Nera Telecommunications Ltd

Nera Telecommunications Ltd

Analyst Briefing

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Nera Telecommunications Ltd

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- Outlook

Performances

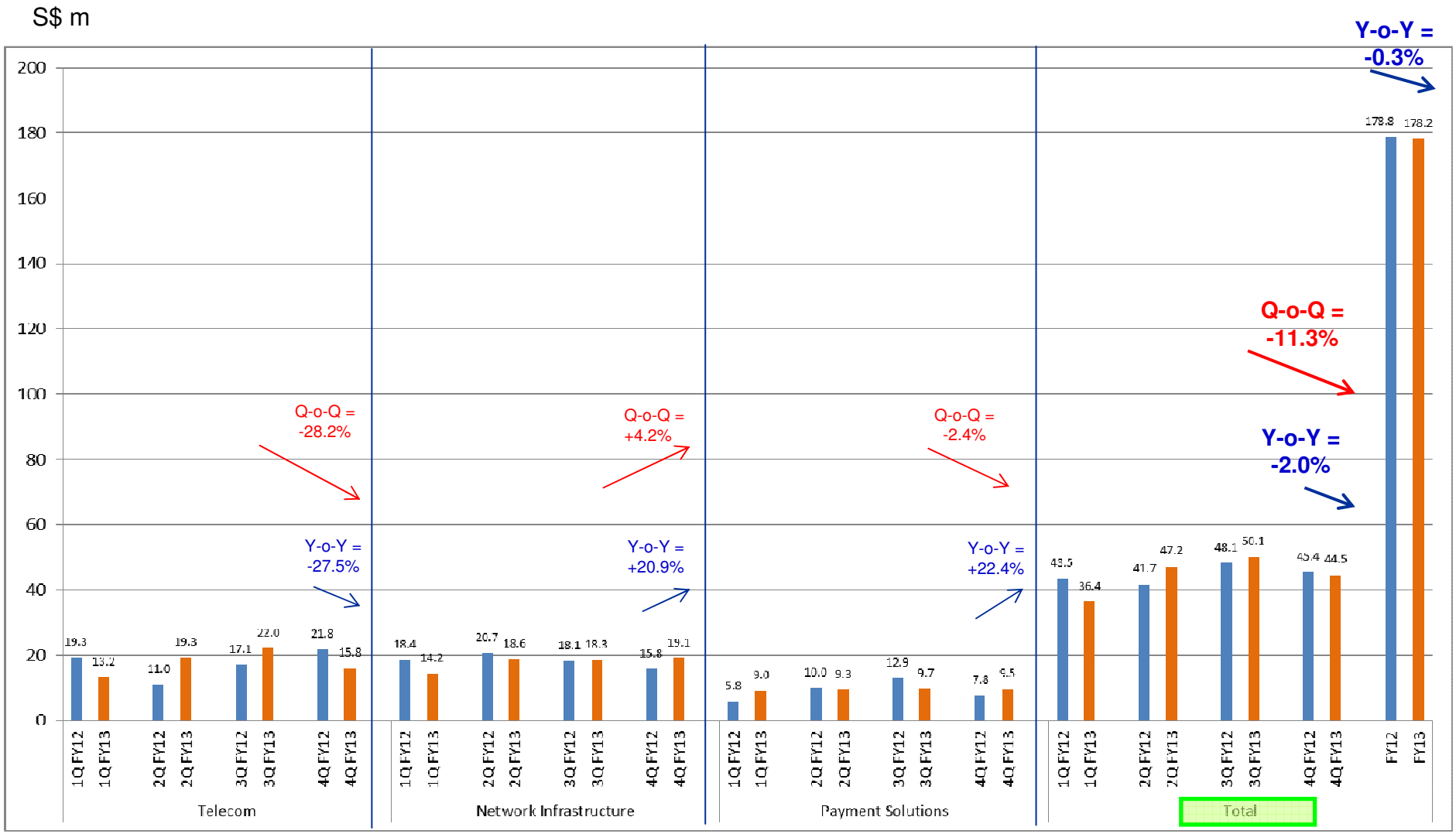
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Q4 FY13 vs Q4 FY12 and FY13 vs FY12

	4th Quarter			FY		
S$'000	**2013**	**2012**	**+/- %**	**2013**	**2012**	**+/- %**
Turnover	**44,455**	**45,374**	**-2.0%**	**178,217**	**178,839**	**-0.3%**
Gross profit	15,611	14,050	11.1%	60,631	55,907	8.4%
Gross profit %	*35.1%*	*31.0%*	*4.1%*	*34.0%*	*31.3%*	*2.7%*
Other operating income	132	952	-86.1%	1,122	3,739	-70.0%
Profit before negative goodwill and associate	4,173	4,609	-9.5%	20,290	22,791	-11.0%
Profit after negative goodwill, before associate	4,173	4,609	-9.5%	27,341	22,791	20.0%
Profit before taxation	**4,173**	**4,764**	**-12.4%**	**27,500**	**23,642**	**16.3%**
Profit after taxation	**3,849**	**3,871**	**-0.6%**	**23,468**	**19,397**	**21.0%**

