Nera Telecommunications Ltd

NERA TELECOMMUNICATIONS LTD

ANALYST BRIEFING

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President & CEO

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6th Aug 2014

Content

- Result analysis :
  - 2Q FY14 vs 1Q FY14
  - 2Q FY14 vs 2Q FY13
  - 1H FY14 vs 1H FY13
- Outlook

Financial performance summary

Nera Telecommunications Ltd

S$'000	2QFY14	2QFY13	+ / (-) %	1HFY14	1HFY13	+ / (-) %
Turnover	**43,790**	**47,180**	**(7.2%)**	**84,446**	**83,634**	**1.0%**
Gross profit	**14,140**	**14,542**	**(2.8%)**	**29,677**	**29,707**	**(0.1%)**
Gross profit %	*32.3%*	*30.8%*	*1.5%*	*35.1%*	*35.5%*	*(0.4%)*
Other operating income	289	(117)	n.m.	659	941	(30.0%)
Distribution and Selling expenses	(6,937)	(6,575)	5.5%	(13,922)	(12,968)	7.4%
Admin expenses	(2,825)	(3,175)	(11.0%)	(5,679)	(5,790)	(1.9%)
Other expenses	(3)	(247)	(98.8%)	(75)	(264)	(71.6%)
One-off contribution from negative goodwill*	-	7,051	(100.0%)	-	7,051	(100.0%)
PBT without contribution from negative goodwill	**4,640**	**4,425**	**4.9%**	**10,598**	**11,793**	**(10.1%)**
Profit before taxation	**4,640**	**11,476**	**(59.6%)**	**10,598**	**18,844**	**(43.8%)**
PAT without contribution from negative goodwill	**3,461**	**3,429**	**0.9%**	**8,060**	**9,273**	**(13.1%)**
Profit after taxation	**3,461**	**10,480**	**(67.0%)**	**8,060**	**16,324**	**(50.6%)**

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

Revenue overview

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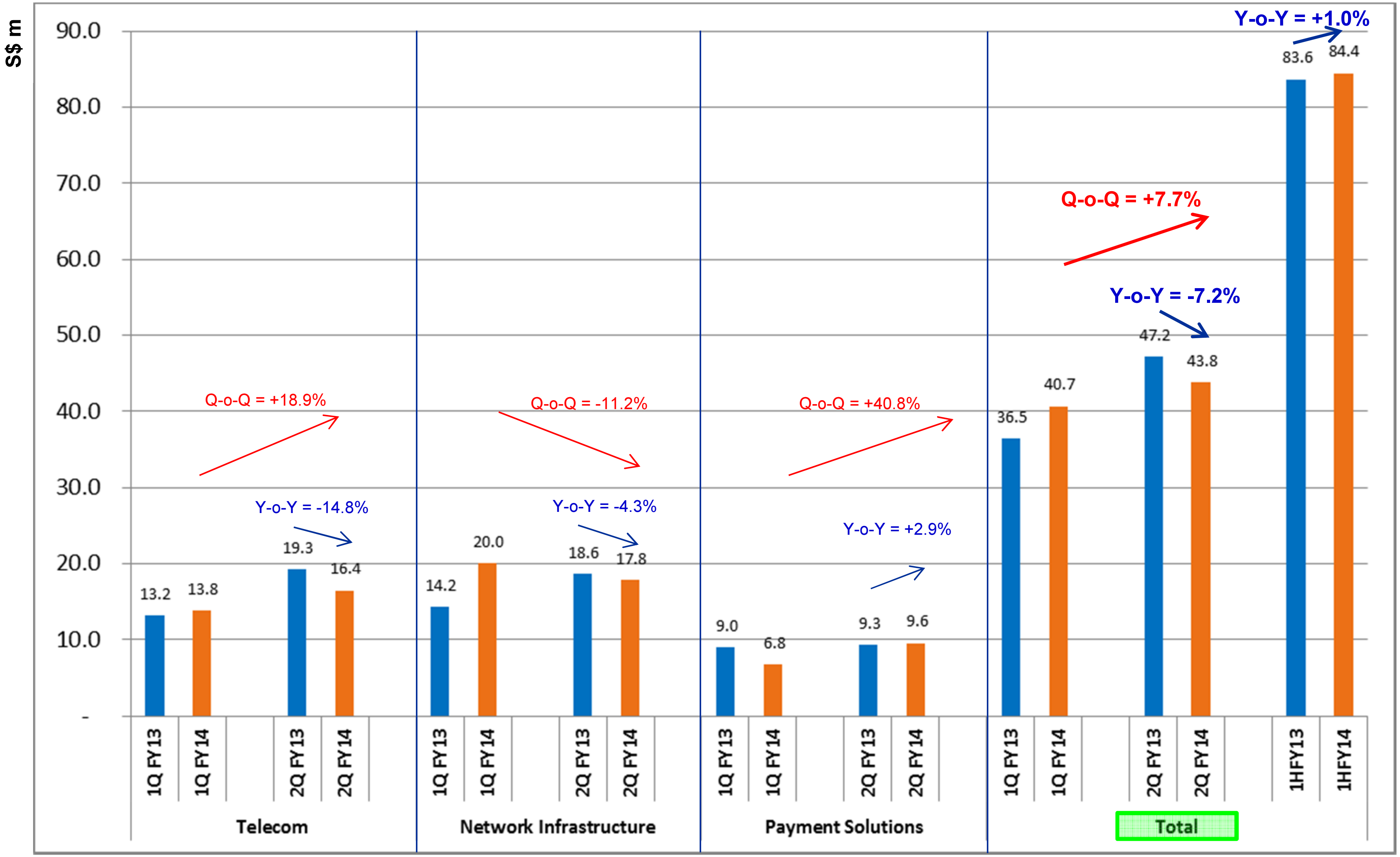

