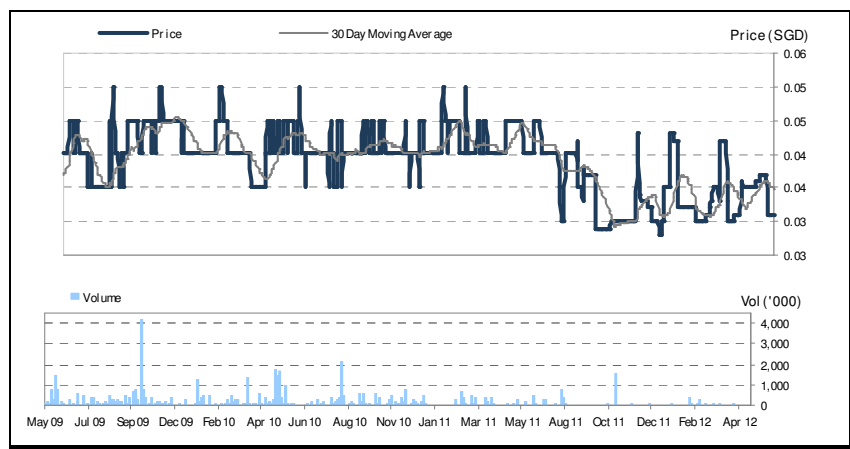
## Unified Communications Hldgs

Bloomberg: UCOM SP

Reuters: UNIF.SI

Price: SGD0.03

Date: May 17, 2012

**GICS:** Information Technology/Communications Equipment**Business Summary:** Based in Malaysia and listed on the SGX Main Board since 2004, Unified Communications Holdings Limited (UCOM) provides customized software and technology solutions to mobile telecommunications network operators and service providers.**Country of Incorporation:** Singapore**Head Office Location:** 168 Jalan Bukit Merah, Connection 1 Tower 3, 04-08A, Singapore 150168**Place of Operations:** South East Asia, Greater China, South Asia, the Middle East and Africa.**Website:** www.unifiedcomms.com**IR Contact:** Ng Sai Kit | saikit\_ng@unifiedcomms.com | +603 5163 2836**Analyst:** Lorraine Tan, CFA/Kum Seng, Wan**Results Review**

- UCOM's 1Q12 revenue grew 3.8% YoY to SGD3.3 mln but net profit surged 1,043.5% to SGD5.6 mln as it included a SGD5.3-mln fair value gain on its existing 40% stake in Ahead Mobile Sdn Bhd (AMSB) following the acquisition of the remaining 60% stake in the company. Excluding the fair value gain, however, its results were below expectations, with revenue and net profit only reaching 16.1% and 6.7% of our previous forecast.
- The inclusion of AMSB's revenue raised its Value Added Services division's revenue to SGD1.3 mln (+79.2% YoY) and helped to offset a fall in system sales of its Operational Support Services (OSS) division (-45.0% YoY). Revenue from its Mobile Technology (TECH) business unit, meanwhile, was stable. The TECH division remains its largest revenue contributor with a 41% share of group revenue (vs. 44% in 1Q11), while the consolidation of AMSB's business raised the VAS division's revenue contribution to 41% in 1Q12 (vs. 24% in 1Q11).
- Normalized 1Q12 EBITDA margin improved to 18.4% (vs. 16.8% in 1Q11) as its managed services contracts command higher gross margin of around 70% (vs. usual margin of 45%). UCOM's margins also benefited from a more favorable sales mix on its system sales. Still, EBITDA margin expanded at a slower-than-expected rate (we previously assumed 2012 EBITDA margin of 22.8%) due to higher technical support cost with the consolidation of AMSB's business.

**Earnings Outlook / Estimates Revision**

- Including the fair value gain, we lift our 2012 net profit estimate to SGD7.5 mln (from SGD3.8 mln). Normalized net profit, however, is expected to be flat in 2012 due to slower margin expansion and lower OSS sale. For 2013, we lower our net profit forecast to SGD3.1 mln (from SGD4.1 mln) to reflect the slower OSS system sales.
- UCOM will continue to defend its existing business despite increasing competition on some of its more mature products and technologies, particularly in the Southeast Asia region that remains its key market, as well as the fast-growing Indian subcontinent. It also intends to leverage on its managed services to build up steady and resilient sources of recurrent long-term earnings to reduce its reliance on the unpredictable system sales.

**Investment Risks**

- Keen competition in UCOM's key markets makes it harder to defend its position in some of its more mature products and technologies. Also, the changing management and ownership landscape of its clients could affect the sale or implementation of its products and services.
- UCOM's lack of size and scale remains an impediment for the group to recruit and retain suitable personnel to support its growth and development, especially in the face of increased competition for talent in Southeast Asia and the Middle East.

**Key Stock Statistics**

52-week Share Price Range (SGD)	0.03 - 0.05
Avg Vol - 12 months ('000 shares)	25.2
Price Performance (%)	
- 1 month	-11.4
- 3 month	-11.4
- 12 month	-31.1
No. of Outstanding Shares (mln)	319.6
Free Float (%)	35.7
Market Cap (SGD mln)	9.9
Enterprise Value (SGD mln)	-7.7
Major Shareholders (%)	
Advance Synergy Berhad	58.3
Wong Tze Leng	6.0

**Per Share Data**

FY Dec.	2010	2011	2012E	2013E
Book Value (SG cents)	8.87	9.37	11.61	12.47
Cash Flow (SG cents)	1.0	1.0	2.7	1.3
Reported Earnings (SG cents)	0.6	0.6	2.3	1.0
Dividend (SG cents)	0.1	0.1	0.1	0.1
Payout Ratio (%)	15.5	16.7	4.3	10.4
PER (x)	4.8	5.2	1.3	3.2
P/Cash Flow (x)	3.0	3.2	1.1	2.3
P/Book Value (x)	0.3	0.3	0.3	0.2
Dividend Yield (%)	3.2	3.2	3.2	3.2
ROE (%)	7.6	6.6	22.3	8.0
Net Gearing (%)	0.0	0.0	0.0	0.0

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**Earnings Performance**

FY Dec. / SGD mln	1Q12	1Q11	% Change
Reported Revenue	3.3	3.2	3.8
Reported Operating Profit	5.6	0.2	>100
Depreciation & Amortization	-0.3	-0.3	-5.1
Net Interest Income / (Expense)	0.0	0.1	NM
Reported Pre-tax Profit	5.7	0.5	>100
Reported Net Profit	5.6	0.4	>100
Reported Operating Margin (%)	>100	5.1	-
Reported Pre-tax Margin (%)	>100	15.9	-
Reported Net Margin (%)	>100	13.1	-

Source: Company data

**Profit & Loss**

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	18.2	13.9	15.8	18.3
Reported Operating Profit	1.2	0.9	7.5	3.2
Depreciation & Amortization	-1.2	-1.2	-1.2	-1.2
Net Interest Income / (Expense)	0.4	0.5	0.4	0.4
Reported Pre-tax Profit	2.8	2.4	7.9	3.6
Effective Tax Rate (%)	11.7	10.7	3.9	12.0
Reported Net Profit	2.1	1.9	7.5	3.1
Reported Operating Margin (%)	6.8	6.5	47.6	17.4
Reported Pre-tax Margin (%)	15.4	17.5	49.9	19.5
Reported Net Margin (%)	11.3	13.8	47.3	16.9

Source: Company data, S&amp;P Equity Research

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