

*Nera  
Telecommunications  
Limited*

A.B. Maximus & Co Pte Ltd

CSP Program – June 2013

# Content

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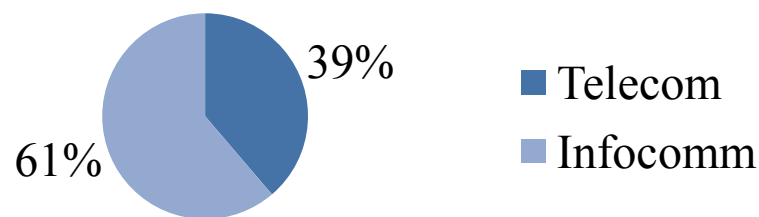
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# Company Background

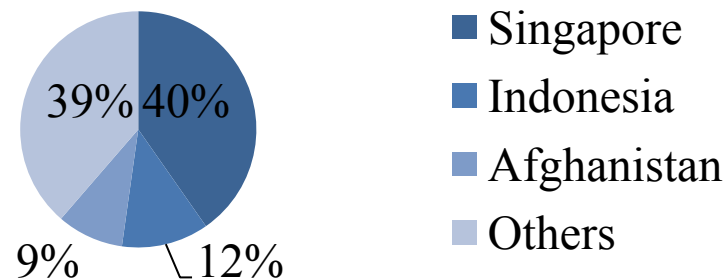
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- Leader in system integration
- Global market spanning from Singapore to Europe.
- Key clients are telecommunication operators,
  - Accounts for more than 70% of the group's FY12 revenue.
- Resellers of different products