Turnover

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Turnover – Overall group

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4Q FY13

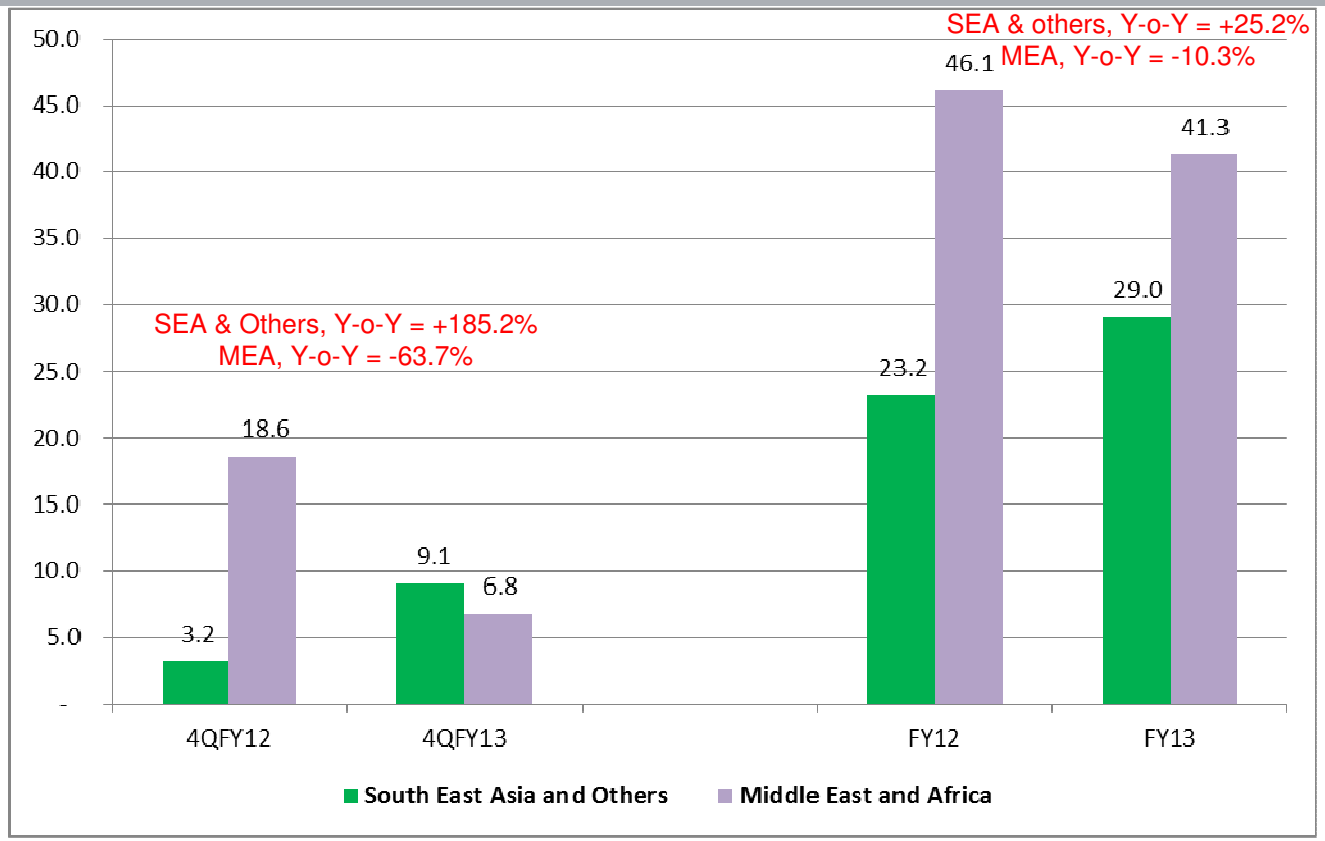
- Turnover in 4Q FY13 decreased 2.0% ($0.9 million) y-o-y from $45.4 million to $44.5 million
  - Telecom = decreased 27.5% ($6.0 million) y-o-y from $21.8 million to $15.8 million
  - Network Infrastructure = increased by 20.9% ($3.3 million) y-o-y from $15.8 million to $19.1 million
  - Payment solution = increased 22.4% ($1.8 million) y-o-y from $7.8 million to $9.5 million

FY14

- Turnover decreased slightly by 0.3% ($0.6 million) y-o-y from $178.8 million to $178.2 million
  - Telecom = increased by 1.6% ($1.1 million) y-o-y from $69.3 million to $70.4 million
  - Network Infrastructure = decreased 3.8% ($2.8 million) y-o-y from $73.1 million to $70.3 million
  - Payment solution = increased 3.0% ($1.1 million) y-o-y from $36.4 million to $37.5 million

Turnover - Telecom

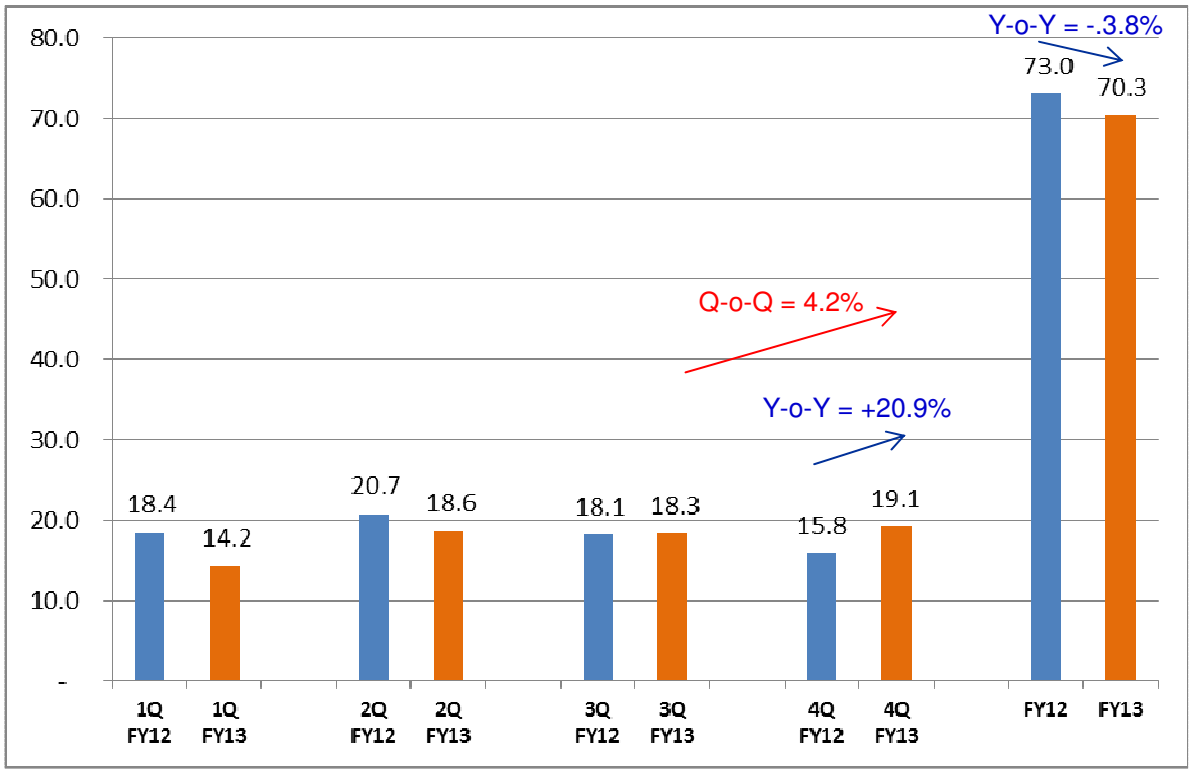
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- Revenue growth from SEA and Others market has partially off-set by the decline in Middle East and Africa ("MEA") market in 4QFY14.
- While Telecom business area's revenue from MEA region declined 63.7% Y-o-Y in 4QFY13, its revenue from SEA and Others region had recorded a strong 185.2% Y-o-Y growth in the same quarter. The benefit of geographical diversification has resulted in an overall 1.6% revenue growth in the Telecom Business Area..

