



TIME dotCom		Market Price:	RM0.645
		Market Cap:	RM1632.4mil
		Board:	Main
Stock Code/Name:	5031 / TIMECOM	Sector:	IPC
Successful Turnaround			

Analyst: Edmund Tham



Source: TIME dotCom (TdC)

BACKGROUND

TIME dotCom Bhd (TdC), an alternative fixed-line telecommunications solutions provider, is a public listed company, listed on the Main Market of Bursa Malaysia. A domestic pioneer in fibre optics technology, TIME dotCom hosts Malaysia's most robust fibre optics network with its 6,000km land and submarine cables, providing nationwide coverage connections to businesses, residential and remote areas. Khazanah Nasional Bhd controls UEM Group, which controls Time Engineering Bhd, which in turn controls TdC.

“Local pioneer in fibre optics”

Licensed under the Malaysian Communications and Multimedia Act 1998, TIME dotCom's full suite of telecommunication licenses has enabled the group to operate and offer its services, ranging from voice and data communications to broadband Internet, satellite connectivity, managed services, as well as other IT and communication solutions. The group progressively developed its core and backbone network into an Internet Protocol (IP)-based network as part of its business refocus endeavour.

1Q/FY10 RESULTS

TIME dotCom Bhd (TdC) continued its profit run for the fourth consecutive quarter by recording a net profit after tax (NPAT) of RM18.8 million for 1Q/FY10 ending 31st March 2010. The performance keeps TdC on its course for sustainable long term profits since it embarked on its turnaround initiative in late 2008.

“Profit run continues”

The group's NPAT came on the back of a 4% or RM2.5 million increase in revenue (to RM65.0 million), which compared on a like-to-like basis (excluding revenue from payphone business disposed in 2009), can be mainly attributed to higher growth in its data businesses. With the wholesale segment being the main driver, TdC's data revenue chalked a 14% year-on-year improvement. This was despite of a drop in its voice revenue segment.

“Data revenue improves”

The group also saw its profit from operations improve to RM3.0 million against a loss in operations of RM2.8 million in the preceding year's corresponding quarter. The group also recognized a RM14.9 million dividend income from its investment in DiGi shares during the quarter. Meanwhile, a company-wide push to cut costs in all aspects of its operations as well as management's degearing efforts also aided in sustaining TdC's profit trend.



CORP. UPDATES/OUTLOOK

The Malaysian economy is in a recovery stage and the improved economic outlook is expected to have a positive impact on consumer and business spending within the telecommunications industry.

“Broadband penetration drive”

In the mean time, the Malaysian Communications & Multimedia Commission (MCMC) is embarking on a nationwide drive to increase penetration of broadband connectivity to at least half of all Malaysian households by the end of 2010. This presents TdC with vast opportunities in the corporate and consumer market segments, particularly given the group’s fiber-optic capabilities.

Nevertheless, the domestic telecommunications industry is also expected to become more competitive and challenging in 2010. To meet these challenges, TdC is focusing on expanding coverage in key market segments, strengthening and simplifying its network, offering more complete end-to-end communication solutions, managing its costs to improve operating margins, whilst at the same time aiming to increase its share in each of the group’s market segments.

According to group CEO Afzal Abdul Rahim, TdC had started the year with network improvements and expansions. These enhancements made on its Cross Peninsular Cable System network have already resulted in a double-digit y-o-y growth in its data business. TdC has also upped the user experience in the broadband market by being the first-to-market fibre to home connectivity with its signature product, TIME Fibre Broadband.

“To expand network coverage further”

TdC plans to focus on further expansion plans in network coverage and targeting key market segments by rolling out innovative products and services. For its largest market segments: “Wholesale”, as well as “Corporate” and “Government”, TdC plans to continue enhancements on its Cross Peninsular Cable System (CPCS) network by deploying a more efficient technology such as dense wavelength

division multiplexing (DWDM) to ensure higher transmission capacity. Meanwhile on the retail front, TdC is on track to rollout TIME Fibre Broadband in high-density metro areas such as KLCC in the upcoming months.

TdC had initiated its turnaround in late 2008 following a partnership between its main shareholder, Khazanah Nasional Bhd and Global Transit International (GTI). GTI was chosen following a rigorous selection process by Khazanah and Afzal’s appointment as CEO. The new management team has been credited for its efforts to bring TdC back to black for the first time in six years.

TdC has already rolled out the country's first 50 megabits per second fibre-to-the-home connectivity at Mont Kiara in February 2010 and it is gaining momentum with an average revenue per user (ARPU) of RM150 per month. The next area will be in Kuala Lumpur city centre later in the year. TdC will spend approximately RM110million on capital expenditure this year, with the bulk of investment for the expansion of its network coverage.

