

Ntegrator International Ltd

Connected: Local Access to Indochina

Update: Ntegrator International (NTEG) posted a net profit of \$0.9m for FY09, a 22.3% increase from FY08. It also grew its order book by 26% YoY to S\$46.8m by securing contracts from Singtel, M1, Viettel, and Myanmar Posts and Telecommunications (MPT). Maintain a **Fairly Valued** rating on NTEG, with an intrinsic value of S\$0.045 on dilution risk from conversion of warrants.

Key Developments:

- Revenue grew by 16.7% from S\$47.9m in FY08 to S\$55.9m in FY09. This was attributed to a 43.5% growth in the Project Management & Maintenance segment to S\$7.8m, and a 13.3% growth in Project Sales to S\$48.2m. As a result, EPS increased YoY from 0.19 cents to 0.26 cents.
- Vietnam alone accounted for S\$34.7m, or 62.1% of NTEG's sales due to the contracts awarded by Viettel (the second largest telco operator in Vietnam), which has been a repeat client of NTEG since 2002. Other Asian countries, such as Myanmar and Cambodia, accounted for 21.3% of revenue. The remaining 16.6% came from Singapore.
- We have forecasted NTEG's FY10F net earnings at S\$3.5m, as the company clinched new contracts from Singtel and M1 to implement the Next Generation Nationwide Broadband Network (NGNBN).

Outlook: We like NTEG for its large exposure to Indochina, which presents opportunities for future growth. Nonetheless, we think that slow growth in the Singapore telco industry will hit NTEG's local business in the future. We are also concerned about potential share dilution resulting from the conversion of its outstanding warrants, which represents about 30% of existing number of shares outstanding.

Fairly Valued

- Intrinsic Value S\$0.045
- Prev Close S\$0.040

Main Activities

Ntegrator International Ltd is a leading provider of IT and telecommunications services. It specializes in the designing, installation and deployment of data, video, fiber optic, wireless and cellular networking, and voice communications systems. Its clients include governments and private organizations in ASEAN and across Asia.

Financial Highlights

(Y/E Dec) S\$'m	FY08	FY09	FY10F
Revenue	47.9	55.9	65.0
Operating Profit	1.2	1.4	3.9
Earnings	0.8	0.9	3.5
EPS (cts)	0.2	0.3	0.7

Source: SIAS Research Estimate

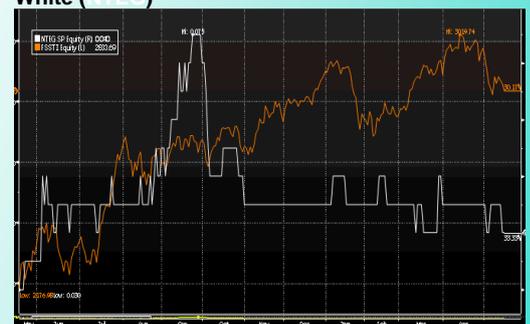
Key ratios (FY10F)

PER	5.4
P/BV	0.7
ROE	12.5%
Debt to Equity	2.4
Current ratio	1.1

Source: SIAS Research Estimate

Indexed Price Chart

Orange (FSSTI)
White (NTEG)



Source: Bloomberg

52wks High-Low 8.5 cts / 3.0 cts
Number of Shares 366.2 m
Market Capitalization S\$14.7 m

Analyst:

SIAS Research
admin@siasresearch.com
Tel: 6227 2107

Potential in Indochina: NTEG will benefit from its large exposure to Indochina (Vietnam, Myanmar, Cambodia, and Laos). This region is seeing rapid economic growth, and has an increasing number of businesses and individuals that require more connectivity with the rest of the world.

Figure 2 illustrates this trend, demonstrating impressive growth in telecommunications usage in countries such as Vietnam and Cambodia. Myanmar, where NTEG recently clinched a contract, is also beginning to open up and has seen growth of 15% a year in phone usage. As of 2009, internet penetration rates for Vietnam, Cambodia, Myanmar, and Laos, stood at 25.7%, 0.5%, 0.2%, and 7.7% respectively, which implies room for expansion in the telco sector of these countries. We feel that NTEG is well positioned to take advantage of these potential markets given its existing ties with telco operators there.

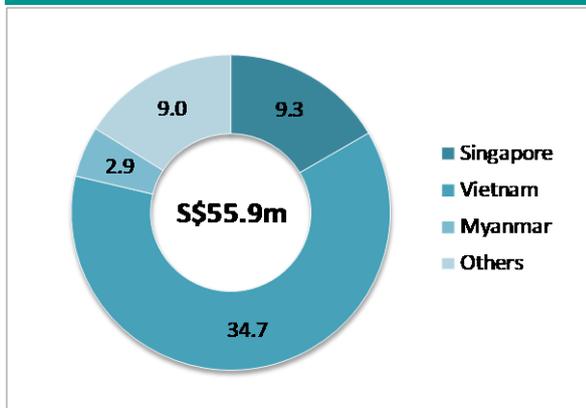
Established Relations with Key Clients: NTEG was able to maintain healthy order book growth despite the economic downturn as the company does most of its business with repeat clients. These clients, such as Singtel, M1, and Viettel, continue awarding NTEG contracts to install and maintain network infrastructure because of their long partnership and NTEG's experience and technical expertise in this field. This provides a degree of stability for NTEG. However, we are also concerned that it may become too reliant on a small number of companies for its orders.