Turnover – Network Infrastructure

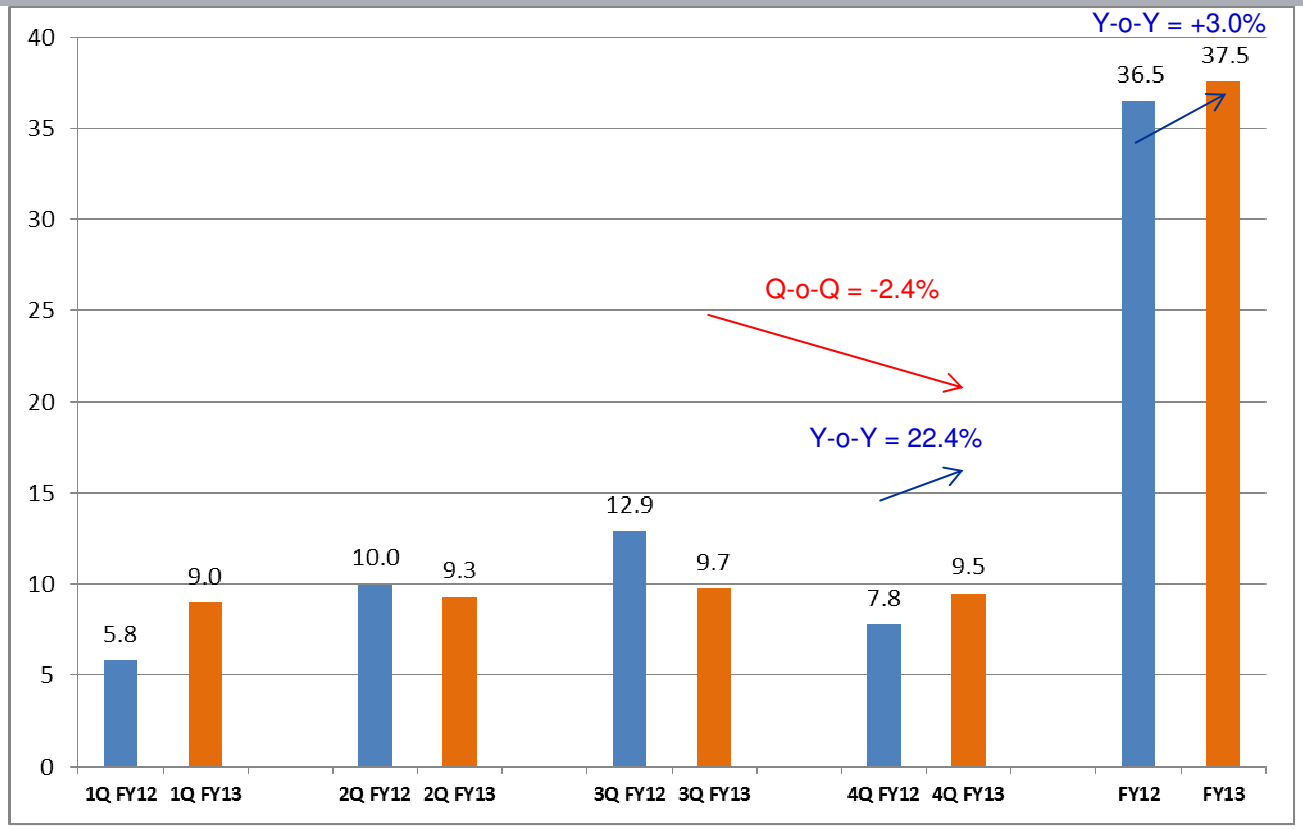
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- 4QFY13 revenue contribution from Network Infrastructure had seen a strong increase of 20.9% y-o-y, after a decline in 1Q and 2Q, and a moderate Y-o-Y increase in 3QFY13.
- Due to the decline in 1HFY13, FY13 revenue contribution for Network Infrastructure declined by 3.8% y-o-y.

Turnover – Payment Solution

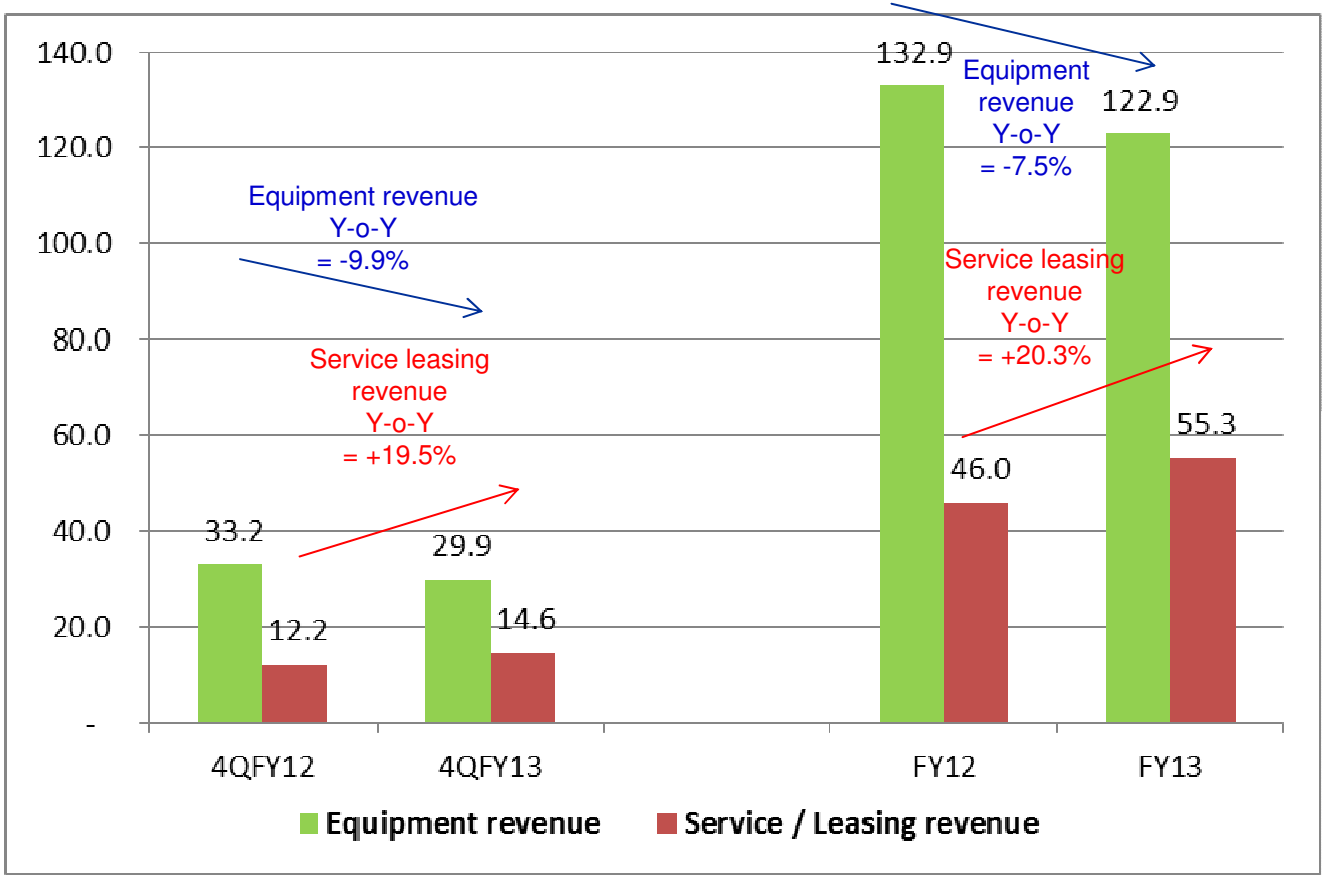
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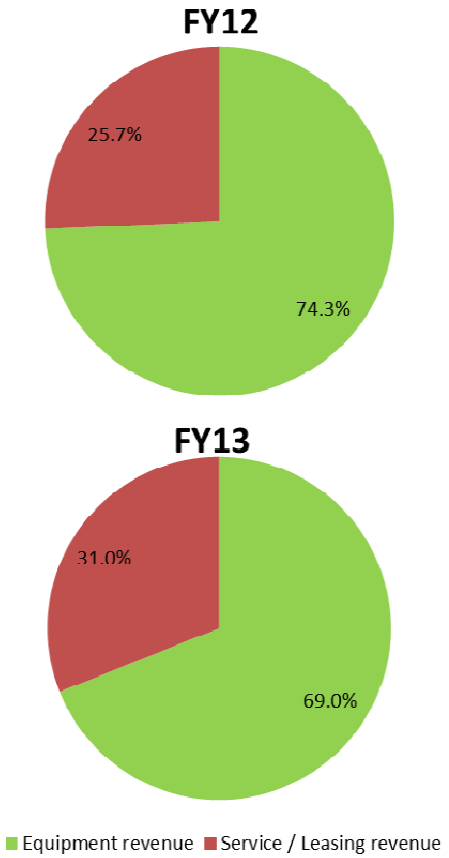


