

Unified Communications Hldgs

Bloomberg: UCOM SP

Reuters: UNIF.SI

Price: SGD0.03

Date: November 14, 2011

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

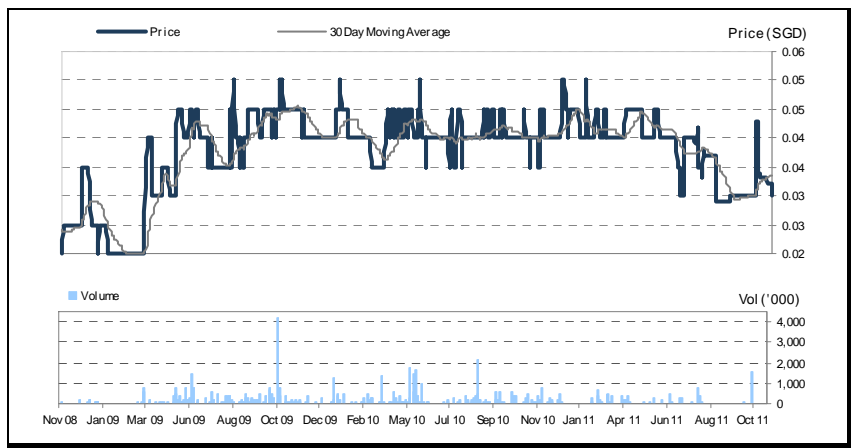
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Place of Operations: South East Asia, Greater China, South Asia, the Middle East and Africa.

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Results Review

- UCOM's 9M11 net profit fell 15.1% YoY to SGD1.2 mln on the back of a 13.6% YoY decline in revenue to SGD10.4 mln. The results were below expectations as they only reached 58.4% and 56.7% of our previous 2011 forecasts, respectively. In 3Q, net profit fell 20% YoY to SGD0.5 mln, while revenue declined 23.4% YoY to SGD3.3 mln.
- The weaker-than-expected 9M11 revenue was mainly due to lower contributions from its Mobile Value Added Services (VAS) and Operation Support Systems (OSS) business units, which were affected by lower systems sales as well as the disposal of its Hong Kong unit in 2Q that resulted in its VAS revenue falling 24.7% YoY to SGD2.3 mln. Revenue from its OSS division fell 26.5% YoY to SGD3.7 mln, but its mobile technology (TECH) business remained stable, registering a 5.9% YoY increase in revenue to SGD4.3 mln and remains its largest revenue contributor with a 41.5% share of group revenue.
- Although 9M11 revenue were lower, UCOM's margins improved due to a more favorable sales mix with stronger contributions from its higher margin VAS and TECH business units. This helped UCOM's gross margin to rise to 51.6% (vs. 46.6% in 9M10), while EBIT margin improved marginally to 7.2% (vs. 7.1% in 9M10). The group also remains debt-free with a cash holding of SGD15.8 mln (vs. SGD17.2 mln in 9M10).

Earnings Outlook / Estimates Revision

- We trimmed our 2011 and 2012 net profit estimates by 12.6% and 9.7%, respectively after imputing lower VAS and OSS sales. However, we see an immediate earnings contribution from the acquisition of the remaining 60% stake in Ahead Mobile Sdn Bhd (AMSB). Assuming the acquisition is completed by end-2011 and AMSB's earnings are consolidated from next year onwards, UCOM's 2012 net profit forecast could be enlarged by 50%-55%.
- Meanwhile, the difficult operating environment is likely to persist with management expecting competition to remain intense on its more mature products and technologies. Consequently, UCOM will continue to defend its market share by enhancing its capabilities and marketing channels. AMSB, with its revenue sharing contracts, will also add resilience to UCOM's longer-term earnings.

Investment Risks

- Given the increasing competition in its key markets, UCOM will have to work harder to defend its market position in many of its more mature products and technologies.
- UCOM'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 Middle East.

Key Stock Statistics

52-week Share Price Range (SGD)	0.03 - 0.05
Avg Vol - 12 months ('000 shares)	51.4
Price Performance (%)	
- 1 month	0.0
- 3 month	-18.9
- 12 month	-25.0
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	9.34	9.93
Cash Flow (SG cents)	1.4	1.0	0.9	1.1
Reported Earnings (SG cents)	0.9	0.6	0.6	0.7
Dividend (SG cents)	0.0	0.1	0.1	0.1
Payout Ratio (%)	0.0	15.5	17.5	14.5
PER (x)	3.3	4.6	5.2	4.3
P/Cash Flow (x)	2.2	2.9	3.2	2.8
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	6.3	7.2
Net Gearing (%)	0.0	0.0	0.0	0.0

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Earnings Performance

FY Dec. / SGD mln	3Q11	3Q10	% Change
Reported Revenue	3.3	4.2	-22.3
Reported Operating Profit	0.3	0.2	75.4
Depreciation & Amortization	-0.3	-0.3	-5.4
Net Interest Income / (Expense)	0.0	0.1	NM
Reported Pre-tax Profit	0.6	0.5	14.5
Reported Net Profit	0.5	0.6	-11.5
Reported Operating Margin (%)	9.1	4.0	-
Reported Pre-tax Margin (%)	18.2	12.3	-
Reported Net Margin (%)	15.2	13.3	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2009	2010	2011E	2012E
Reported Revenue	19.0	18.2	14.3	16.4
Reported Operating Profit	2.1	1.2	0.9	1.2
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	2.5	3.0
Effective Tax Rate (%)	1.6	11.7	12.0	12.0
Reported Net Profit	2.9	2.1	1.8	2.2
Reported Operating Margin (%)	10.9	6.8	6.1	7.6
Reported Pre-tax Margin (%)	17.3	15.4	17.4	18.3
Reported Net Margin (%)	15.3	11.3	12.8	13.5

Source: Company data, S&P Equity Research

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