**FY 2012 Revenue  
(Business Segments)**

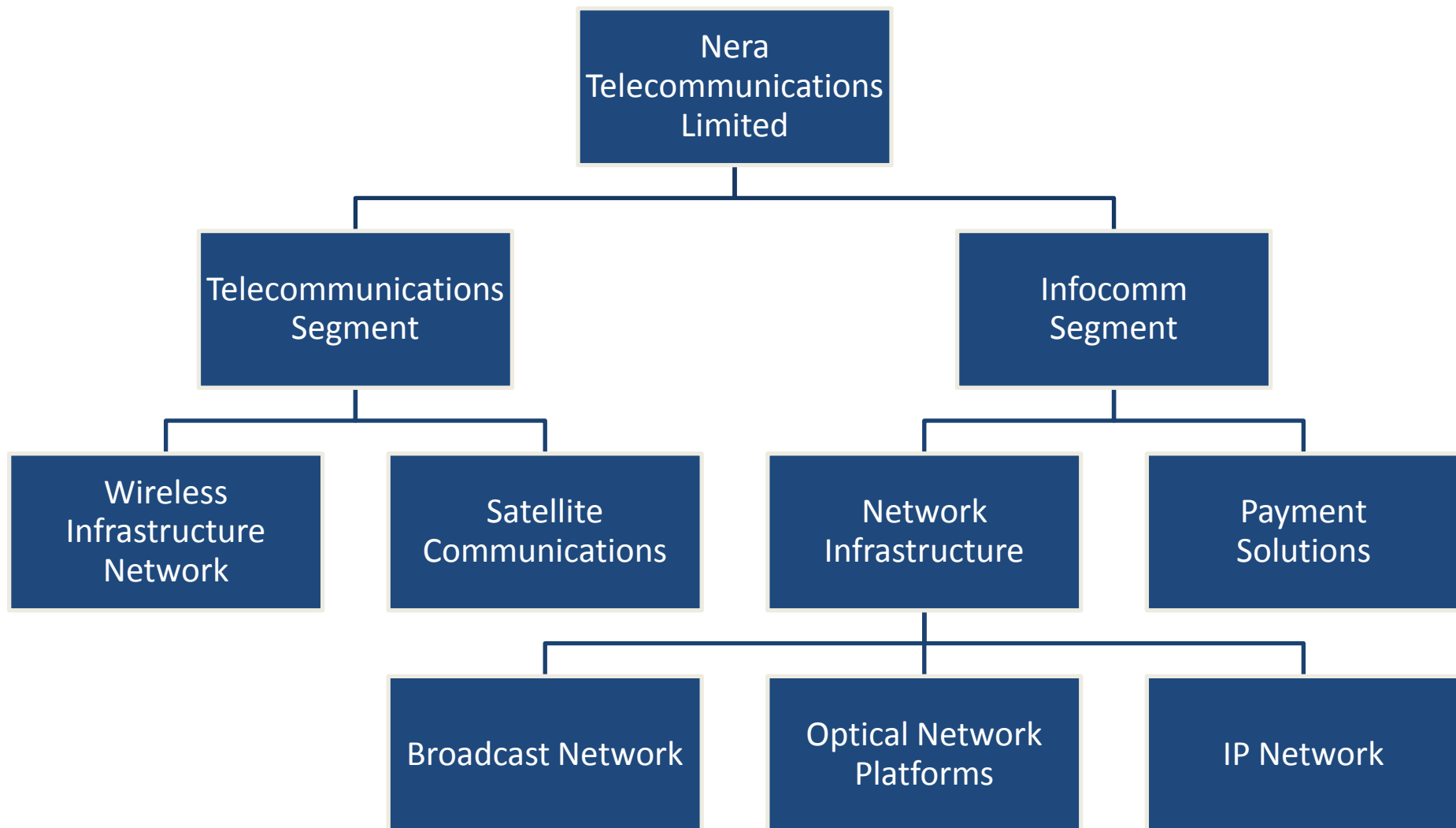


**FY 2012 Revenue  
(Geographical Segments)**



# Company Background

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# Telecommunication Segment

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## Product Portfolio

- Satellite Terminals for Marine Vessels
- EVO Microwave Radio

## Clientele Base includes

- Large communication service providers (CSPs),
- Internet service providers
- Satellite service providers






**Globe**<sup>®</sup>





**TELKOMSEL**

# Key Clients (Telecommunication)

Client	DiGi (Malaysia)	Globe Telecom (Philippines)	Telkomsel (Indonesia)
History	Customer of 7 years with >1,242 transceivers	Customer of 11 years with >3,554 transceivers	Customer of 8 years with >2,396 transceivers
Solutions offered by NeraTel	Equipment and systems packages  <b><u>Project services</u></b> Site acquisition Project management Technical & Management Support	Radio equipment and packages  <b><u>Project services</u></b> Site acquisition Project management Technical & Management Support	Equipment & systems packages  <b><u>Project services</u></b> Technical & Management Support
			

# Key Clients (Telecommunication)

Client	Bahrain	UAE
Solutions offered by NeraTel	Equipment and systems packages <b><u>Project services</u></b> Project implementation Maintenance Services	Radio equipment and packages Nationwide microwave network project Intercity and Regional Coverage <b><u>Project services</u></b> System implementation
		

# Network Infrastructure

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- Product Portfolio
  - Routers
  - Security features (firewalls, intrusion, detection and prevention),
  - Network operating and management system.
- Clientele Base includes
  - Broadcasters & TV Service providers
  - Internet & CSPs
  - Enterprises
  - Government, transport & utilities organisations





# Payment Solutions

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- End-to-end electronic payment solutions & services
- Range of products include
  - Point-of-sale (POS) payment terminals
  - Terminal connections to network devices
  - Terminal software and services such as signature capture.
- Revenue Generation
  - Sale / Leases of terminals
  - Service Revenue
- Clientele base includes
  - Financial institutions
  - Credit card firms
  - Retail industries



# Company Analysis

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**Heightened mobile data demand**