Singapore's Saturated Telco Industry: We opine that NTEG's prospects for growth in Singapore will be hampered by limited expansion in the local telco industry after the introduction of the NGNBN, which will be fully implemented latest by 2012. Our view is substantiated by the fact that mobile phone and broadband penetration rates in Singapore are already among the highest in the world at 137% and 142% respectively (Figure 3).

Valuation: We value NTEG at a FY10F P/E of 6.7x and P/B of 0.8x, a 20% discount to the industry average due to the company's relatively smaller market capitalization.

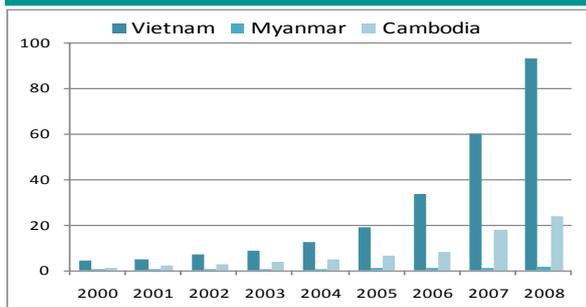
NTEG has 106.3m outstanding warrants with an exercise price of S\$0.02 each. This amounts to 29% of its current share base. We base our valuation on a fully diluted FY10F EPS of S\$0.007 and BV/share of S\$0.06. NTEG's intrinsic value of S\$0.045 represents a modest 11.1% upside over its previous closing price. As such, we recommend a **Fairly Valued** rating.

Figure 1: FY09 Revenue by Country



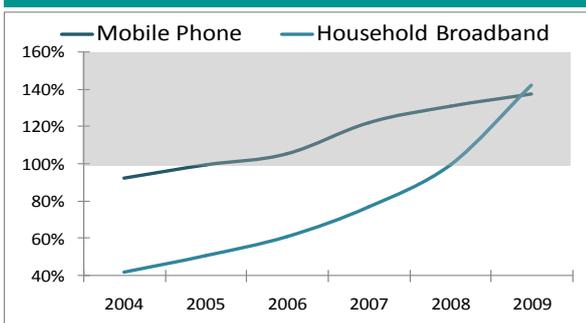
Source: Company

Figure 2: Phone users per 100 people



Source: CEIC, UN Data

Figure 3: Penetration Rates



Source: IDA

Figure 4: Peer Comparison

	P/E (x)	P/B (x)	ROE (%)	ROA (%)
Telechoice	7.6	1.3	16.8	10.7
Unified Comm	5.7	0.6	11.7	8.6
Nera	12.0	1.8	17.1	9.3
Ace Achieve	8.0	0.5	6.7	4.5
Peer Average	8.3	1.1	13.1	8.2
Ntegrator (FY10F)	6.1	0.8	12.5	4.5

Source: Bloomberg, SIAS Research Estimates

Figure 5: Financial Forecast and Estimates

S\$m	FY07	FY08	FY09	FY10F	FY11F	FY12F
Revenue	40.0	47.9	55.9	65.0	73.3	80.1
Operating Profit	2.9	1.2	1.4	3.9	3.3	4.2
Net Profit Attributable to Shareholders	2.3	0.8	0.9	3.5	2.9	3.7
Current Assets	40.3	48.0	64.1	67.0	70.0	80.6
Non-Current Assets	13.4	19.5	15.0	23.4	23.9	27.3
Current Liabilities	32.6	46.2	53.4	61.3	62.4	73.0
Non-Current Liabilities	0.1	0.1	2.7	0.9	1.1	1.6
Total Equity	21.1	21.2	23.0	28.2	30.4	33.3
Operating Cash Flow	-2.0	0.4	-3.2	3.2	1.6	1.8
Investing Cash Flow	-0.7	-0.5	-0.6	-0.6	-0.5	-0.5
Financing Cash Flow	5.1	-1.6	3.8	0.6	0.0	0.2
Net Change in Cash	2.4	-1.8	0.0	3.2	1.1	1.5
Receivable Days	274	330	373	340	300	300
Payable Days	305	309	349	300	285	285
Inventory Days	22	24	19	17	18	18
ROE (%)	10.8	3.7	4.1	12.5	9.5	11.0
ROA (%)	4.2	1.9	1.8	4.5	3.5	4.1
Debt to Equity Ratio	1.6	2.4	2.6	2.4	2.2	2.4
Current ratio (x)	1.2	1.0	1.2	1.1	1.1	1.1
EPS (S cts)	0.6	0.2	0.3	0.7	0.6	0.8
BV/Share (S cts)	5.7	6.2	6.5	6.0	6.4	7.1
PER (x)	6.8	21.5	15.2	5.4	6.6	5.2
P/BV (x)	0.7	0.6	0.6	0.7	0.6	0.6

Source: SIAS Research Estimates

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE

As of the date of the report, the analyst and his immediate family do not hold positions in the securities recommended in this report.

SIAS Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is statement of opinion, and not statement of fact or recommendation on the stock.

This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