Revenue – Overall group

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2QFY14

- Revenue in 2QFY14 decreased 7.2% ($3.4m) y-o-y from $47.2m to $43.8m
  - Telecom = decreased 14.8% ($2.9m) y-o-y from $19.3m to $16.4m
  - Network Infrastructure = decreased 4.3% ($0.8m) y-o-y from $18.6m to $17.8m
  - Payment solution = increased 2.9% ($0.3m) y-o-y from $9.3m to $9.6m

1HFY14

- Revenue in 1HFY14 increased by 1.0% ($0.8m) y-o-y from $83.6m to $84.4m
  - Telecom = decreased 6.8% ($2.2m) y-o-y from $32.5m to $30.3m
  - Network Infrastructure = increased 15.3% ($5.0m) y-o-y from $32.8m to $37.8m
  - Payment solution = decreased 10.8% ($2.0m) y-o-y from $18.3m to $16.3m

Revenue – Telecom segment

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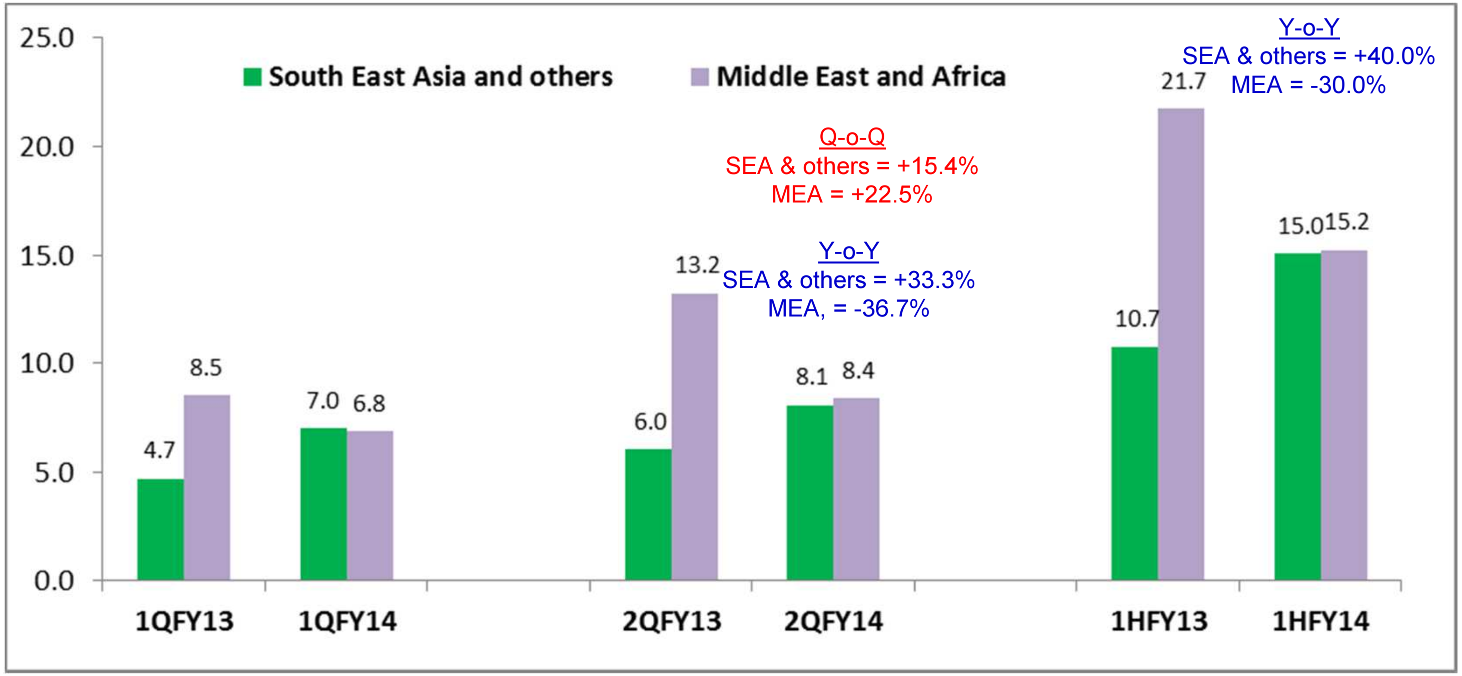

- In 2QFY14, Telecom segment revenue from SEA & others region increased both Q-o-Q and Y-o-Y at 15.4% and 33.3% respectively.
- In 2QFY14, Telecom segment revenue from Middle East and Africa region increased 22.5% Q-o-Q, but decline 36.7% Y-o-Y due to lumpy project recognition in Morocco occurred in 2QFY13.
- As a result, total Telecom segment revenue declined 6.8% Y-o-Y in 1HFY14 from S$32.5m to S$30.3m.
- PO from Nigeria is expected to start coming in gradually, but revenue recognition will only be in 2HFY14 and beyond.