**Global mobile data traffic will increase 13-fold between 2012 and 2017**

**Stellar POS Business**

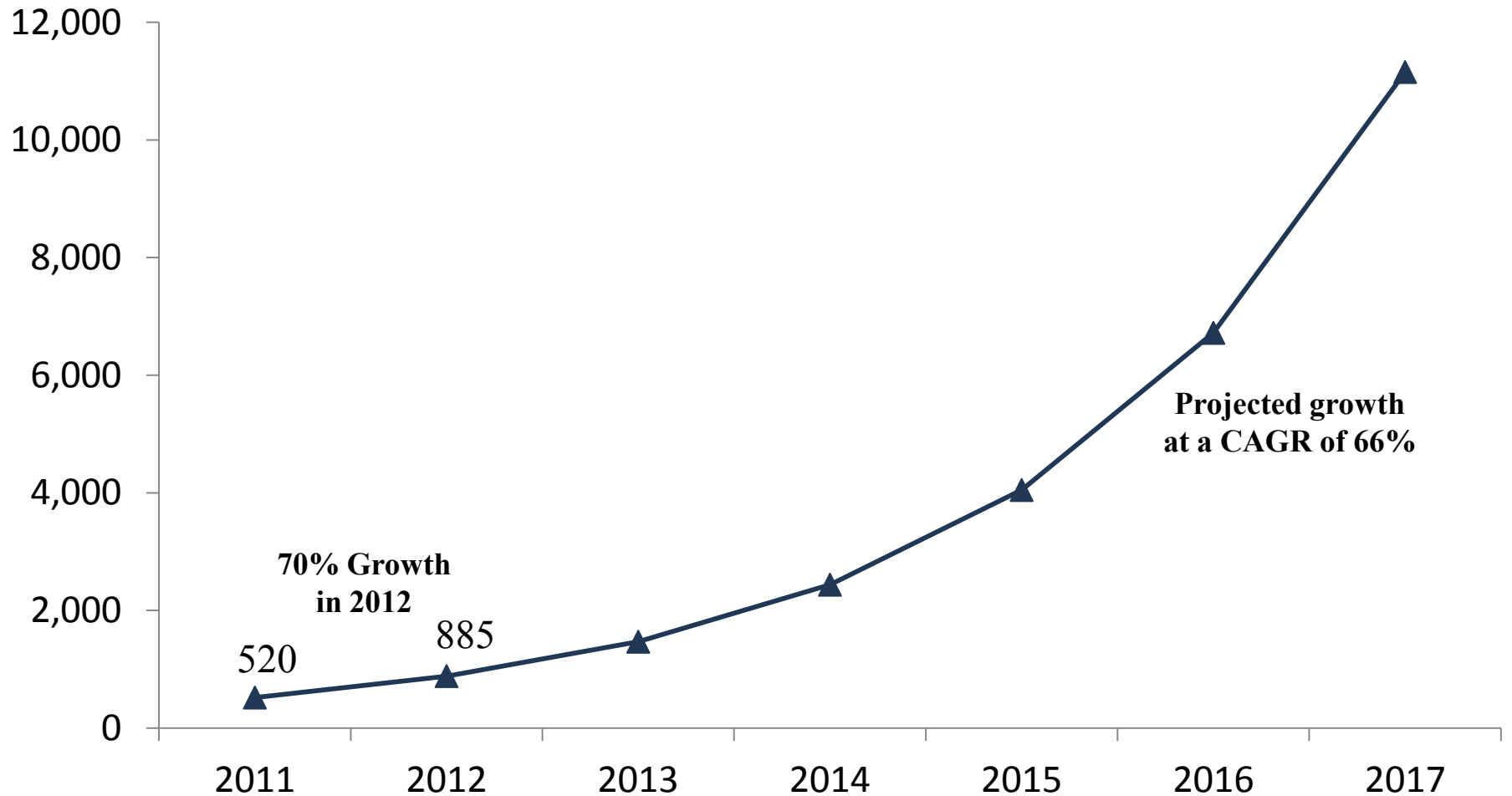
**Driven by strong demand for e-payment solutions in Asia**

