

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

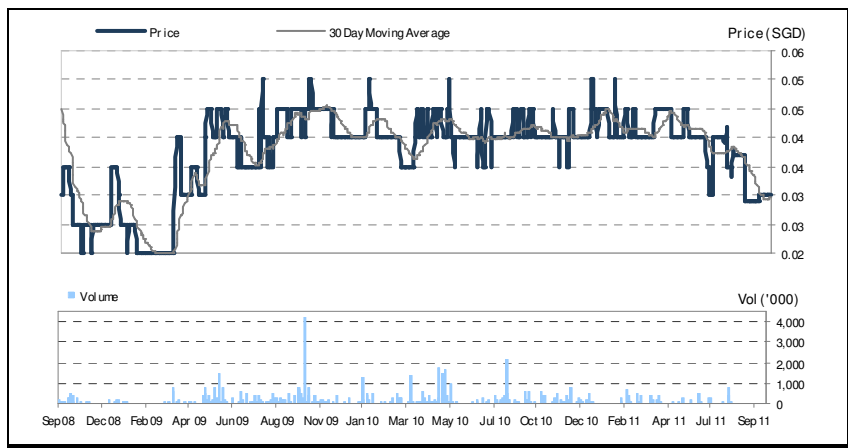
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Place of Operations: Southeast Asia, Greater China, South Asia, the Middle East and Africa.

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Analyst: Vincent Ng



Results Review

- 2Q11 net profit of SGD315,000 was down 40% YoY and 26% QoQ, accounting for only 12% of our previous full-year estimate, due to continued disappointing systems sale revenue from the Middle East & Africa region. 1H11 net profit of SGD738,000 accounted for 27% of our previous full-year forecast.
- 2Q11 revenue of SGD4.0 mln was up 42% YoY and 23% QoQ, mainly due to higher systems sales revenue by the Operations Support Systems (OSS) business unit in the Southeast Asia region (up 188% YoY and 87% QoQ to SG1.8 mln). However, the higher systems sales did not translate to significantly higher profits (gross profit up 10% YoY but down 6% QoQ to SGD1.7 mln), as systems sales include significant third-party hardware content, and hence, gross margin declined to 44% in 2Q from 57% in 1Q and 56% in 2Q10.
- The group remains debt-free and had SGD15.4 mln of cash as at end-2Q11, even after paying SGD3.3 mln for a shop-office unit in Kuala Lumpur early this year.
- The company's application for removal from the Watch-List was approved by the Singapore Exchange, on the basis of cumulative pre-tax profit for last three financial years exceeding SGD10 mln, with minimum SGD1 mln for each of the three years. The removal was effective on June 3, 2011.

Earnings Outlook / Estimates Revision

- We have reduced our 2011 and 2012 earnings estimates by about 23%, based on the results for 1H11, particularly the underperformance of the Middle East & Africa region. Political tensions in that region have eased since 1Q11, but instability remains and doing business there continues to be a challenge. We expect Southeast Asia revenue to take up some of the slack, but not all.
- As we have seen in 2Q11, Southeast Asia is the bright spot among the group's operating geographies. It remains the largest source of the group's revenue, accounting for 90% of 2Q total.

Investment Risks

- The group has to work hard to defend its market position against intensifying competition, in many of its more mature products and technologies, and its key markets that are maturing.
- The group's lack of size and scale makes it difficult to attract and retain talent required 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)	55.5
Price Performance (%)	
- 1 month	3.4
- 3 month	0.0
- 12 month	-33.3
No. of Outstanding Shares (mln)	319.6
Free Float (%)	35.7
Market Cap (SGD mln)	9.6
Enterprise Value (SGD mln)	-8.1
Major Shareholders (%)	
Advance Synergy Berhad	58.3
Wong Tze Leng	6.0

Per Share Data

FY Dec.	2009	2010	2011E	2012E
Book Value (SG cents)	8.15	8.87	9.42	10.09
Cash Flow (SG cents)	1.4	1.0	1.0	1.1
Reported Earnings (SG cents)	0.9	0.6	0.7	0.8
Dividend (SG cents)	0.0	0.1	0.1	0.1
Payout Ratio (%)	0.0	15.5	15.3	13.1
PER (x)	3.3	4.6	4.6	3.9
P/Cash Flow (x)	2.2	2.9	2.9	2.6
P/Book Value (x)	0.4	0.3	0.3	0.3
Dividend Yield (%)	0.0	3.3	3.3	3.3
ROE (%)	11.7	7.6	7.2	7.8
Net Gearing (%)	0.0	0.0	0.0	0.0

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Earnings Performance

FY Dec. / SGD mln	2Q11	2Q10	% Change
Reported Revenue	4.0	2.8	42.2
Reported Operating Profit	0.1	-0.1	NM
Depreciation & Amortization	-0.3	-0.3	12.3
Net Interest Income / (Expense)	0.1	0.2	-61.6
Reported Pre-tax Profit	0.5	0.4	11.6
Reported Net Profit	0.3	0.5	-40.1
Reported Operating Margin (%)	3.0	-4.3	-
Reported Pre-tax Margin (%)	12.2	15.5	-
Reported Net Margin (%)	7.9	18.9	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	19.0	18.2	17.8	19.8
Reported Operating Profit	2.1	1.2	1.2	1.6
Depreciation & Amortization	-1.4	-1.2	-1.2	-1.2
Net Interest Income / (Expense)	0.2	0.4	0.3	0.4
Reported Pre-tax Profit	3.3	2.8	2.8	3.3
Effective Tax Rate (%)	1.6	11.7	12.0	12.0
Reported Net Profit	2.9	2.1	2.1	2.4
Reported Operating Margin (%)	10.9	6.8	6.9	7.8
Reported Pre-tax Margin (%)	17.3	15.4	16.0	16.8
Reported Net Margin (%)	15.3	11.3	11.8	12.4

Source: Company data, S&P Equity Research

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Page 3 of 4

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