Revenue – Network Infrastructure

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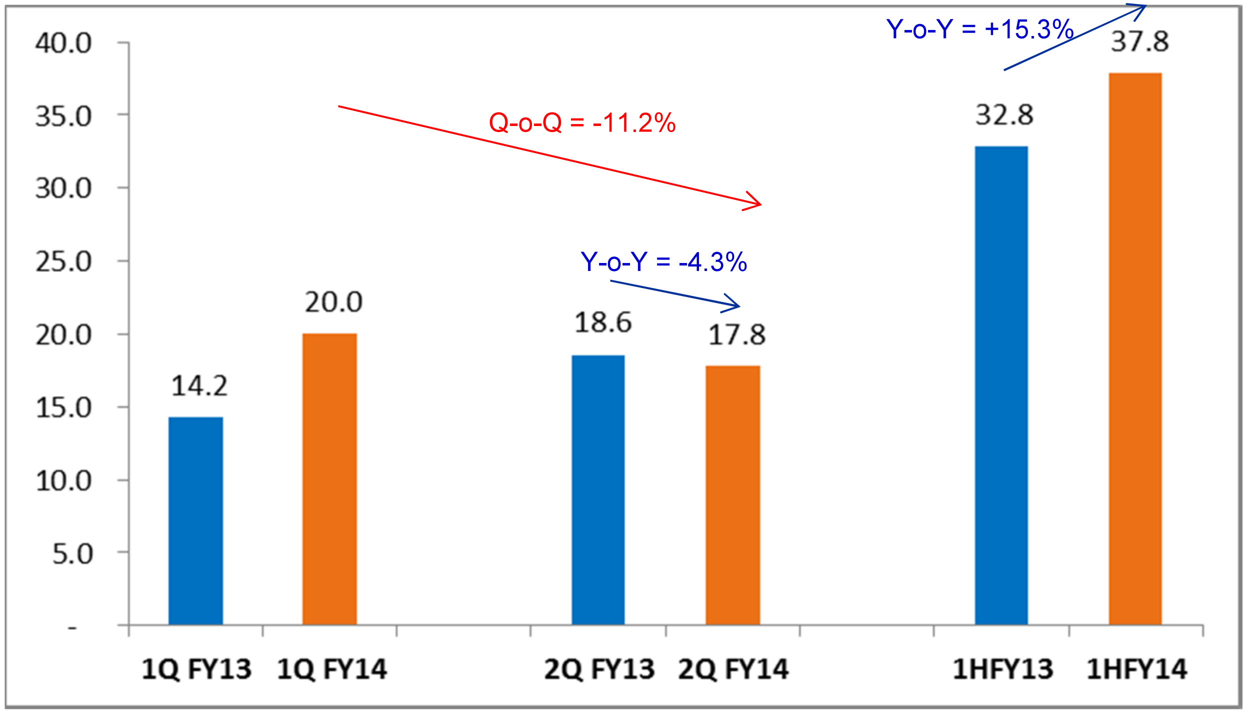

- 2QFY14 revenue contribution from Network Infrastructure segment decreased at 11.2% and 4.3% Q-o-Q and Y-o-Y respectively.
- The lower revenue in 2QFY14 was due to a delay in customer order within the Service Provider sector.
- However, due to the strong revenue recognised in 1QFY14, the revenue contribution from Network Infrastructure segment in 1HFY14 increased 15.3% y-o-y.

Revenue– Payment Solutions

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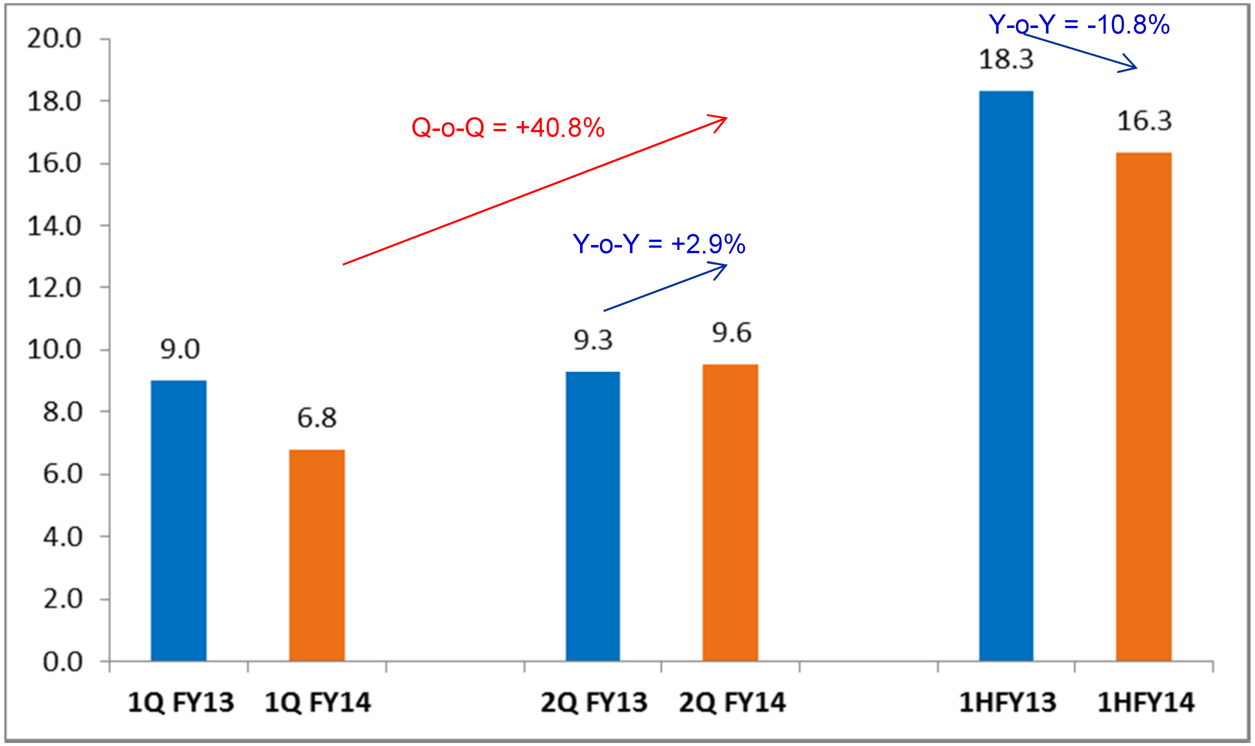