**Recurring revenue due to excellent clientele base**

**Clientele base include Digi, Starhub, Globe Telecom and many others**

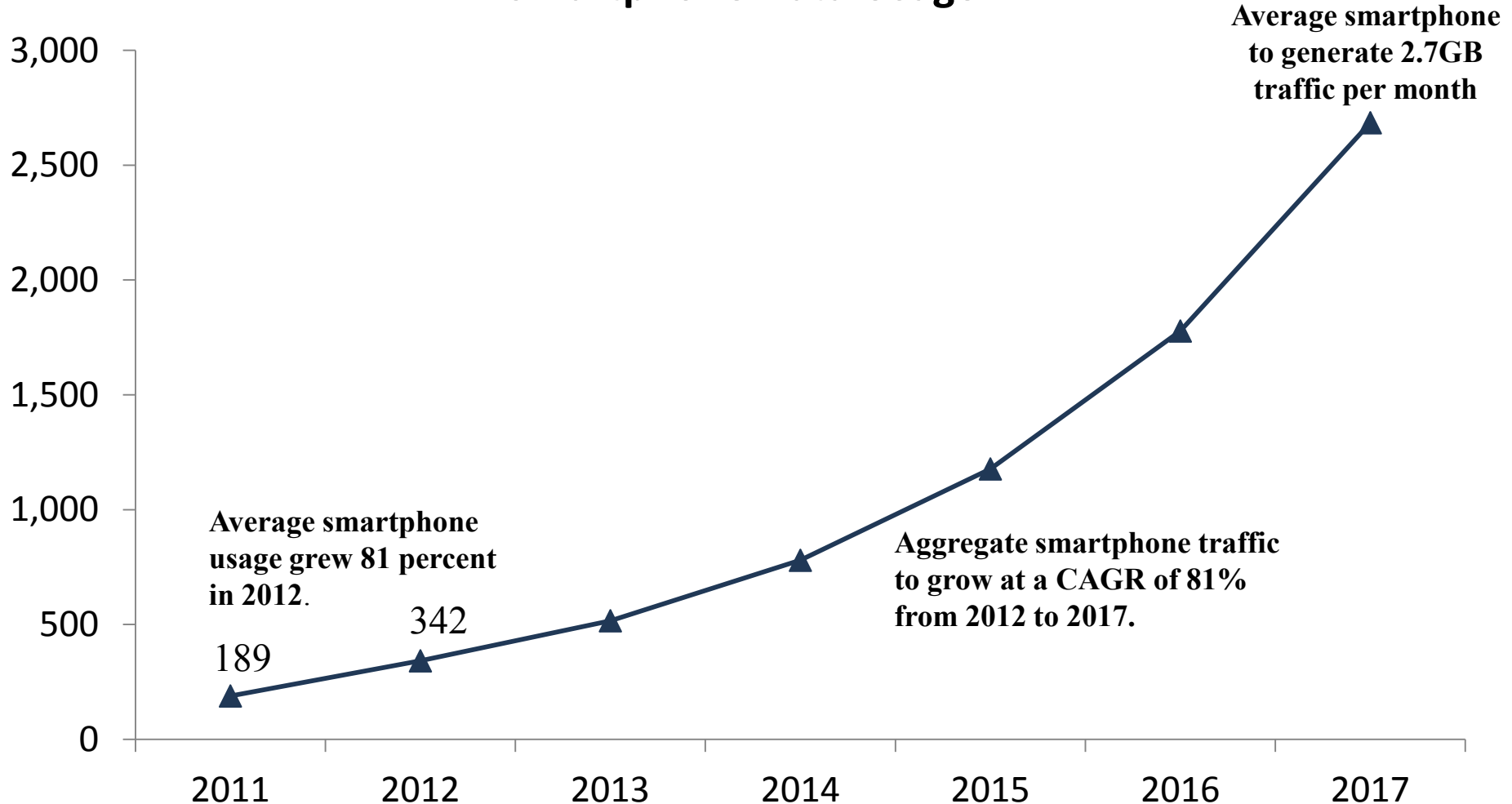
# Huge Mobile Data Growth

## Global Mobile Data Traffic



# Huge Mobile Data Growth

## Smartphone Data Usage



# Drivers for Traffic Growth

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## 1. Mobile video traffic

- 51% of traffic by the end 2012
- Increased consumption of mobile video, in particular higher resolutions video at a faster speed
- Mobile video will increase 16-fold between 2012 and 2017
- Two-thirds of world's mobile data traffic will be video by 2017.

## 2. Greater availability of faster mobile networks

- Mobile network connection speeds will increase 7-fold by 2017.
- The average mobile network connection speed (526 kbps in 2012) will exceed 3.9 megabits per second (Mbps) in 2017.

