

NERA TELECOMMUNICATIONS LTD

ANALYST BRIEFING

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 - Y-o-Y : 3Q FY14 vs 3Q FY13
 - Y-o-Y : YTD 3QFY14 vs YTD 3QFY13
- Outlook



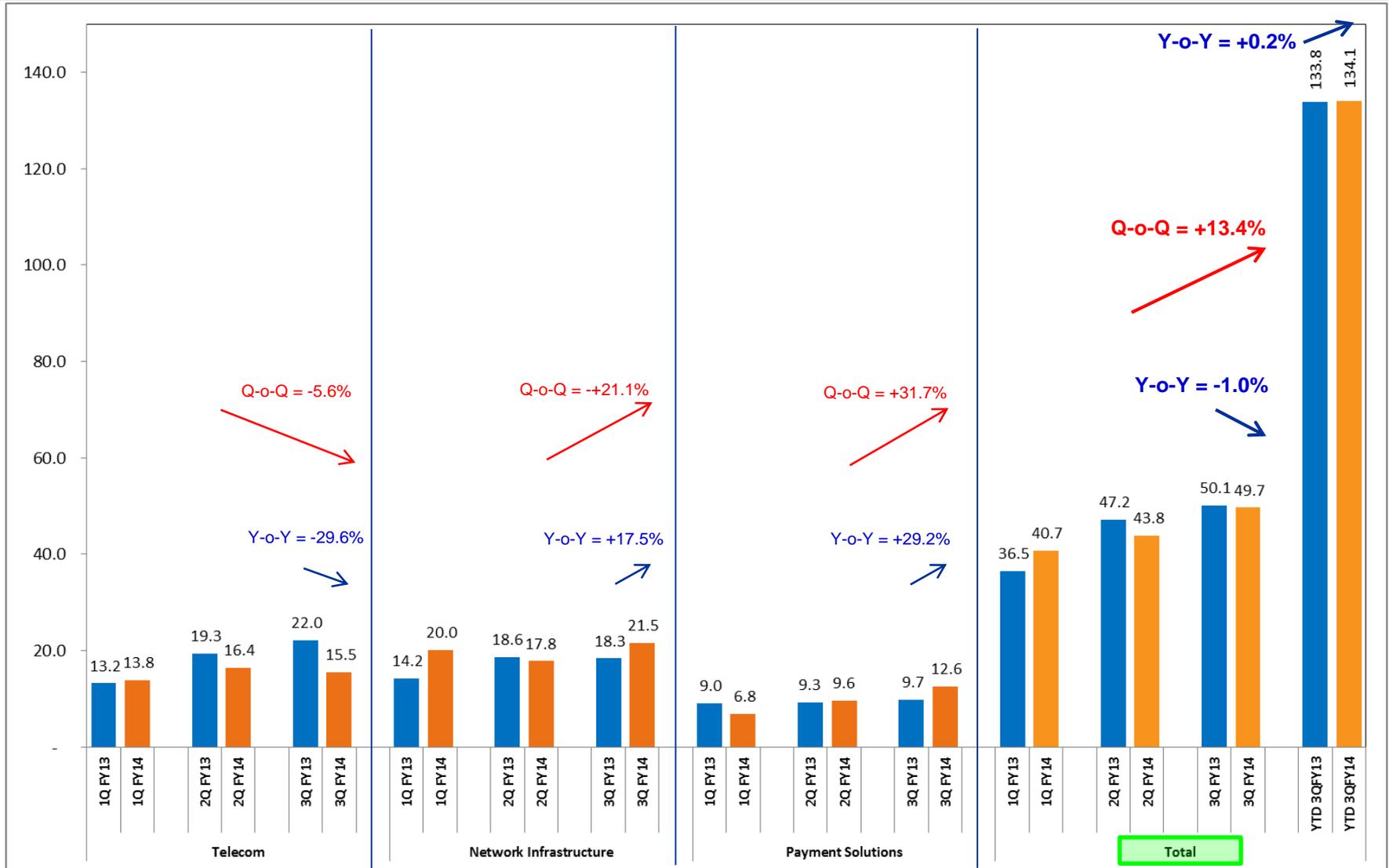
Financial performance summary

S\$'000	3QFY14	3QFY13	+ / (-) %	YTD 3QFY14	YTD 3QFY13	+ / (-) %
Turnover	49,651	50,128	(1.0%)	134,097	133,762	0.3%
Gross profit	15,015	15,313	(1.9%)	44,692	45,020	(0.7%)
Gross profit %	30.2%	30.5%	(0.3ppt)	33.3%	33.7%	(0.3ppt)
Other operating income	343	49	600.0%	1,002	990	1.2%
Distribution and Selling expenses	(7,985)	(7,218)	10.6%	(21,907)	(20,186)	8.5%
Admin expenses	(3,020)	(2,671)	13.1%	(8,699)	(8,461)	2.8%
Other expenses	(21)	(928)	(97.7%)	(96)	(1,192)	(91.9%)
One-off contribution from negative goodwill*	-	7,051	(100.0%)	-	7,051	(100.0%)
PBT without one-off contribution from negative goodwill	4,271	4,483	(4.7%)	14,869	16,276	(8.6%)
Profit before taxation	4,271	4,483	(4.7%)	14,869	23,327	(36.3%)
PAT without one-off contribution from negative goodwill	3,541	3,295	7.5%	11,601	12,568	(7.7%)
Profit after taxation	3,541	3,295	7.5%	11,601	19,619	(40.9%)