- Revenue for Payment Solutions business area increased 22.4% ($1.7 million) y-o-y from $7.8 million to $9.5 million in 4QFY13.
- Despite the absence of a lumpy sales recognition from delivery of point-of-sale terminals to a customer in Indonesia occurred in 3QFY12, the increase contribution from terminal leasing revenue had compensated that and the Payment Solution revenue for FY13 increased by 3.0% Y-o-Y.

Turnover – Breakdown by nature

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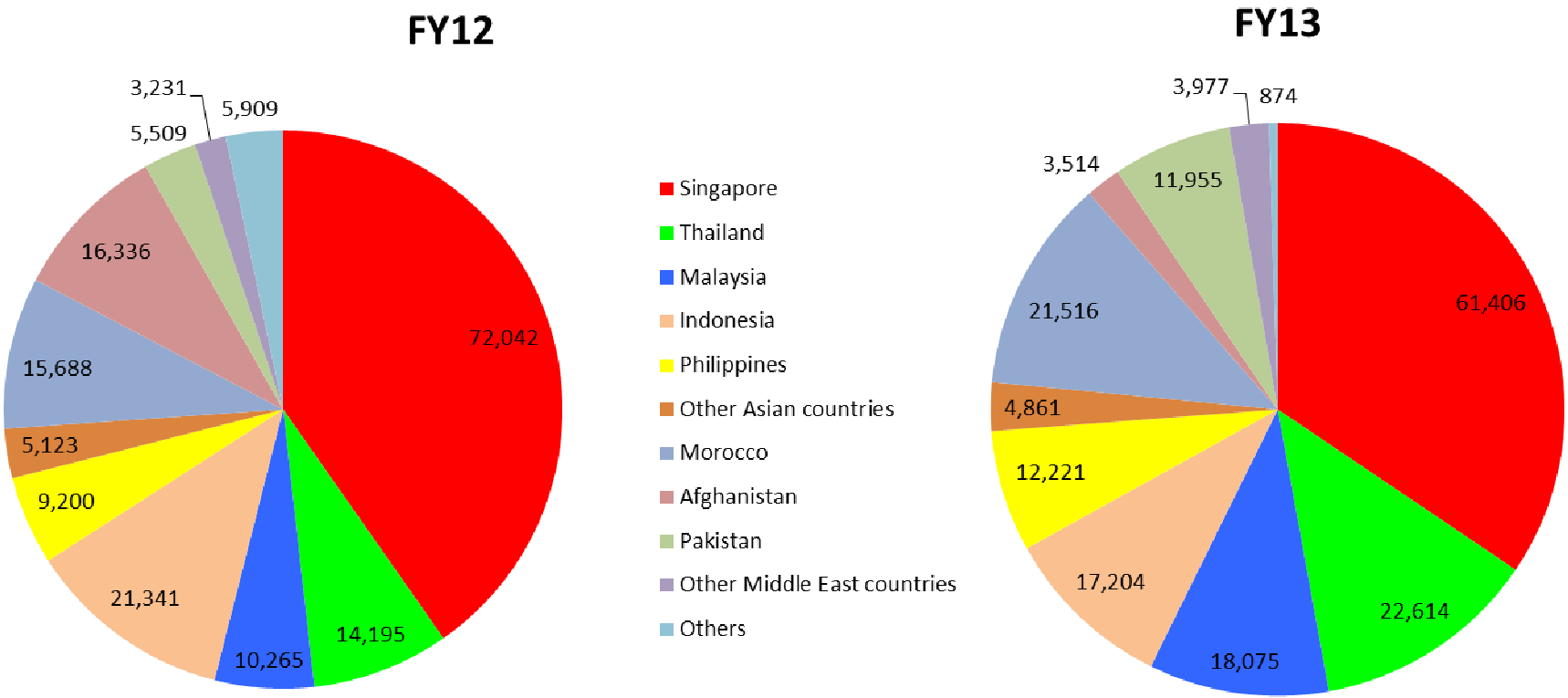


- Revenue contribution from service and terminal leasing revenue has increase +19.5% and +20.3% y-o-y in 4QFY13 and FY13 respectively.

