

NERA TELECOMMUNICATIONS LTD

ANALYST BRIEFING

Samuel Ang
President & CEO

Lim Gee Kiat
CFO

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Content

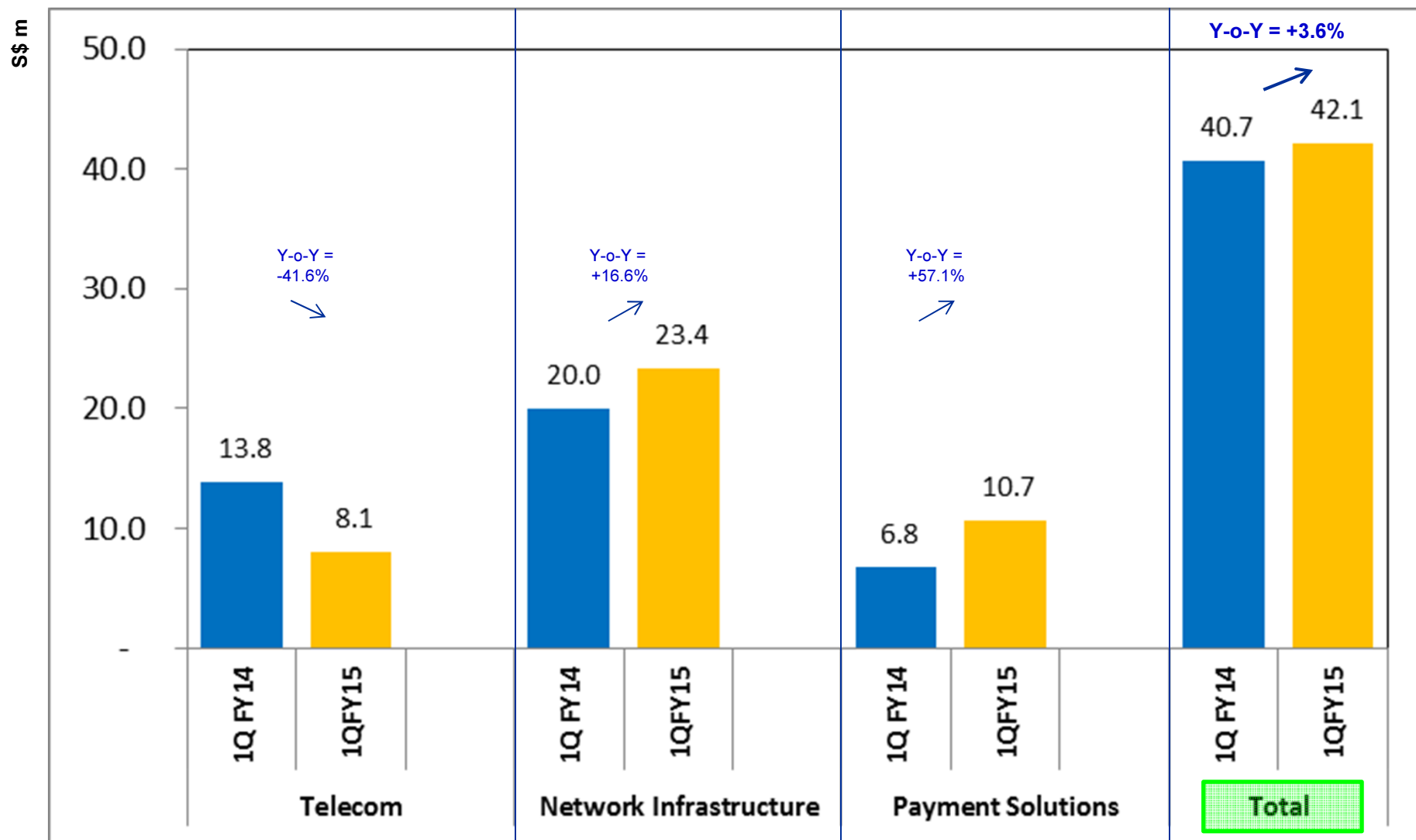
- Result analysis :
 - Y-o-Y : 1Q FY15 vs 1Q FY14
- Outlook



Financial performance summary

S\$'000	1QFY15	1QFY14	+ / (-) %
Turnover	42,105	40,656	3.6%
Gross profit	14,104	15,537	(9.2%)
Gross profit %	33.5%	38.2%	(4.7ppt)
Other operating income	291	370	(21.4%)
Distribution and Selling expenses	(6,804)	(6,985)	(2.6%)
Admin expenses	(2,985)	(2,854)	4.6%
Other expenses	(261)	(72)	262.5%
Financial expenses	(91)	(79)	15.2%
Financial income	16	41	(61.0%)
Profit before taxation	4,270	5,958	(28.3%)
Profit after taxation	3,046	4,599	(33.8%)