- After a slow start in 1QFY14, revenue contribution for Payment Solutions segment increased both Q-o-Q and Y-o-Y at 40.8% and 2.9% respectively.
- However, due to the lower revenue recognised in 1QFY14 (resulted from lower hardware equipment sales), revenue contribution for Payment Solutions segment decreased 10.8% Y-o-Y in 1HFY14.

Revenue– Breakdown by nature

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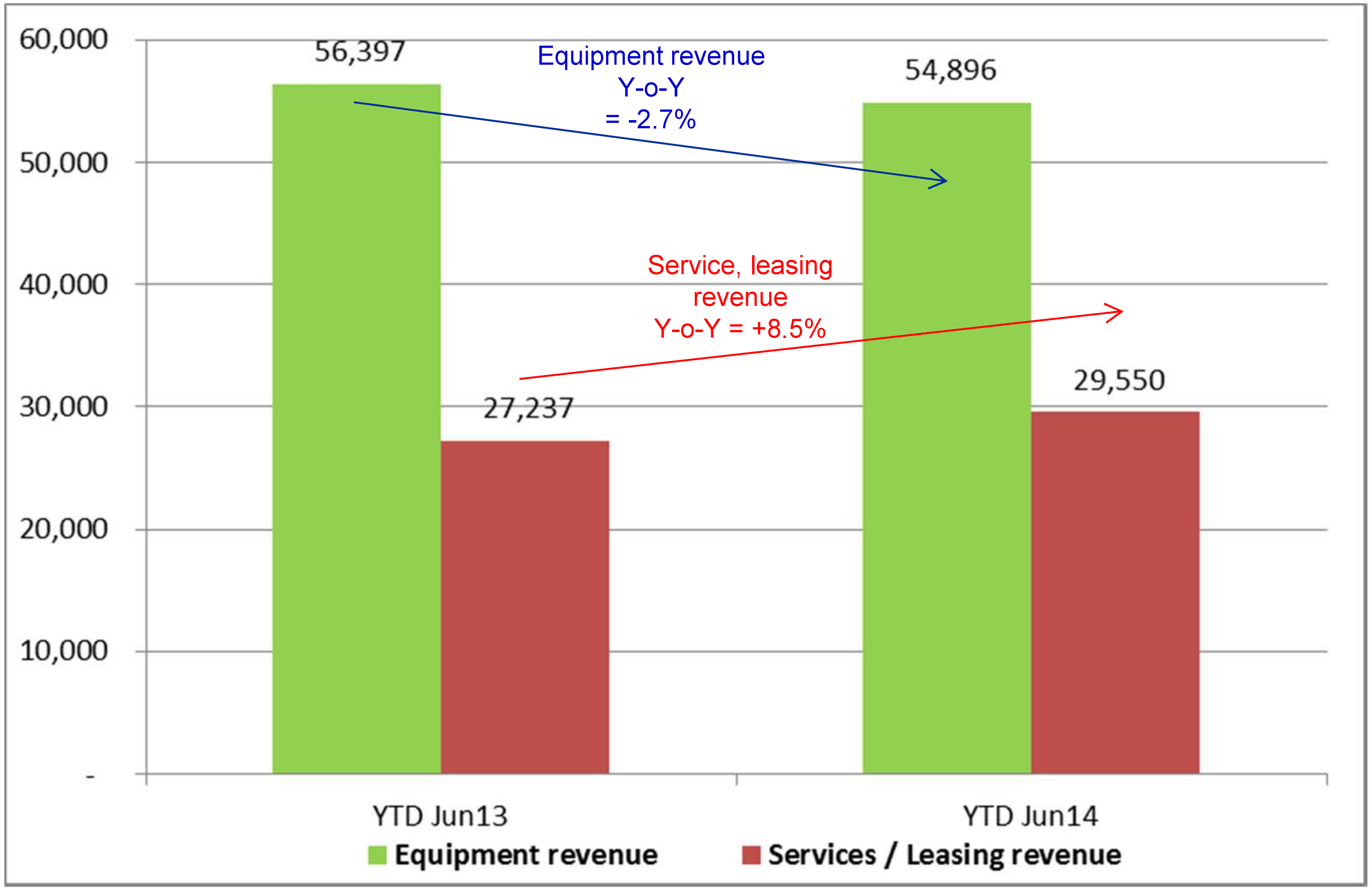