Turnover – Breakdown by countries

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- The revenue contribution outside Singapore has been encouraging



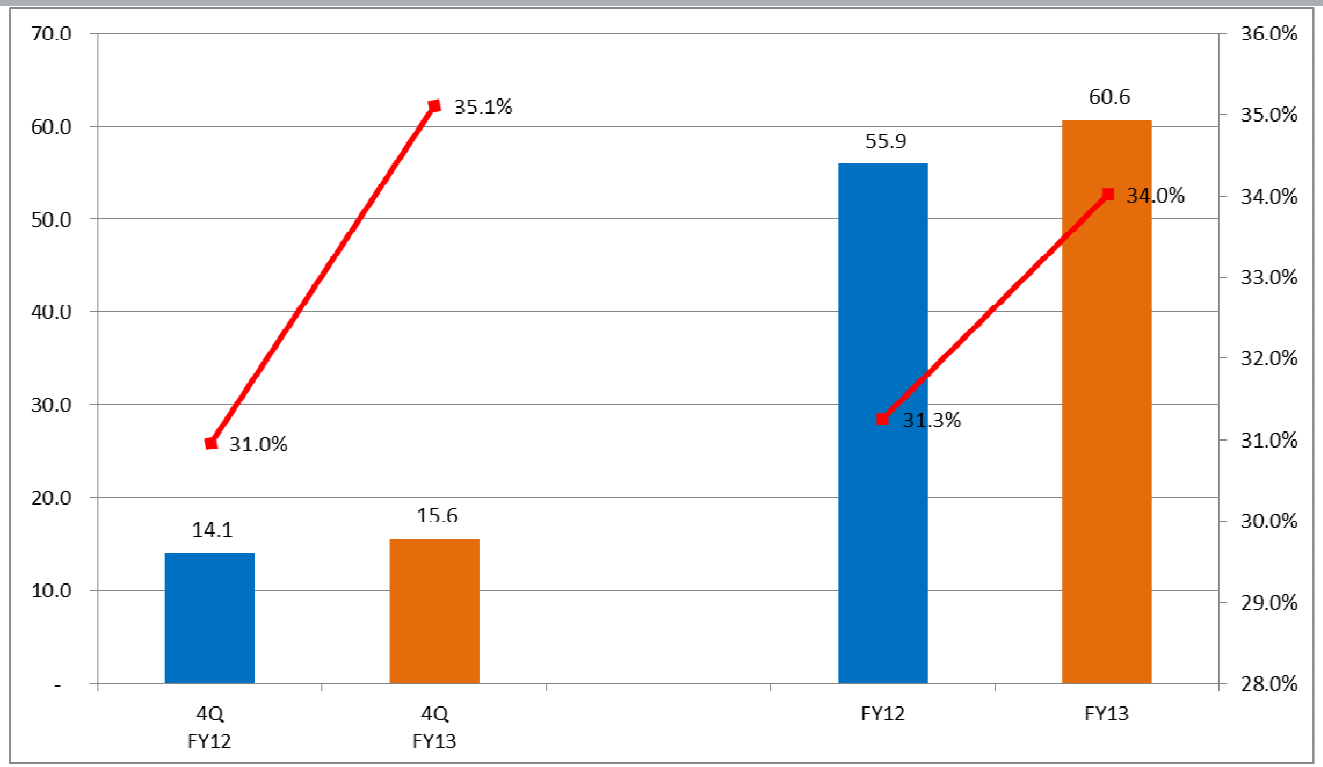
Building a resilient revenue model

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- **Several pillars of revenue sources**
  - Telecommunication – Wireless Infrastructure Network, Satellite Communications
  - Network Infrastructure
  - Payment solution
- **Geographical expansion / diversification into new emerging markets**
  - South East Asia, Middle East, Africa, Nigeria, Libya, Indo-China (Myanmar, Vietnams)
- **Increase contribution from service and leasing revenue**
  - Maintenance services
  - POS terminal / IT solution rental revenues
- **Increase the number of segments within the existing business units with new capabilities**
  - In-building solution
  - Software defined network

Gross Profit, GP Margin

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- Gross profit for 4QFY13 increased 11.1% y-o-y from $14.1 million to $15.6 million where gross profit margin improved from 31.0% to 35.1%.
- Compared to FY12, gross profit for FY13 increased 8.4% from $55.9 million to $60.6 million. Gross profit margin improved from 31.3% to 34.0%.
- The improvement in gross profit and GP% can be attributed to sales mix in product, project and higher services and leasing income. In addition, certain projects realised higher profit margin upon their completion.

Other income, Operating Expenses

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Other operating income

●Y-o-Y, other operating income for 4QFY13 and FY13 decreased by 86.1% ($0.8 million) and 70.0% ($2.6 million) respectively. This was mainly due to lower accounts receivable collection fee in relation to an OEM agreement signed on 19 January 2011.

Distribution and Selling expenses

●Y-o-Y, distribution and selling expenses for 4QFY13 and FY13 decreased by 0.1% ($0.01 million) and increased by 10.1% ($2.6 million) respectively.

●The increase was mainly due to higher payroll related costs including new hiring, operational cost for the new subsidiary set up in Nigeria in Feb 2013, consolidation of expenses from Nera (Malaysia) Sdn Bhd where it became a subsidiary on 26 Apr 2013 and net provision of $0.15 million made for doubtful debts in FY13. In FY12, there was a net $0.2 million written back on provision made earlier.