* Arose from the acquisition of the remaining 70% equity interest in Nera (Malaysia)

Revenue overview

S\$ m



Revenue – Overall group

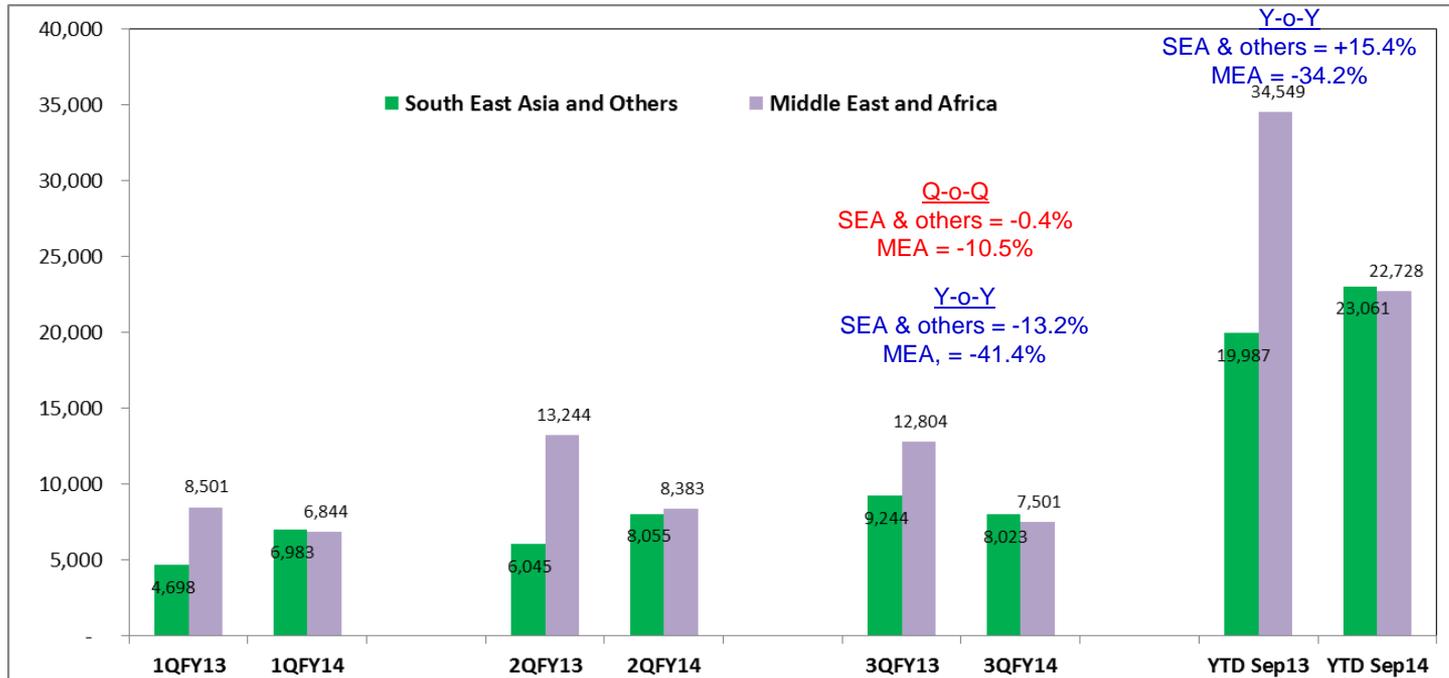
3QFY14

- Revenue in 3QFY14 decreased 1.0% (\$0.5m) y-o-y from \$50.1m to \$49.7m
 - Telecom = decreased 29.6% (\$6.5m) y-o-y from \$22.0m to \$15.5m
 - Network Infrastructure = increased 17.5% (\$3.2m) y-o-y from \$18.3m to \$21.5m
 - Payment solution = increased 29.2% (\$2.9m) y-o-y from \$9.7m to \$12.6m