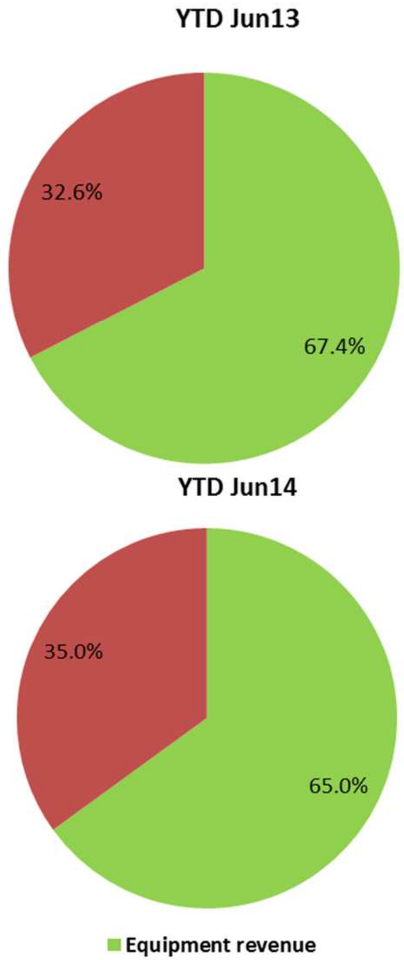

- Revenue contribution from service and terminal leasing revenue increased +8.5% Y-o-Y in 1HFY14.

Building a resilient revenue model

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- **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 (expending 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 rental/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

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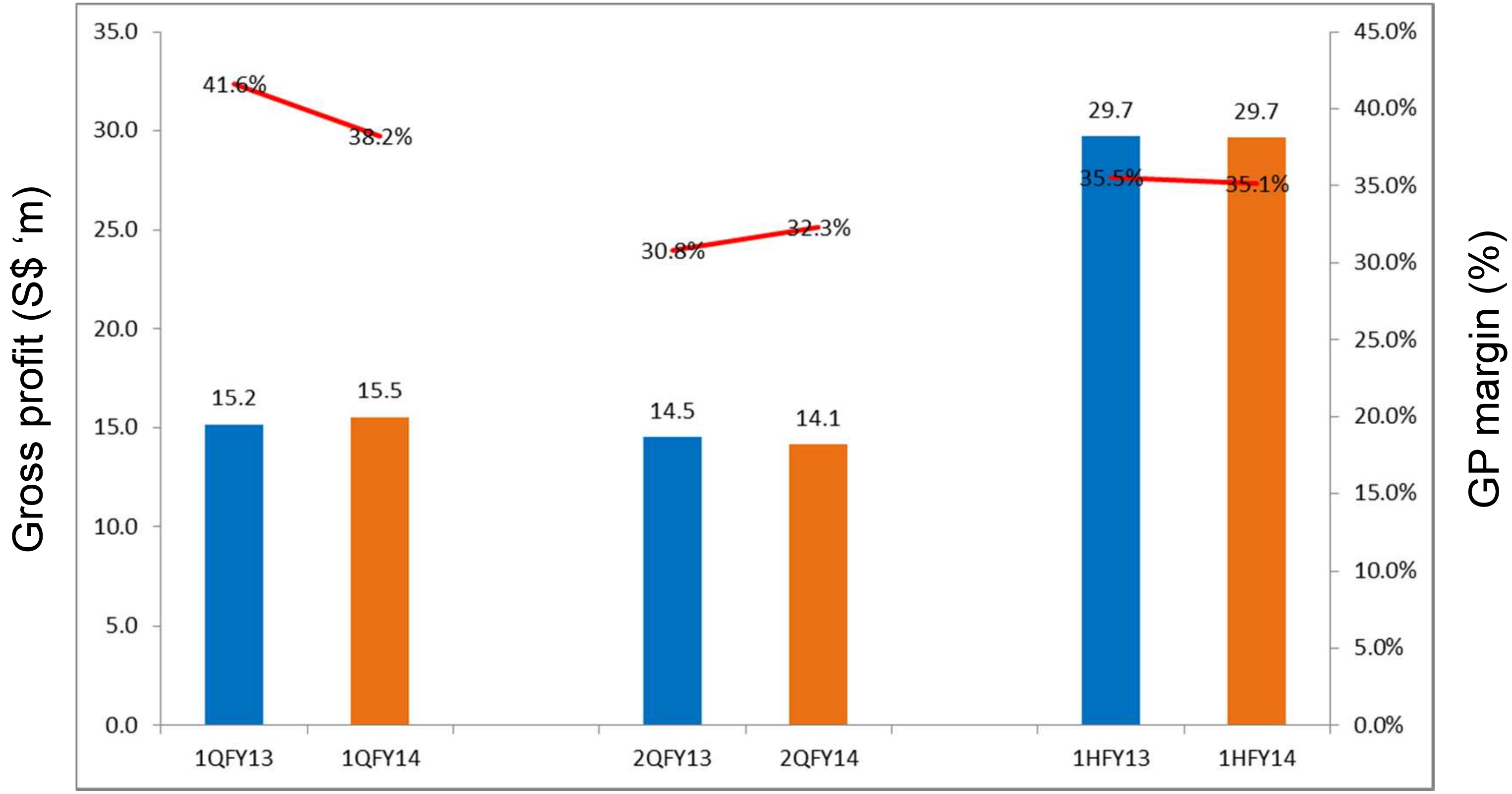

- In 2QFY14, gross profit decreased 2.8% (S$0.4m) Y-O-Y from $14.5m to $14.1m while the gross profit margin ("GP margin") increased by 1.5 ppt from 30.8% to 32.3%.
- Compared to 1QFY14, gross profit for 2QFY14 decreased 9.0% (S$1.4m) Q-o-Q from $15.5m to $14.1m, due to both lower revenue in 2QFY14 and lower GP margin.
- 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

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Other operating income

- Y-o-Y, Other operating income for 2QFY14 turned in an exchange gain instead of a loss in 2QFY13.
- For 1HFY14, the Other operating income declined 30.0% ($0.28 million) mainly due to lower accounts receivable collection fee, partially mitigated by the exchange gain in 2QFY14.