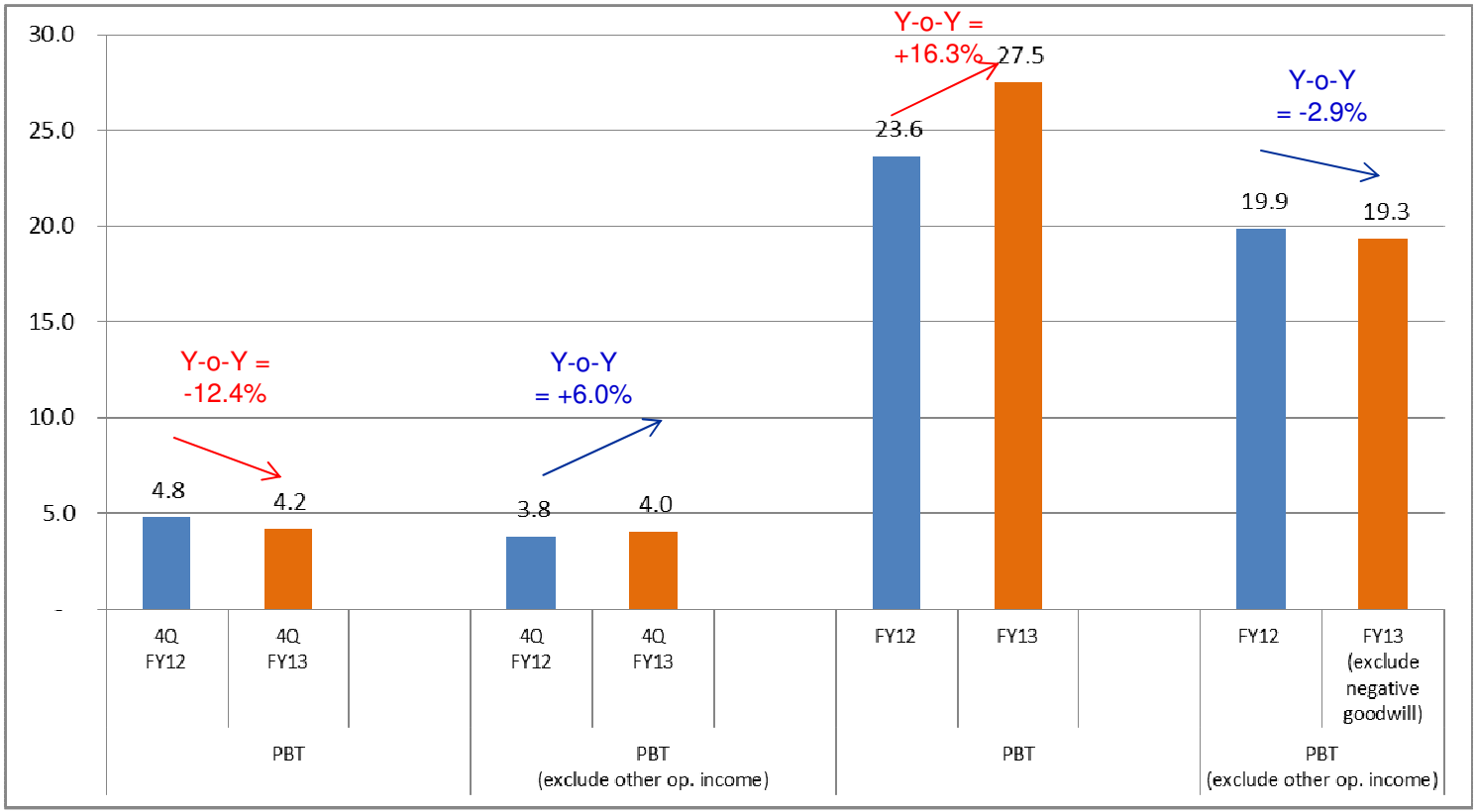
Administrative expenses

●Y-o-Y, administrative expenses for 4QFY13 and FY13 increased 6.3% ($0.2 million) and 10.6% ($1.1 million) respectively.

●The increase was mainly due to higher payroll related costs including new hiring, consolidation of operational cost from Nera (Malaysia) Sdn Bhd. For FY14, it also included some one-off expenses.

Profit before tax & scenario analysis

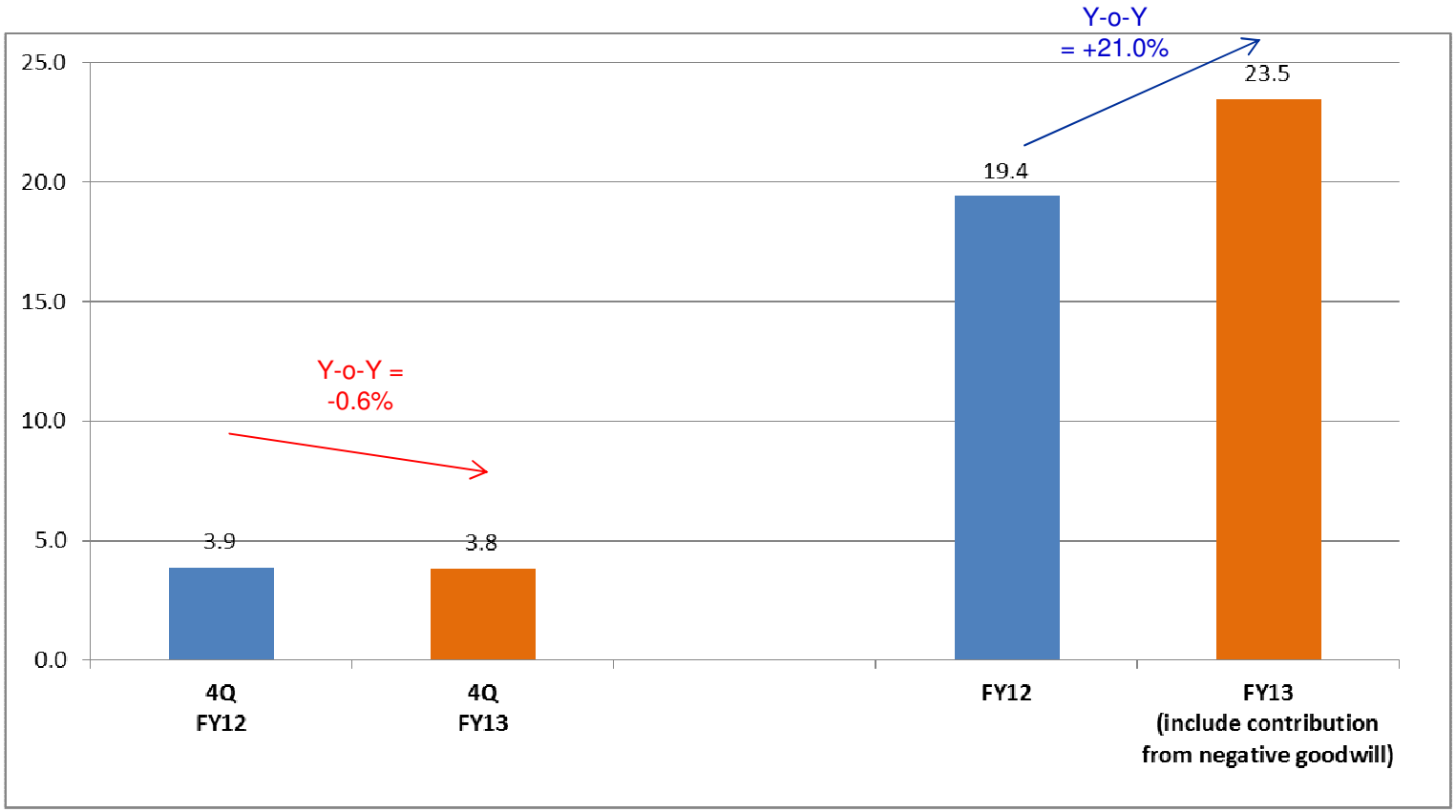
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- With the combine effect of higher gross profit, lower other operating income, higher operating expenses and contribution from negative goodwill, PBT for 4QFY13 and FY13 decreased by 12.4% y-o-y and increased by 16.3% y-o-y respectively.
- Excluding other operating income and contribution from negative goodwill, the core PBT for 4QFY13 and FY13 increased by 6.0% y-o-y and decreased by 2.9% y-o-y respectively.

Profit after tax

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- With lower effective tax, PAT for 4QFY13 and FY13 decreased by 0.6% y-o-y and increased by 21.0% y-o-y respectively.