YTD 3QFY14

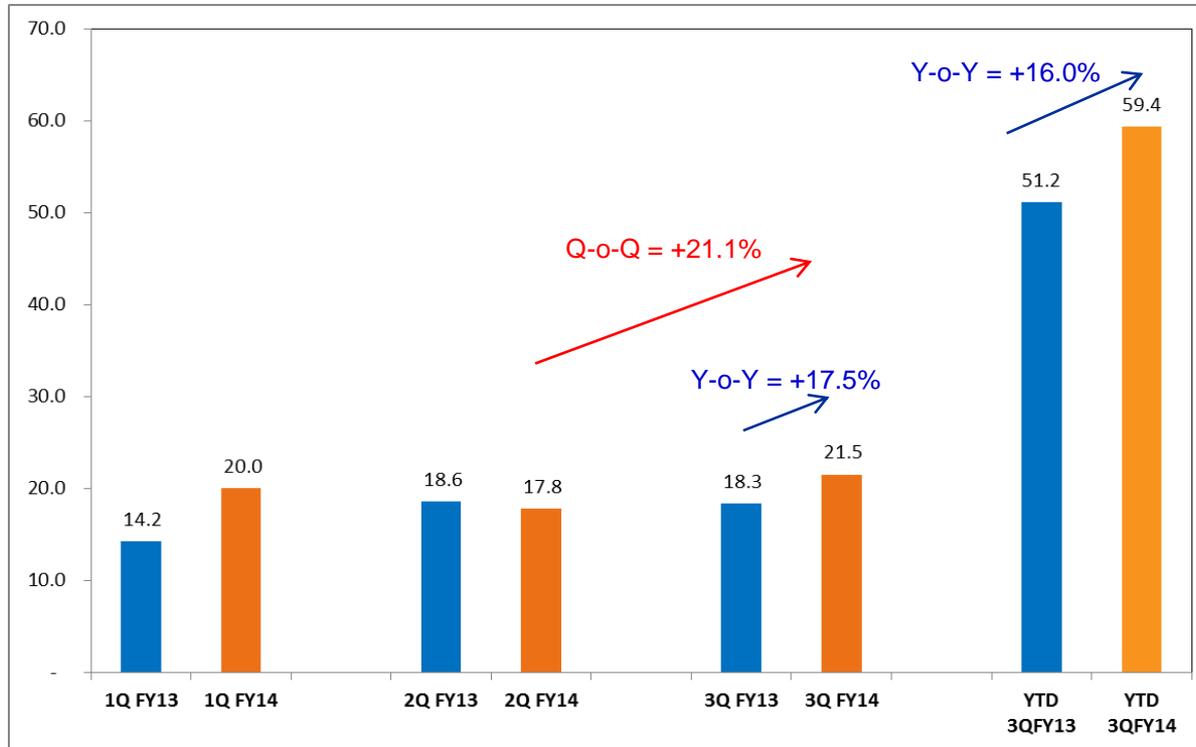
- Revenue in YTD 3QFY14 increased by 0.3% (\$0.3m) y-o-y from \$133.8m to \$134.1m
 - Telecom = decreased 16.0% (\$8.7m) y-o-y from \$54.5m to \$45.8m
 - Network Infrastructure = increased 16.0% (\$8.2m) y-o-y from \$51.2m to \$59.4m
 - Payment solution = increased 3.1% (\$0.9m) y-o-y from \$28.0m to \$28.9m

Revenue – Telecom segment



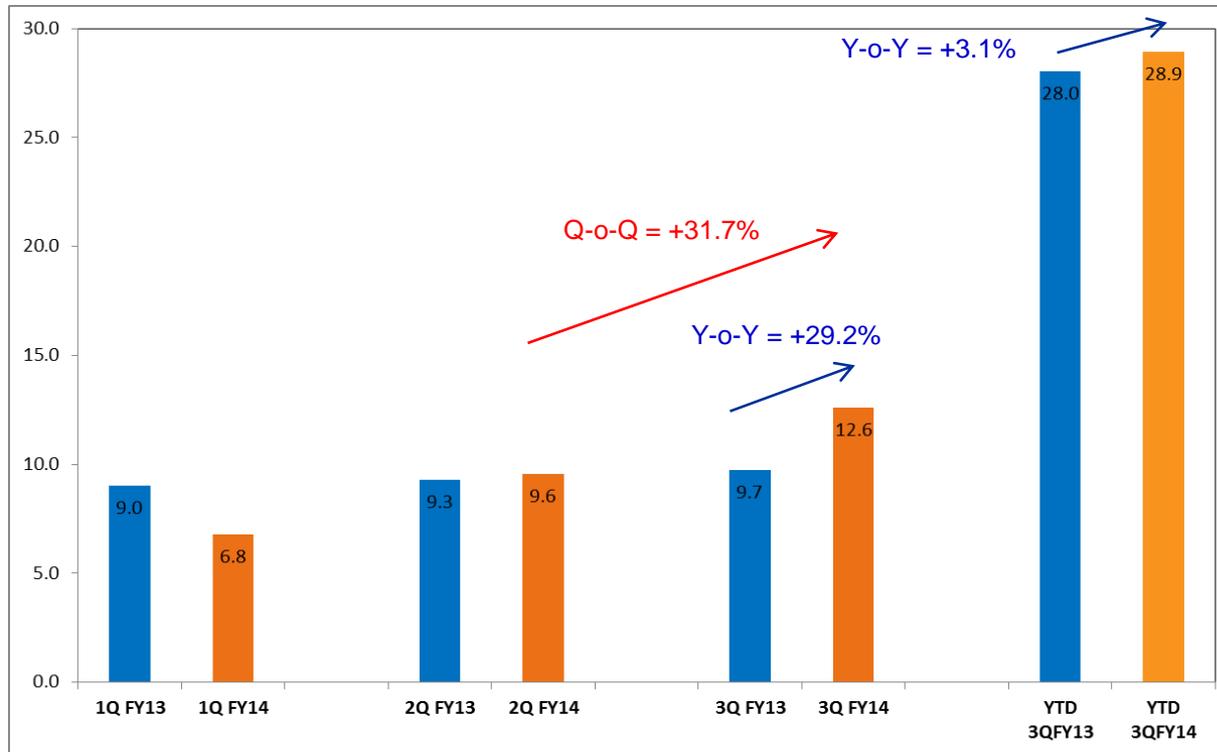
- In 3QFY14, Telecom segment revenue from SEA & Others region was flat Q-o-Q, but declined 13.2% Y-o-Y due to lumpy Satellite equipment sales in Philippines occurred in 3QFY13.
- In 3QFY14, Telecom segment revenue from Middle East and Africa region decreased both Q-o-Q and Y-o-Y at 10.5% and 41.4% respectively, due to lumpy projects recognition in Morocco and Pakistan occurred in 3QFY13.
- As a result, total Telecom segment revenue declined 16.0% Y-o-Y in YTD 3QFY14 from S\$54.5m to S\$45.8m.
- We had started to secure POs within Wireless Infrastructure Network segment in Nigeria and Myanmar, but only minimal amount has been recognised as revenue in 3QFY14. These PO will only contribute to the revenue in 4QFY14 and beyond.