Distribution and Selling expenses

- Y-o-Y, Distribution and Selling expenses for 2QFY14 and 1HFY14 increased 5.5% ($0.4 million) and 7.4% ($1.0 million) respectively.
- The higher percentage increase Y-o-Y in 1HFY14 was 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 2QFY14 and 1HFY14 decreased 11.0% ($0.4 million) and 1.9% ($0.1 million) respectively.
- For 2QFY14, the decrease was mainly due to one-off expenses incurred in 2QFY13. For 1HFY14, the decrease was the net effect of one-off expenses incurred in 1HFY13, and 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

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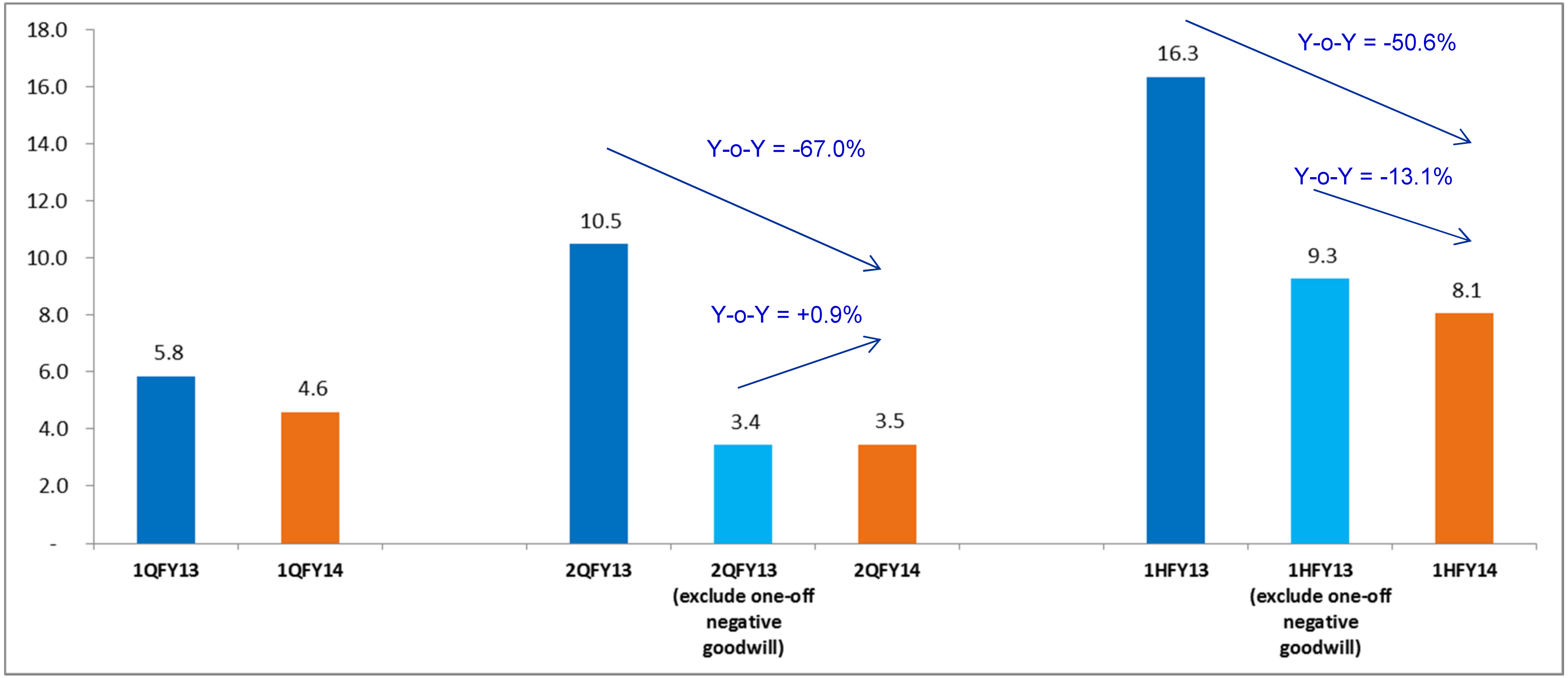

- With the combine effect on the gross profit, other operating income, operating expenses, tax expenses, and one-off negative goodwill contribution arises from Nera (Malaysia) acquisition occurred in 2QFY13, PAT for 2QFY14 and 1HFY14 decreased 67.0% and 50.6% y-o-y respectively.
- Excluding the contribution from the negative goodwill occurred in 2QFY13, 2QFY14 and 1HFY14 PAT would have increased 0.9% and decreased 13.1% Y-o-Y respectively.