Financial Positions

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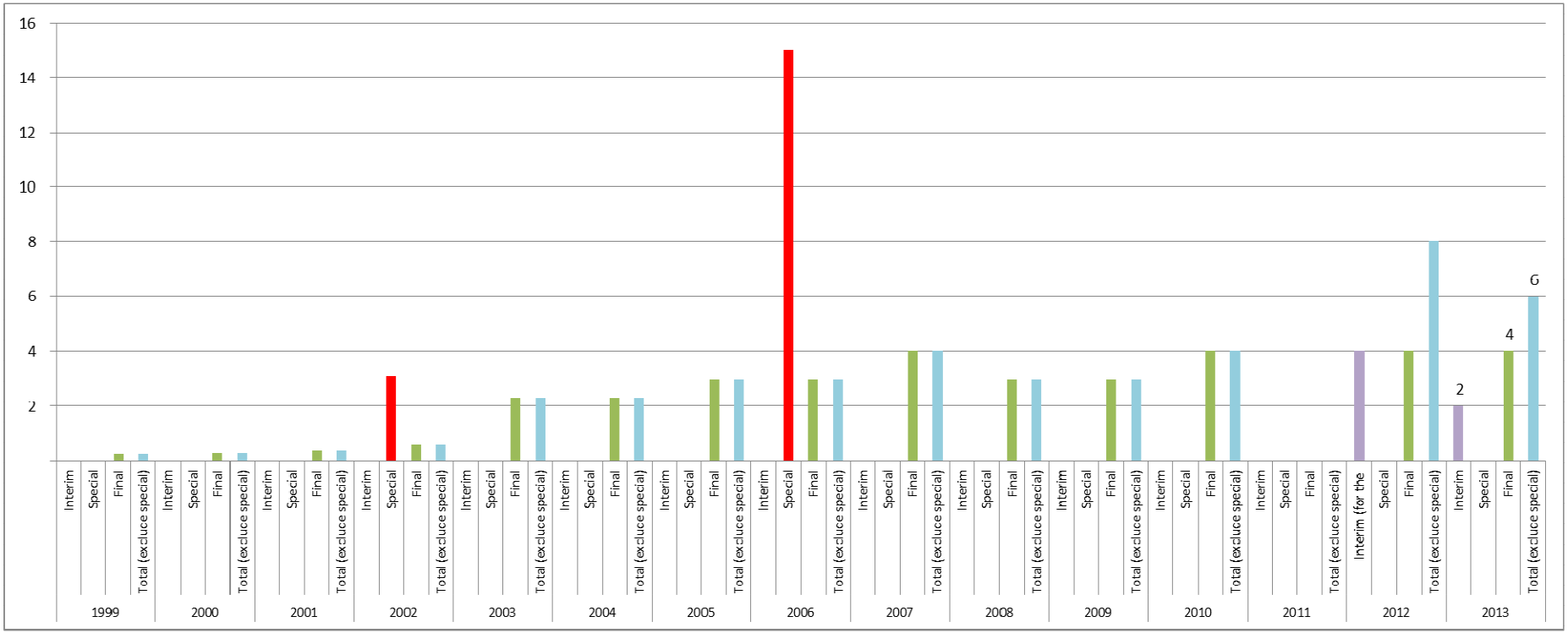
- **Strong balance sheet with zero debt**
- **Warranty provision, abt. S$5.5m**
- **Strong cash position, abt. S$39.3m**

  + strong cash generated from operating activities = S$24.1m
  - payment of a total of S$21.7m dividends in May and Aug 2013, and about S$11.8m on capex, mainly for POS terminals leasing

Dividend recommendation

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- To show appreciation for the shareholders' support, the Board would like to recommend a 4 cents final dividend for FY13.
  Combine with the 2 cents interim dividend paid in Aug 2013, the total dividend for FY13 would be 6 cents.

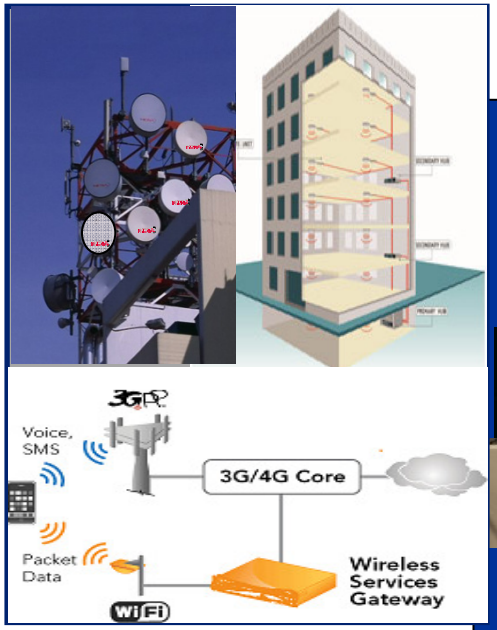


* The special dividend paid in FY02 and FY06 was due to the divestment of Nera Telecommunications' stake in Nera Electronics Ltd.
* The interim dividend paid in 2012 was in lieu of the no final dividend was recommended in 2011

Outlook

TELECOMMUNICATIONS SEGMENT

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Wireless Infrastructure Networks (WIN)



Satellite Gateways



Marine Land & Terminals and Handheld



Services

Satellite Communications

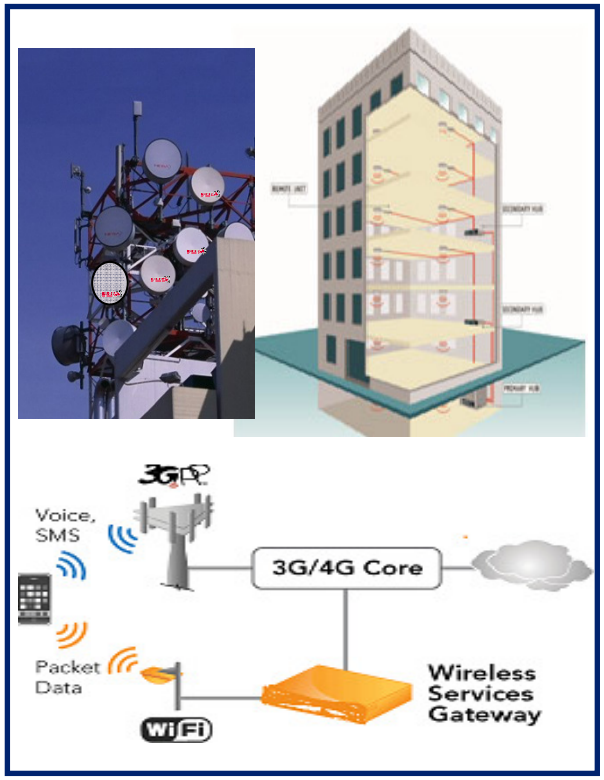
The Telecommunications business segment comprises two business areas : Wireless Infrastructure Networks ('WIN') and Satellite Communications ("Satcom").

In FY 2013, the Group's Telecom business segment secured approximately $67.6 million in order in-take, a decline of 7.6% compared to $73.2 million in FY 2012, as a result of lower orders from both WIN and Satcom business areas.

Competition in the Telecom industry remains intense with major global telecom equipment vendors aggressively competing to gain market share and customers are driving down operational and capital expenditures.