Revenue – Network Infrastructure



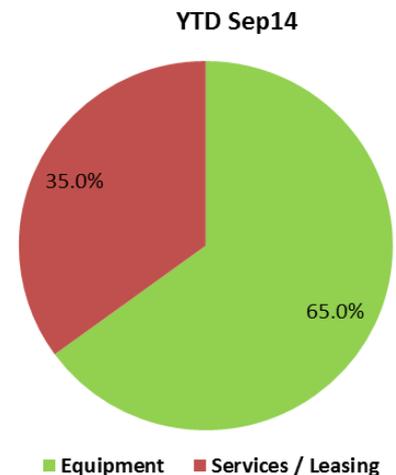
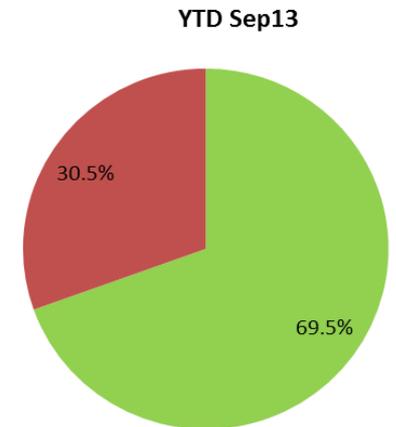
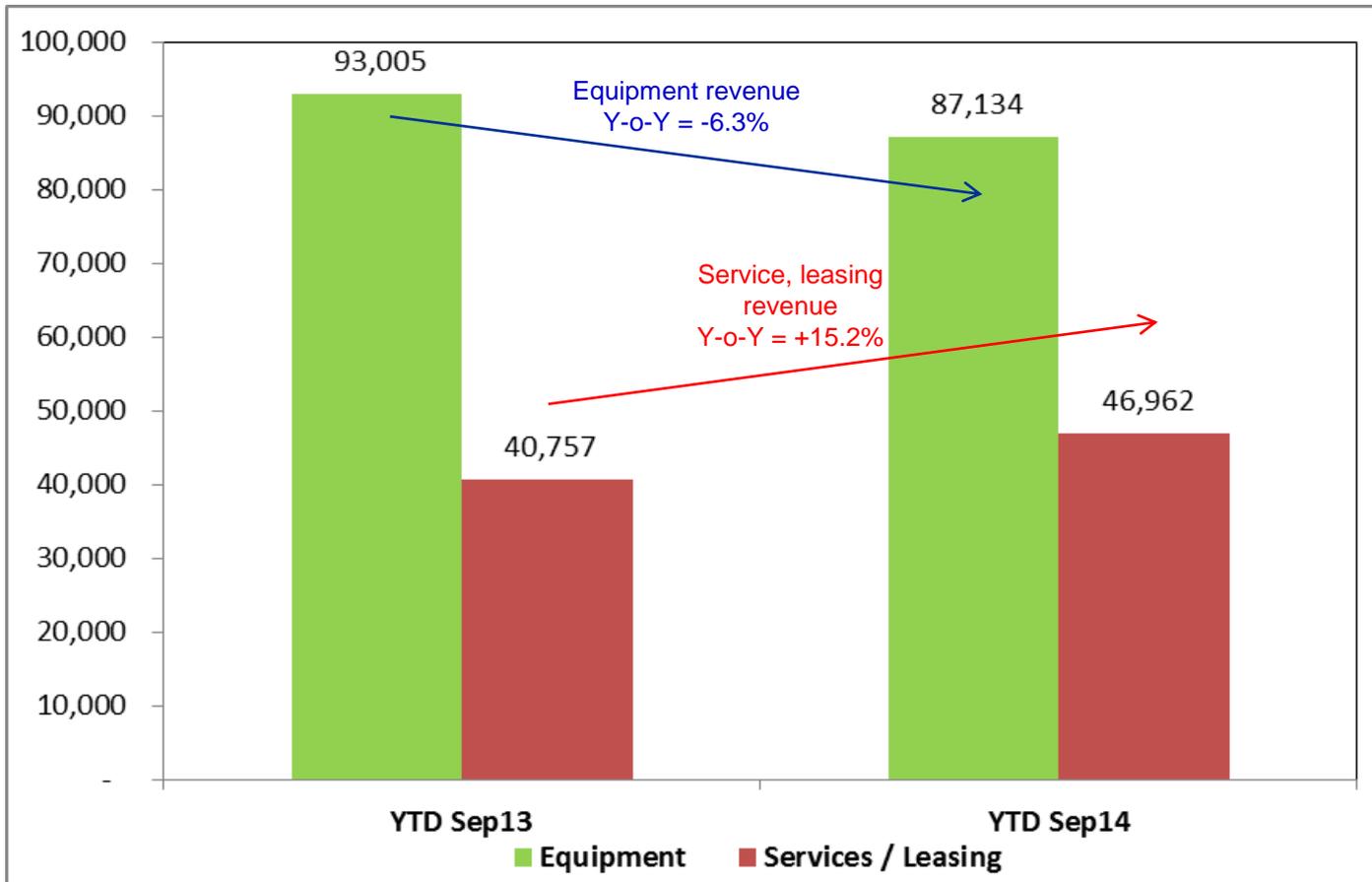
- 3QFY14 revenue contribution from Network Infrastructure segment increased at 21.1% Q-o-Q and 17.5% Y-o-Y.
- The customer order from Service Provider sector that was delayed in 2QFY14 had come in 3QFY14. This had contributed to the strong revenue growth in both Q-o-Q and Y-o-Y, as well as strong growth order in-take in the Network Infrastructure segment in 3QFY14 (+157.9% Q-o-Q and +189.2% Y-o-Y).