Financial Positions

- **Strong balance sheet, with zero debt**
  - We are in advance discussion with a bank for a debt facility to drive the growth of the company
- **Warranty provision, approximately S$5.1m**
- **Strong cash position with S$29.1m as of 30 Jun 2014**
  - Comparatively, cash position was S$25.4m as of 30 Jun 2013 and S$39.3m as of 31 Dec 2013
  - Cash generated from operating activities in 1HFY14 = S$6.6m
  - Lower cash compared to end FY13 due to payment of a total of S$14.4m FY13 final dividends in May 2014 and about S$2.5m capex, mainly for purchase of equipment for leasing

Interim Dividend

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The Board is pleased to recommend an interim dividend as follow :

Name of Dividend :	**Interim (one-tier)**
Dividend Type :	Cash
Dividend Amount per Share :	Two (2) cents
Tax Rate :	Tax exempt

Date payable : 29 August 2014

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Outlook

TELECOMMUNICATIONS SEGMENT

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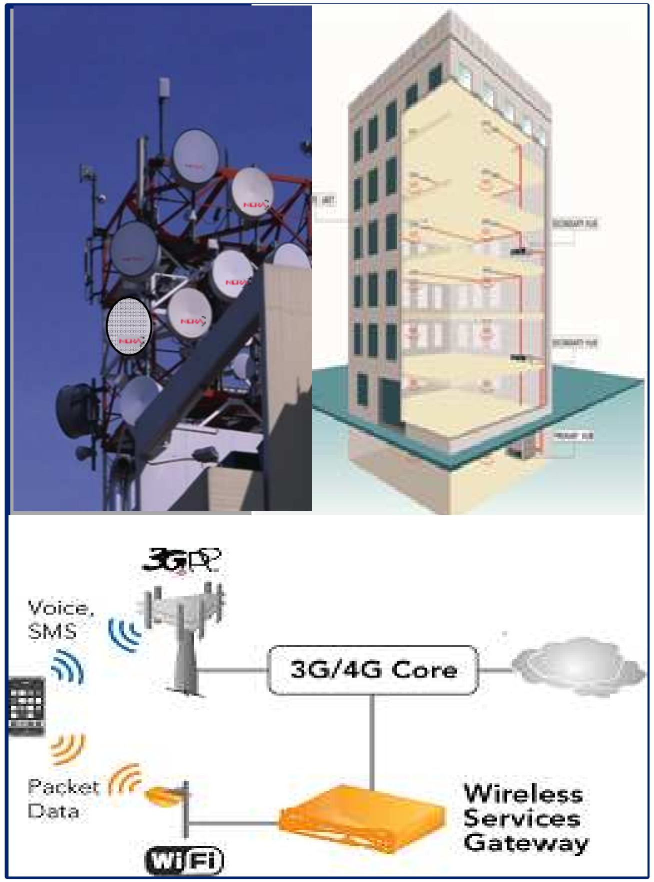

Wireless Infrastructure Networks (WIN)

- The Telecommunications business segment comprise of mainly the Wireless Infrastructure Networks ('WIN')
- In 1HFY14, the Telecom business segment secured approximately $36.8m in order in-take, a decline of 16.2% compared to $44.0m in 1HFY13 as a result of lower point-to-point radio order intake from Asia Pacific customers in 2QFY14.

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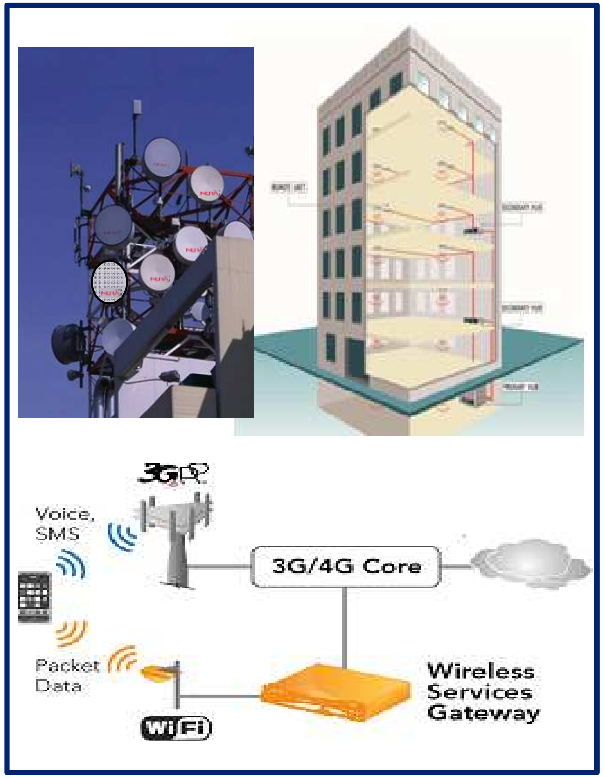
TELECOMMUNICATIONS
BA : Wireless Infrastructure Networks (“WIN”)



- Competition remains intense and mobile operators are striving to deliver their services at lower costs and seek new revenues.
- The Group believes that demand for wireless infrastructure networks will continue to be driven by the rapid increase in data and video traffic, growth in mobile users, broadband services and regulatory compliances on the quality of services.
- The Group will continue to provide a comprehensive end-to-end wireless infrastructure network product portfolio, comprising point-to-point and point-to-multi-point radios, mobile coverage solutions, wifi 3G data offload and performances management systems that can help to lower our customers’ operating and capital costs, and capabilities to offer new services. In particular, in the in-building coverage space, the Group managed to secure several new customers and believes the traction in this business will continue.

INFOCOMM BUSINESS SEGMENT

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- The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.
- The Group's Infocomm business segment managed to secure approximately $67.3m of order in-take in 1HFY14 compared to $77.0m in 1HFY13, a decline of about 12.6% due to lower order in-take from the Network Infrastructure business area, partially offset by higher order in-take from the Payment Solutions business area.