“Time Engineering disposing TdC shares”

Time Engineering has been selling down its stake in TdC in recent months. The shares were part of the TdC shares held by Time Engineering that had been pledged to Bank Pembangunan Malaysia Bhd (BPMB) as security for the 712.5 million redeemable secured loan stocks (RSLs) at a nominal value of 48 sen each issued to BPMB on June 11th, 2009.

Time Engineering had last year secured a mandate from its own shareholders at an EGM (in August 2009) to sell up to 726.2 million Time dotCOM shares at no less than 48 sen each. The shares represent the 28.7% stake in TdC, held by Time Engineering at that point of time. The mandate took effect from the date of the approval until the expiry of its RSLs. The proceeds will be paid to BPMB for the redemption of the RSLs. Pursuant to the disposals, the company’s shareholding in TdC has been reduced to 24.95%.

**“UEM: no disposal of Time Engineering yet”**

UEM Group has been said to be mulling over divesting its 45.0% equity interest in Time Engineering which is seen as a non-core asset. It had been reported in the media that UEM Group may have received four bids for its Time Engineering stake, ranging from 20 sen to 40 sen per share.

However, Datuk Izzaddin Idris, MD of UEM Group also wants to recoup its initial investment in Time Engineering, thus the need to build up the company to attract potential buyers.

FINANCIALS

During the year, TIME dotCom (TdC) did not propose or declare any dividends. That is not too surprising to us, given that previously TdC was not even profitable before its FY09. In its FY10, so far TdC has managed to stay in the black and perhaps a dividend payout would be possible in the not too distant future. By selling down the amount of Digi shares that it has, TdC now has de-geared fully and does not have any more borrowings on its balance sheet.

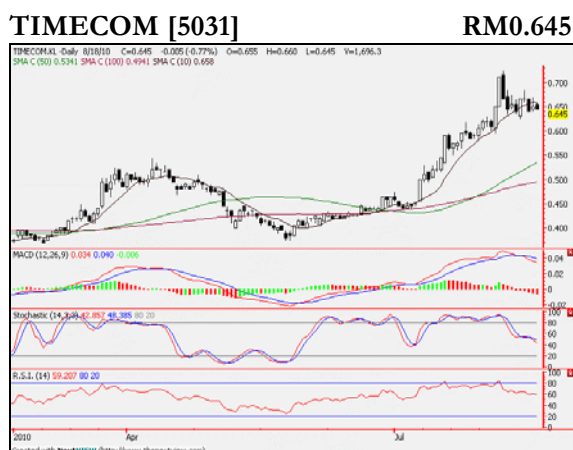
“No dividend payouts yet”

With share capital worth 2530.8 million consisting of 2530.8 million shares of RM1.00 each, its market capitalization amounts to a size of RM1632.4 million. It has an adjusted beta (correlation factor) to the KLCI of 1.60 and the stock is now up by a substantial 67.5% YTD, strongly outperforming the KLCI (KLCI: 8.6% YTD). Its 52-week trading range is between RM0.365–0.725.

Based on its current market price of RM0.645, annualized 1Q/FY10 basic EPS of 3 sen and latest available BV/share of RM0.44, we derive a P/E of 21.5 times and P/BV of 1.5 times. Glancing at its domestic sector peers' P/E and P/BV, TdC looks pricey in terms of its P/E but its P/BV is reasonable.

“Price ‘supported’ by Time Engineering”

As Time Engineering has to sell its TdC shares at a price no lower than RM0.48, this apparently creates a strong “support level” for TdC shares. In terms of future price upside for TdC shares, this pretty much depends on how much more profitable TdC can be following its successful operational turnaround. UEM’s possible future disposal of its 45% stake in Time Engineering could also inadvertently add to buying interest and hence upside of TdC shares as well.

APPENDIX

Source: NextView

Substantial Shareholders of TdC

Shareholder	Stake (%)
Pulau Kapas Ventures S/B [^]	30.0
TIME Engineering Bhd	24.95
KWAP	9.0

Source: TdC/Bloomberg

[^]*Khazanah Nasional Berhad is deemed interested through Pulau Kapas Ventures S/B and UEM Group Bhd. UEM Group Bhd is deemed interested through TIME Engineering Bhd.*

[^]*Global Transit International S/B, Megavisra S/B, Megavisra Investments Ltd, Afzal Abdul Rahim and Gan Te Shen are deemed interested through Pulau Kapas Ventures S/B.*