Revenue– Payment Solutions



- After a slow start in 1QFY14, revenue contribution from Payment Solutions segment increased consecutively for two quarters, with revenue in 3QFY14 increased by 31.7% Q-o-Q and 29.2% Y-o-Y.
- PS revenue in 3QFY14 was the highest level achieved per quarter within the PS segment, contributed by growth in both hardware equipment sales and service / leasing revenue.

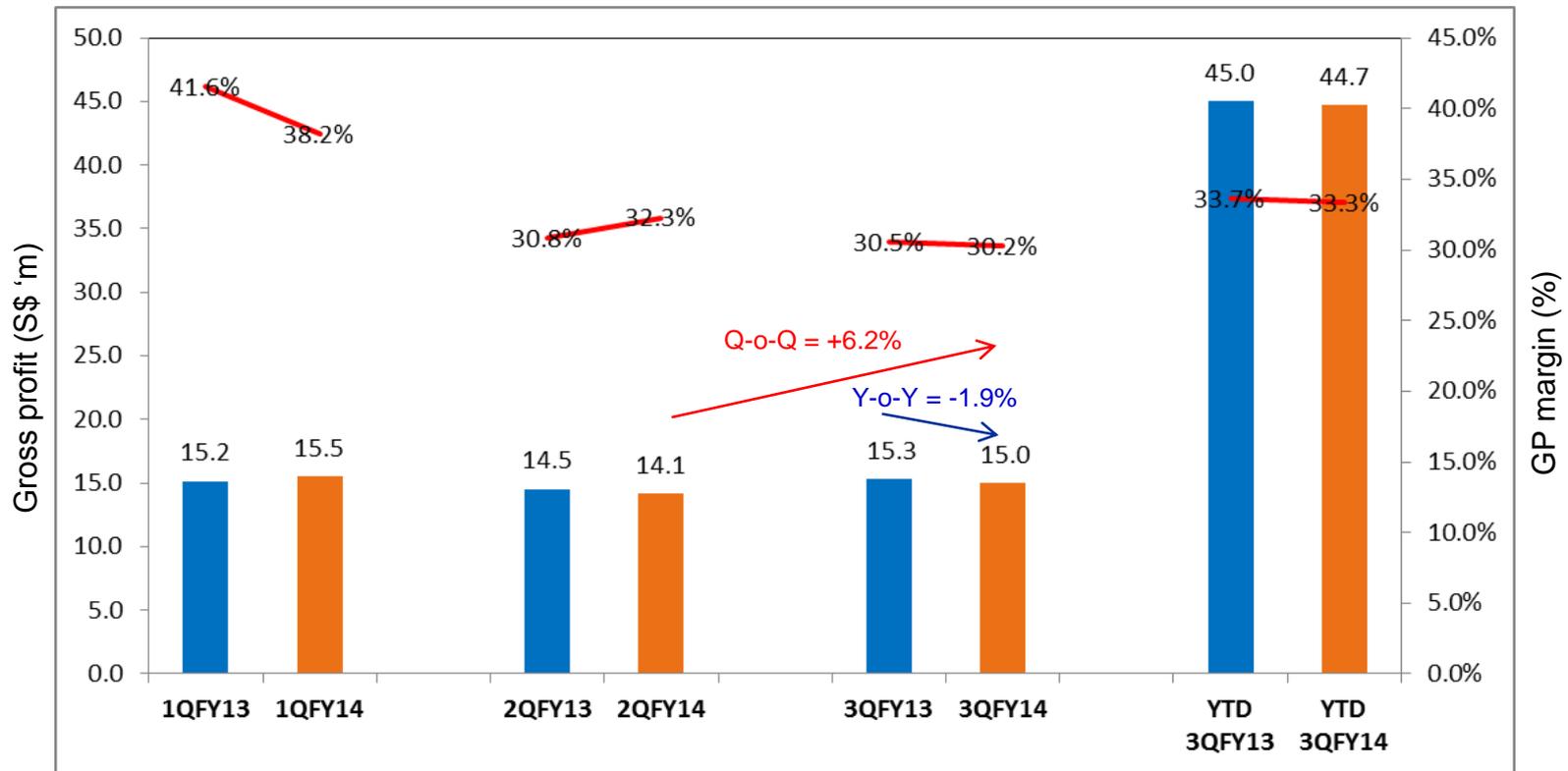
Revenue– Breakdown by nature



- Revenue contribution from service and terminal leasing revenue increased +15.2% Y-o-Y in YTD3QFY14.

- **Three key pillars of revenue sources**
 - Wireless Infrastructure Networks (WIN), Network Infrastructure (NI) and Payment Solutions (PS)
- **Geographical and business expansion**
 - SEA (expanding Vietnam / Myanmar), ME, Africa (expanding into Nigeria / Libya), Pakistan
 - New businesses (NI / PS) into emerging markets
- **Increasing contributions from services**
 - WIN – engineering services (organize, optimize and overhaul)
 - NI – post sales maintenance services
 - PS – Point-of-Sales terminals leasing and maintenance services
- **Acquiring new capabilities**
 - RAN – In-building solutions, 3G offload, small cells and network performance
 - Software defined network (SDN), Data Centers and Cloud Infrastructure
 - Virtualisation of retailers / merchants (SMEs)

Gross Profit, GP Margin



- In 3QFY14, gross profit decreased marginally by 1.9% (S\$0.3m) Y-O-Y from \$15.3m to \$15.0m and the gross profit margin (“GP margin”) remained relatively flat at 30.2%.
- Compared to 2QFY14, gross profit for 3QFY14 increased 6.2% (S\$0.9m) Q-o-Q from \$14.1m to \$15.0m, mainly due to higher revenue.
- The change in GP margin is the net result of various factors, such as different sales mix in product / project and higher services and leasing income.

Other income, Operating Expenses

Other operating income

- Y-o-Y, Other operating income for 3QFY14 increased by \$0.3m Y-o-Y mainly due to grants from the Singapore Government and IDA under the Wage Credit Scheme and a Development Scheme respectively, and exchange gain.
- For YTD 3QFY14, the Other operating income was relatively stable Y-o-Y.