# Drivers for Traffic Growth

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## 1. Increasing number of mobile Internet users,

- End 2013, number of mobile-connected devices will exceed the number of people on earth,
- Over 10 billion mobile-connected devices in 2017,

## 2. Rapid growth in tablet users

- Number of mobile-connected tablets increased 2.5-fold to 36 million in 2012
- Each tablet generated 2.4 times traffic than average smartphone
- Mobile-connected tablets to generate more traffic in 2017 than the entire global mobile network in 2012.

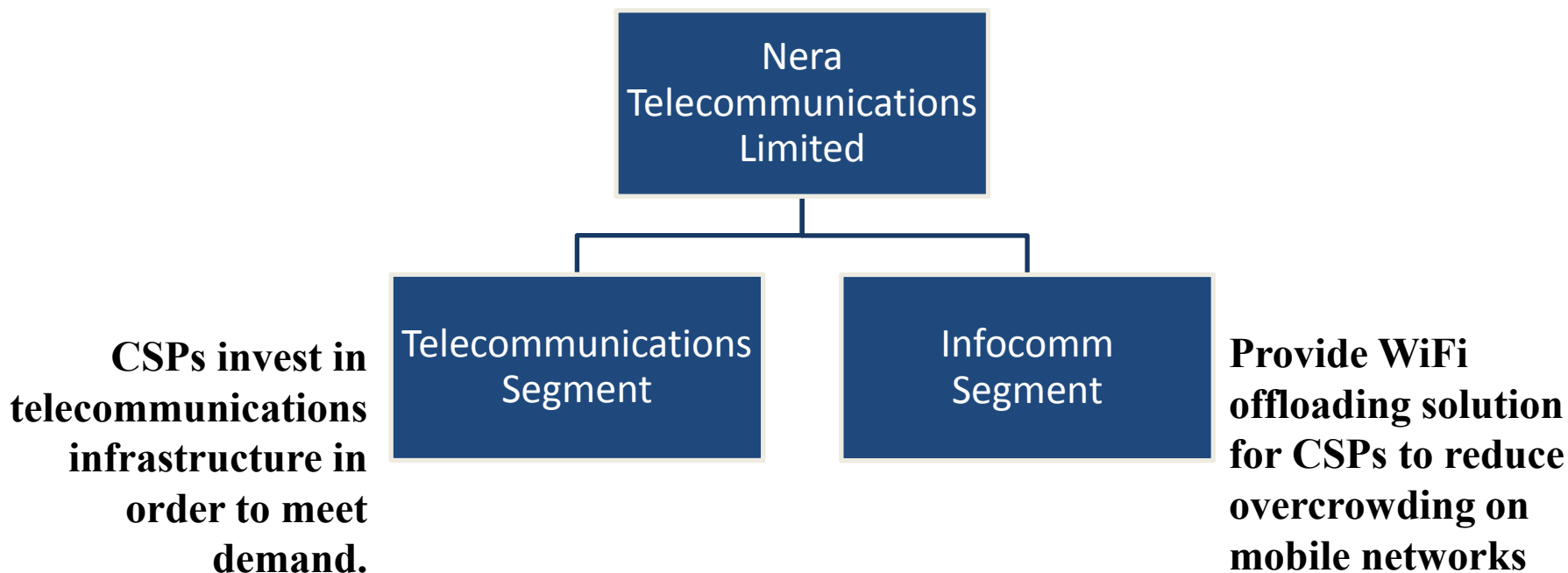
## **Implications**

- CSPs to invest heavily in telecommunications infrastructure
- Explore alternative solutions keep up with mobile data demand

# Wifi-Offload

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- Offloading traffic from the mobile networks to wireless networks
- 33% of total mobile data traffic offloaded in 2012; Expected to continue throughout to 2017



# Stellar POS Business

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- Rapid growth of consumer credit in Southeast Asia
- NeraTel's point-of-sales terminal (POS) business is set to grow.
  - Management is confident to grow from 220,000 terminals at the moment to 300,000 within a year
- Focus on creating recurring revenue
  - For FY2012, this stands at approximately 45%
  - Management has expressed confidence in last AGM



# Stable Revenue Source

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- Clientele base comprising of government organisations, listed companies
  - ✓ Minimal credit risks
  - ✓ Long-term clients relationship
  - ✓ Stable revenue source