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TELECOMMUNICATIONS
BA : Wireless Infrastructure Networks ("WIN")



Wireless Infrastructure Networks

- The growth in mobile data and smart devices as well as regulatory compliances has driven mobile operators to improve their wireless infrastructure, coverage, capacity and capabilities. This will benefit the Group as the Group has the ability to provide a comprehensive end-to-end wireless infrastructure network, comprising point-to-point and point-to-multipoint radios, solutions for indoor and outdoor coverage, data offload and wifi and network performance solutions.

- The Group will continue to focus on offering its suite of WIN products and solutions to the Defence, Broadcasting and Utilities customers.

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TELECOMMUNICATIONS
BA : Satellite Communications




Satellite Gateways





Marine Land & Terminals
and Handheld



Services

Satellite Communications

- The Group will continue to offer a range of land, marine and handheld satellite terminals to Satellite Operators, ISP, Broadcasters, Government, Oil / Gas / Maritime and Enterprises market sectors. To streamline the wireless business, the Satcom business has been merged into WIN business area.

INFOCOMM BUSINESS SEGMENT

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The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.

In FY 2013, the Group's Infocomm business segment managed to secure approximately $125.7 million of order in-take compared to $101.2 million in FY 2012, an increase of about 24.2% due to better order in-take from both the Network Infrastructure and Payment Solutions businesses.

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INFOCOMM

BA : Network Infrastructure



Network Infrastructure

- Competition in the network equipment market remains intense among various global equipment brands and local system integrators. The Group will continue to offer IP, Optical and Broadcast network infrastructure products and solutions to meet various customers' objectives.
- In the Service Provider market, the growth in data, internet traffic, web services as well as regulatory compliances will continue to drive Service Providers to build and expand their networks. In the Enterprise market, the demand for network products and solutions are driven by the need for organisations to improve competitiveness and enhance their network security. In the Government, Transport and Utilities market sector, demand for IT infrastructure networks are driven by governments' drive to lower costs and improve public services.
- In FY 2013, the Group's Network Infrastructure business area managed to secure approximately $84.4 million in order in-take, an increase of 28.1% compared to $65.9 million in 2012 due to higher order in-take from customers outside Singapore.

INFOCOMM

BA : Payment Solutions

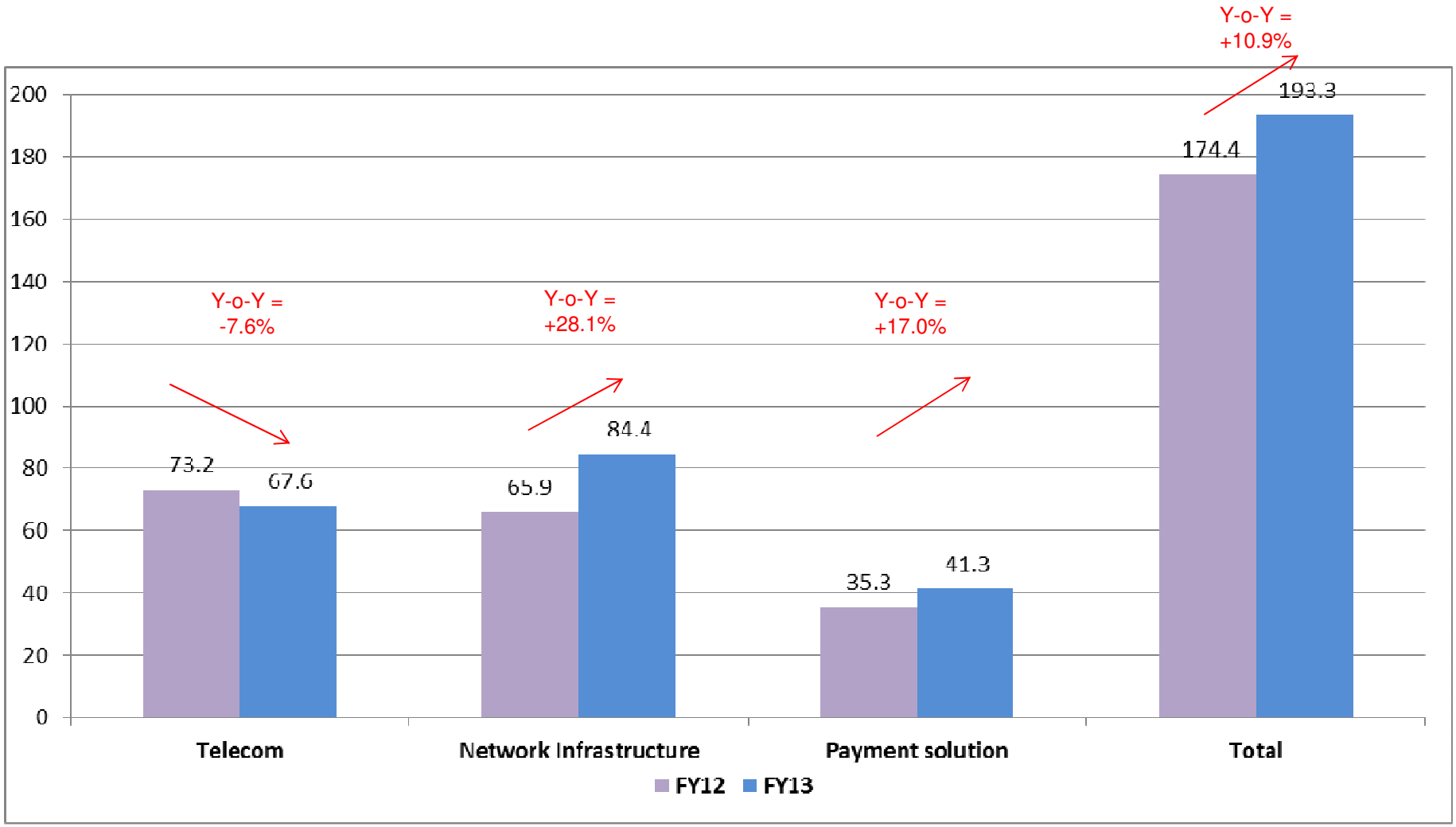


Payment Solutions

- Competition in the payment solutions business remains high, fragmented with many local resellers partnering various point-of-sales terminal manufacturers to offer their products, solutions and services.
- The Group will continue to focus on providing a secured end-to-end electronic payment network infrastructure, which comprises of point-of-sale terminals, solutions and services to the banks and financial institutions.
- The rise in debit and credit cards spending, government cashless initiatives and banks outsourcing their point-of-sale infrastructure is driving the growth in the point-of-sale terminals deployment.
- In FY 2013 the Group's Payment Solutions business area secured approximately $41.3 million in order in-take, an increase of 17.0% compared to $35.3 million in FY 2012 due to strong point-of-sale terminal orders from banks in Philippines and Thailand.

Order in-take summary

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