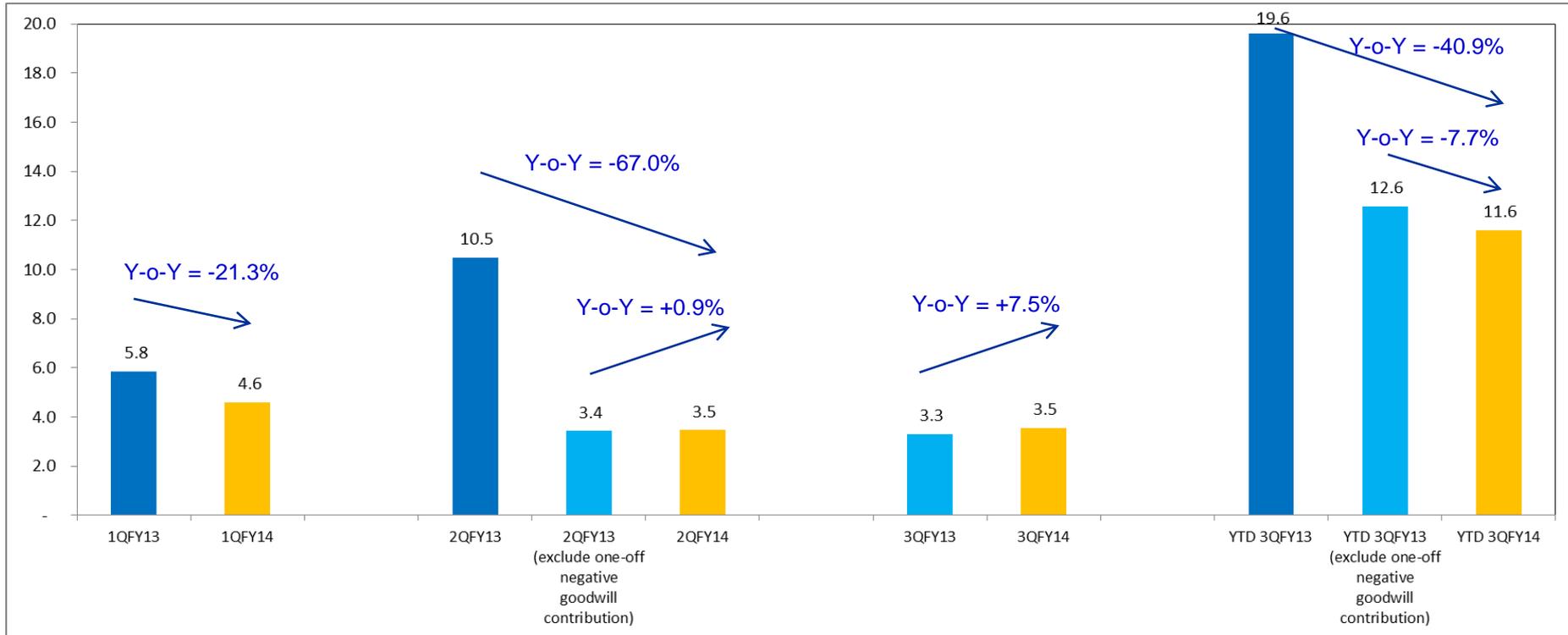
Distribution and Selling expenses

- Y-o-Y, Distribution and Selling expenses for 3QFY14 and YTD 3QFY14 increased 10.6% (\$0.8 million) and 8.5% (\$1.7 million) respectively.
- The Y-o-Y increase in 3QFY14 was mainly due to higher payroll and selling related cost, while the increase in YTD 3QFY14 was also partly due to the consolidation of full 1QFY14 expenses at the new subsidiaries in Malaysia (acquired in April 2013) and Nigeria (incorporated in February 2013).

Administrative expenses

- Y-o-Y, Administrative expenses for 3QFY14 and YTD 3QFY14 increased 13.1% (\$0.3 million) and 2.8% (\$0.2 million) respectively.
- The Y-o-Y increase in 3QFY14 was mainly due to higher payroll and expansion cost, while the increase in YTD 3QFY14 was also partly due to the consolidation of full 1QFY14 administrative expenses at the new subsidiaries in Malaysia (acquired in April 2013) and Nigeria (incorporated in February 2013).

Profit after tax

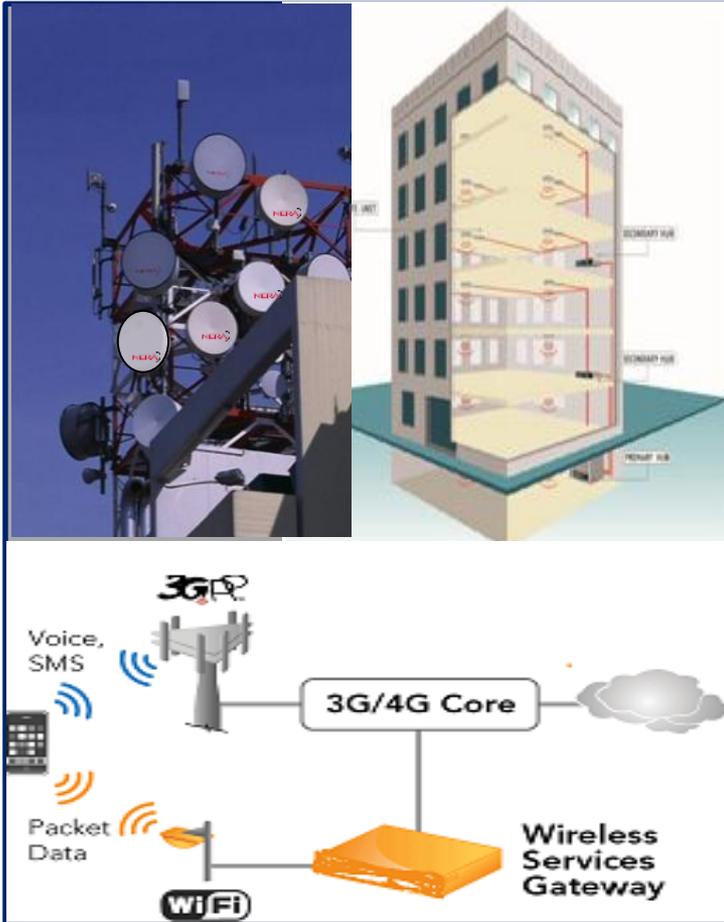


- With the combine effect from the gross profit, other operating income, operating expenses, tax expenses, and one-off negative goodwill contribution arises from Nera (Malaysia) acquisition occurred in 2QFY13, PAT for 3QFY14 and YTD3QFY14 increased 7.5% and decreased 40.9% Y-o-Y respectively.
- Excluding the one-off contribution from the negative goodwill occurred in 2QFY13, the decline in YTD 3QFY14 PAT reduce from 40.9% Y-o-Y to 7.7% Y-o-Y.

