

Unified Communications Hldgs

Bloomberg: UCOM SP

Reuters: UNIF.SI

Price: SGD0.04

Date: February 28, 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

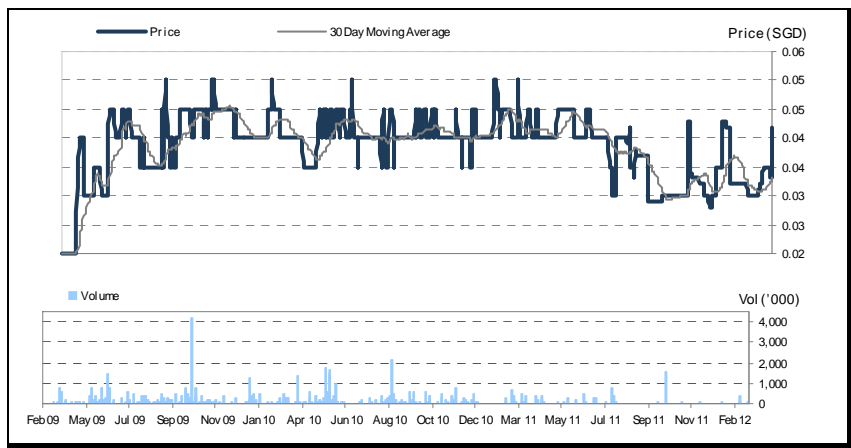
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Place of Operations: South East Asia, Greater China, South Asia, the Middle East and Africa.

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Results Review

- UCOM's 2011 revenue of SGD13.9 mln (-23.5% YoY) and net profit of SGD1.9 mln (-7.2% YoY) were broadly in line with expectations, reaching 98% and 105% of our respective 2011 forecast. In 4Q2011, UCOM's revenue fell 43% YoY to SGD3.5 mln, but net profit was stable at SGD0.7 mln.
- All business units reported lower revenue in 2011, mainly due to lower system sales during the year. By division, revenue of its Mobile Value Added Services (VAS) unit fell 24.4% YoY, mobile technology (TECH) revenue slipped 10.6% YoY, while revenue from its Operational Support Services (OSS) division dropped 37.5% YoY, partly due to the disposal of its Hong Kong unit in 2Q11. UCOM's TECH division is the group's largest revenue contributor with a 42% share, followed by the OSS (32%) and VAS (24%) divisions.
- Although 2011 revenue was lower, EBITDA margin expanded to 23.7% (vs. 13.7% in 2010) due to higher margins secured by its managed service contracts that commanded a gross margin of over 60% (vs. the average 45% for a managed service contract) as well as the absence of impairment losses for plant, property and development cost. Further, UCOM's earnings benefitted from a small forex gain of SGD0.1 mln (vs. SGD0.1 mln forex loss in 2010).

Earnings Outlook / Estimates Revision

- With the completion of the acquisition of the remaining 60% stake in Ahead Mobile Sdn Bhd (AMSB) early this year, UCOM's earnings will be enlarged going forward. AMSB's location-based services platform, intelligent message conversion system and location-based point-of-interest application services for mobile networks in Malaysia are relatively stable and is expected to generate a pretax profit of SGD2.5- SGD2.8 mln to UCOM's earnings over the next two years.
- UCOM will also defend its managed services contracts and build up its regional client base, particularly in the Southeast Asia region that remains its key market as well as the fast growing Indian subcontinent. It will also leverage on its revenue sharing contracts to add resilience to its longer term earnings and to be less dependent on the unpredictable system sales.

Investment Risks

- Competition within its key markets remains keen and UCOM will have to work harder to defend its position in many of its more mature products and technologies.
- UCOM's lack of size and scale remains an impediment for the company 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)	35.2
Price Performance (%)	
- 1 month	40.0
- 3 month	50.0
- 12 month	5.0
No. of Outstanding Shares (mln)	319.6
Free Float (%)	35.7
Market Cap (SGD mln)	13.4
Enterprise Value (SGD mln)	-4.2
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	10.45	11.65
Cash Flow (SG cents)	1.0	1.0	1.6	1.7
Reported Earnings (SG cents)	0.6	0.6	1.2	1.3
Dividend (SG cents)	0.1	0.1	0.1	0.1
Payout Ratio (%)	15.5	16.7	8.5	7.7
PER (x)	6.5	7.0	3.6	3.2
P/Cash Flow (x)	4.1	4.3	2.7	2.5
P/Book Value (x)	0.5	0.4	0.4	0.4
Dividend Yield (%)	2.4	2.4	2.4	2.4
ROE (%)	7.6	6.6	11.9	11.7
Net Gearing (%)	0.0	0.0	0.0	0.0

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Earnings Performance

FY Dec. / SGD mln	4Q11	4Q10	% Change
Reported Revenue	3.5	6.1	-43.0
Reported Operating Profit	0.3	0.7	-57.9
Depreciation & Amortization	-0.2	-0.3	-32.0
Net Interest Income / (Expense)	0.2	0.1	>100
Reported Pre-tax Profit	0.8	1.1	-24.2
Reported Net Profit	0.7	0.7	5.3
Reported Operating Margin (%)	8.6	11.6	-
Reported Pre-tax Margin (%)	22.9	17.2	-
Reported Net Margin (%)	20.0	10.8	-

Source: Company data

Profit & Loss

FY Dec. / SGD mln	2010	2011	2012E	2013E
Reported Revenue	18.2	13.9	19.4	21.0
Reported Operating Profit	1.2	0.9	4.4	4.8
Depreciation & Amortization	-1.2	-1.2	-1.2	-1.2
Net Interest Income / (Expense)	0.4	0.5	0.3	0.3
Reported Pre-tax Profit	2.8	2.4	4.7	5.1
Effective Tax Rate (%)	11.7	10.7	12.0	12.0
Reported Net Profit	2.1	1.9	3.8	4.1
Reported Operating Margin (%)	6.8	6.5	22.8	22.8
Reported Pre-tax Margin (%)	15.4	17.5	24.5	24.3
Reported Net Margin (%)	11.3	13.8	19.5	19.7

Source: Company data, S&P Equity Research

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