INFOCOMM

BA : Network Infrastructure

- In 1HFY14, Network Infrastructure ("NI") business area secured approxi. $42.0m, a decline of 24.0% compared to $55.3 million in 1HFY13 due to delay in orders.
- The Group believes that growth in smart devices, internet data and video traffic, web services, mobility, security concerns and regulatory compliances will drive Service Providers to build, expand and upgrade their networks. Enterprise IT spending is expected to grow as organisations will continue to build new network infrastructure to increase productivity, improve their competitiveness and strengthen their security. Similarly, IT spending by Government, Transport and Utilities market sector will continue as governments strived to use IT to provide public services at lower costs.
- Competition in the NI business area is very fragmented with both local resellers, distributors and system integrators, and some global equipment vendors competing for market share.
- NI will continue to focus on providing IP, Optical and Broadcast network infrastructure products and solutions to meet our various customers' business objectives. As more organisation are using and testing Cloud Services, the Group intend to gradually build up a comprehensive range of cloud infrastructure products to enable our customers to roll out cloud services.

INFOCOMM

BA : Payment Solutions

- In 1HFY14, the Payment Solutions business area managed to secure approximately $25.3 million in order in-take, an increase of 16.2% compared to $21.7 million in 1HFY13 due to strong order in-take in 2QFY14.
- Growth in the payment business is driven by increase in number of plastic cards, credit and debit cards spending, different types of transactions, various government cashless initiatives as well as banks outsourcing their point-of-sale ("POS") infrastructure.
- The Group will focus on providing a comprehensive and secured end-to-end electronic payment and network infrastructure, and various types of POS terminals and services. The Group is also evaluating various mobile payment and eCommerce payment products and solutions in anticipation of potential business opportunitoes in this space.
- Competition is very localised and fragmented with many local payment infrastructure and services vendors offering various payment products and solutions to banks, financial institutions and retailers.

Order in-take summary

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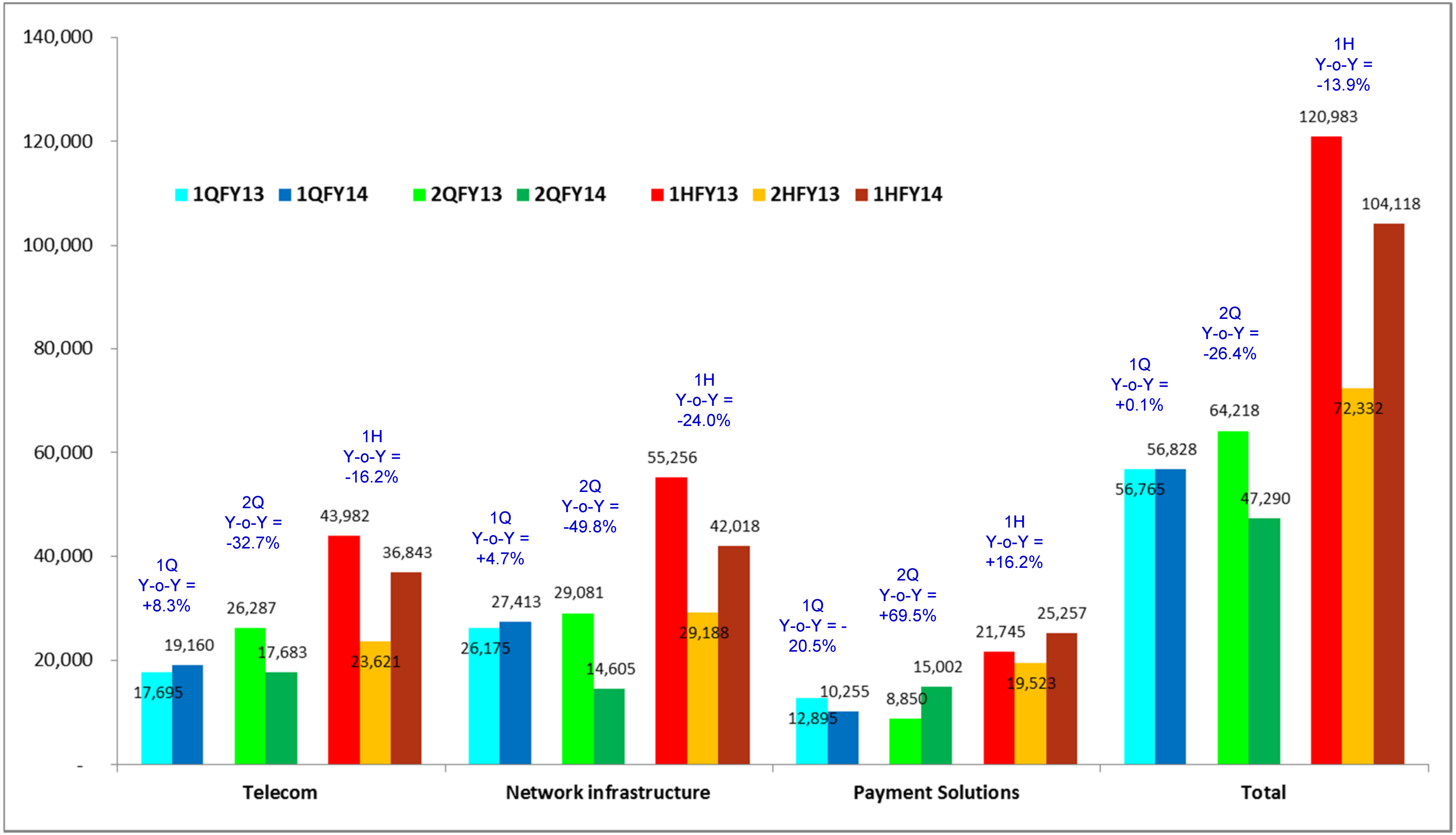

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