- **Strong balance sheet**
 - We had put in place a 5 year, S\$25m facility. As of 30 Sep 2014, only S\$4.7m had been drawn so far.
 - The remaining facility will be used for purchase of leasing equipment and potential M&A / new business initiative.
- **Warranty provision, approximately S\$5.0m**
- **Strong cash position with S\$27.7m as of 30 Sep 2014, after S\$7.2m interim dividend was paid in Aug 2014**
 - Cash generated from operating activities YTD 3QFY14 and YTD 3QFY13 was S\$10.3m and S\$9.5m respectively
 - Comparatively, cash position was S\$29.1m as of 30 Jun 2014 and S\$39.3m as of 31 Dec 2013
 - The lower cash balance compared to end FY13 included payment of S\$14.4m FY13 final dividends and S\$7.2m FY14 interim dividend in May and Aug 2014 respectively, and S\$2.7m and S\$5.2m capex incurred in 3QFY14 and YTD 3QFY14 respectively, mainly for purchase of equipment for leasing.



TELECOMMUNICATIONS SEGMENT



- The Telecommunications business segment comprise of mainly the Wireless Infrastructure Networks ('WIN')
- In the first nine months of 2014, the Group's Telecom business segment secured approximately \$56.5 million in order in-take, an increase of 3.3% compared to \$54.7 million in the same period of 2013 due mainly to a significant increase in radio transmission equipment orders from mobile operators in Middle East and Africa market in Q3 2014.

TELECOMMUNICATIONS

BA : Wireless Infrastructure Networks (“WIN”)



- Competition in the mobile industry remains intense as operators are striving to deliver their services at lower opex and capex and seek new revenues to increase their market share.
- The Group believes that demand for wireless infrastructure networks will continue to be driven by the rapid increase in data and video traffic from the growth in smart devices and broadband users, as well as regulatory compliances on the quality of services.
- The Group will continue to provide a comprehensive end-to-end wireless infrastructure network comprising of radio transmission, mobile coverage solutions, wifi 3G data offload and network performances management systems to meet our customers' needs. The Group has good traction in the radio access space namely wifi and in-building coverage space and continues to secure new orders.

INFOCOMM BUSINESS SEGMENT



- The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.
- The Group's Infocomm business segment managed to secure approximately \$113.9 million of order in-take in the first nine months of 2014 compared to \$102.7 million in the same period of 2013, an increase of about 10.9% due to higher order in-take from the Network Infrastructure business area.

INFOCOMM

BA : Network Infrastructure



- The Network Infrastructure market continues to have very fragmented competition with both local resellers, distributors and system integrators, as well as some global equipment vendors competing for market share.
- In the first nine months of 2014, the Group's Network Infrastructure business area secured approximately \$79.7 million of order in-take, an increase of 16.7% compared to \$68.3 million in the same period of 2013 due to a significant increase in order in-take for network infrastructure equipment from a Service Provider in Asia and customers from the Government sector in Q3 2014.
- The Group believes that growth in our customers' network infrastructure will be driven by the increase in smart devices, internet data and video traffic, web services, mobility, security concerns and regulatory compliances. Customers from the Enterprises, Government, Transport and Utilities sectors will continue to build network infrastructure to increase productivity, improve their competitiveness, strengthen their security and use IT to provide public services at lower costs.
- The Group will focus on providing IP, Optical and Broadcast network infrastructure products and solutions to meet our various customers' business objectives and intends to also gradually build up a range of cloud infrastructure products and position the Group as a Cloud Infrastructure Provider to enable our customers to roll out cloud services.

INFOCOMM BA : Payment Solutions



- The market remains very competitive, with many local payment infrastructure and services vendors offering various brands of payment products and solutions to banks, financial institutions and retailers.
- In the first nine months of 2014, the Group's Payment Solutions business area managed to secure approximately \$34.3 million in order in-take, similar to the first nine months of 2013 of \$34.4m.
- The Group believes that the growth in the payment solutions business will be driven by the increase in plastic cards, various types of transactions, credit and debit cards spending and government initiatives to go cashless, banks outsourcing their point-of-sale infrastructure as well as regulatory and industry compliances.
- The Group will continue to provide comprehensive and secured end-to-end electronic payment and network infrastructure solutions, and various point-of-sale terminals and services to meet our customers' requirements

Order in-take summary