Telecommunications	Infocomms
<ul style="list-style-type: none"><li>- DiGi</li><li>- Globe Telecom</li><li>- Middle-East Governments</li><li>- Starhub</li></ul>	<p>Financial institutions</p> <ul style="list-style-type: none"><li>- UOB, Citibank, OCBC</li></ul> <p>Clients for i2POS terminals</p> <ul style="list-style-type: none"><li>- Cold Storage Supermarkets</li><li>- Singapore Post Office</li><li>- Various government hospitals</li></ul> <p>Broadcasting</p> <ul style="list-style-type: none"><li>- HDB</li><li>- Starhub Cable Vision</li><li>- TV Mobile</li></ul>

# DDM Valuation

<b>Profit &amp; Loss (\$m)</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>	<b>2014F</b>
Revenue	156	179	211	253
Net Profit	14	19	25	29
CAPEX	(4)	(4)	(6)	(7)
No. of Shares (m)	362	362	362	362
EPS (S cts)	0.04	0.05	0.07	0.08
DPS (S cts)	0.00	0.08	0.05	0.06

Source: Company Data, Estimates

# DDM Valuation

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Description	Value	Remarks
Risk Free	1.81%	SGS 10 Year Bond
Market Return	10.00%	Bloomberg
Beta	0.61	Bloomberg (+20% for risks)
Cost of Equity	6.81%	Computed
Weight of Equity	100.00%	Balance Sheet
Long term growth	1.00%	Based on world population growth from United Nations Paper
Fair Value	<b><u>\$0.87</u></b>	Computed

# PE Valuation

	STI	Starhub	M1	Singtel	Average
P/E Ratio	13.3	19.6	19.3	17.1	17.4
Dividend Yield	2.96%	4.8%	4.7%	4.5%	4.2%

✓ Fair Value for Nera Telecommunications = **\$0.77**

✓ **Rationale**

1. Growth potential of profitability
2. Sustainable high dividends yield

	FY12 P/E	FY13F P/E	Dividend Yield FY12	Dividend Yield FY13F
Current Price	12.4	8.9	6.5%	8.1%
Fair Value	14.4	11	5.1%	6.5%

# Trading Data

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Description	Value
52 Week Range	S\$ 0.39 - S\$0.70
Average Volume	444,000
Market Capitalisation	S\$ 224.4 million
Shares outstanding	361.8 million

# Risks

<b>Event</b>	<b>Description</b>	<b>Things to monitor</b>
<b>Intensive Competition</b>	<ul style="list-style-type: none"><li>- Fragmented market with intense price competition</li></ul>	<ul style="list-style-type: none"><li>- Quarterly Results</li><li>- News updates on Nera's clientele</li></ul>
<b>Rise in interest rates</b>	<ul style="list-style-type: none"><li>- Rise in interest rates may cause the price of Nera to fall</li><li>- Minimal damages to operations as Nera has no loans on its balance sheet</li></ul>	<ul style="list-style-type: none"><li>- News updates</li></ul>
<b>Political Risks in MENA Markets</b>	<ul style="list-style-type: none"><li>- Operates in countries such as Afghanistan</li><li>- Higher risks of acts of violence which affects profitability.</li></ul>	<ul style="list-style-type: none"><li>- News updates in the Middle East</li></ul>

# Financial Risks

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<b>Risk</b>	<b>Analysis</b>	<b>Probability</b>
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<b>Liquidity Risk</b>	<ul style="list-style-type: none"><li>- Current Ratio: 1.7</li><li>- Cash Position: \$41.9 million</li></ul>	<ul style="list-style-type: none"><li>- Very Low</li></ul>
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<b>Solvency Risks</b>	<ul style="list-style-type: none"><li>- Debt to Assets: 0</li><li>- Interest Coverage: Very High</li></ul>	<ul style="list-style-type: none"><li>- Very Low</li></ul>
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# Summary

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	Fair Value
Dividend Discount Model	\$0.87
PE Valuation	\$0.77
Current Price	\$0.62

- ✓ Stable revenue base
- ✓ Established track record amongst its competitors
- ✓ Sustainable & attractive dividend yield



*Thank you!*

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