Revenue overview

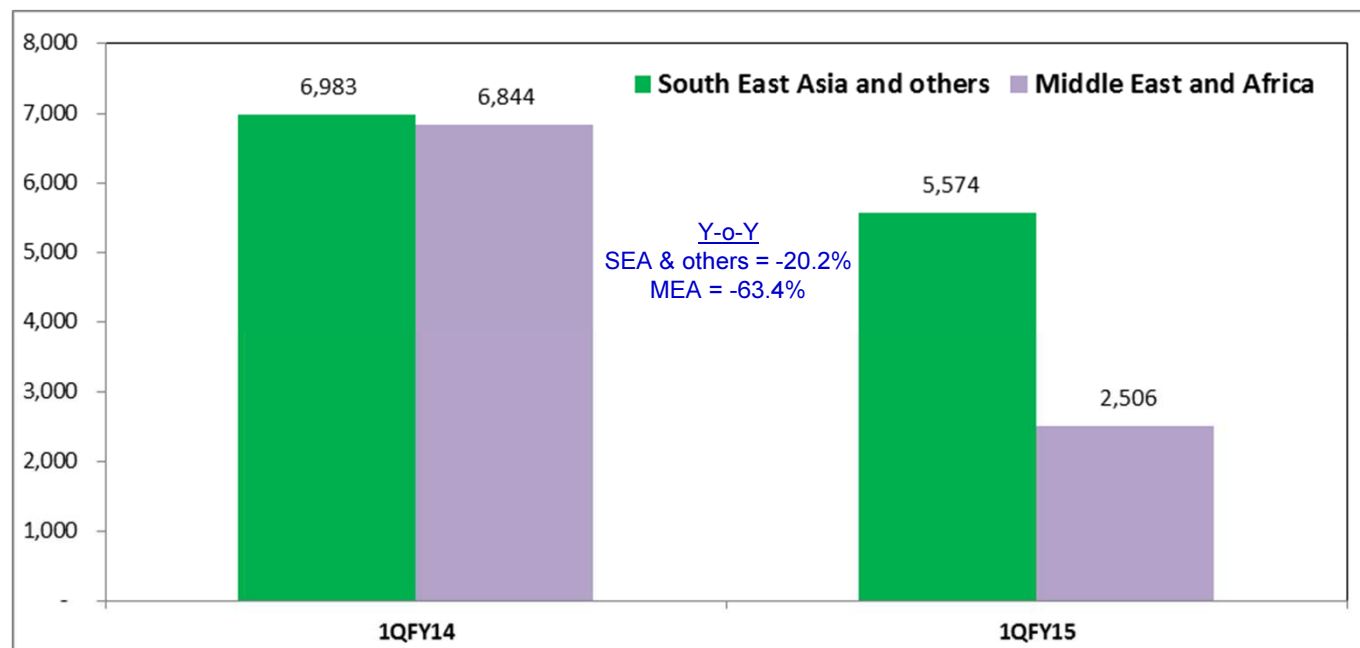


Revenue – Overall group

1QFY15

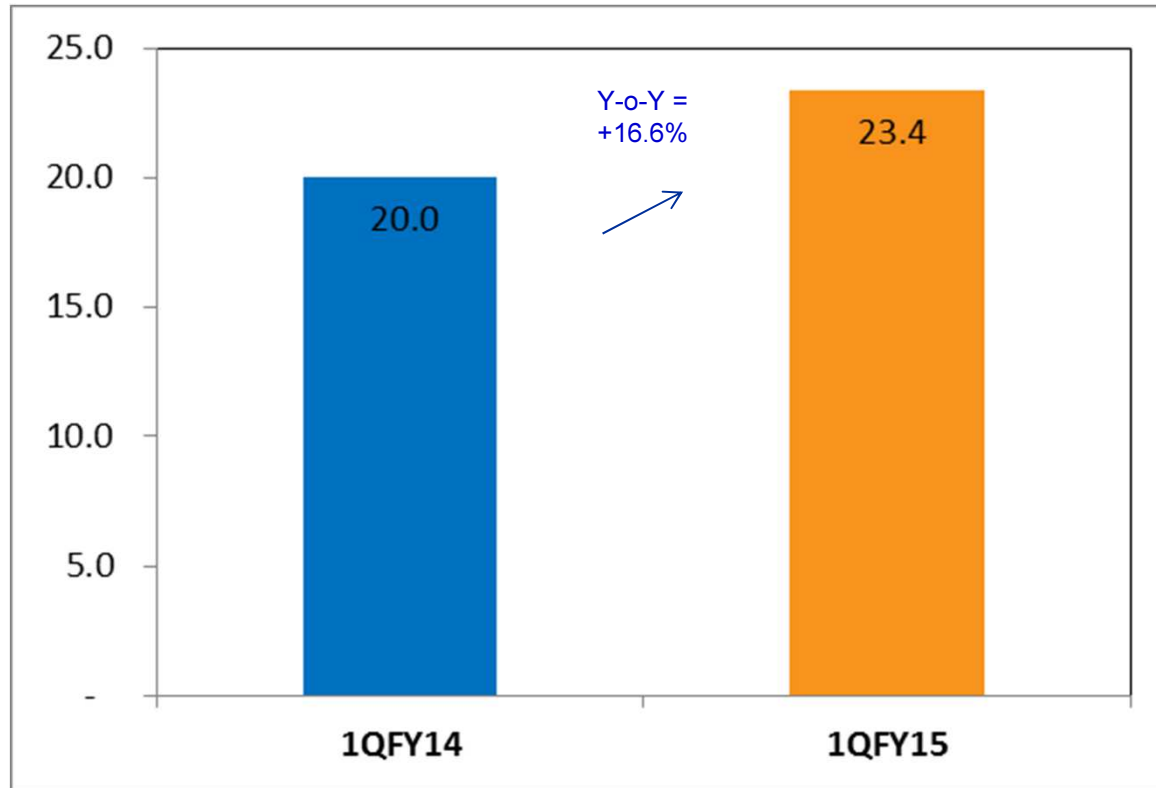
- Revenue in 1QFY15 increased 3.6% (\$1.4m) y-o-y from \$40.7m to \$42.1m
 - Telecom = decreased 41.6% (\$5.7m) y-o-y from \$13.8m to \$8.1m
 - Network Infrastructure = increased 16.6% (\$3.3m) y-o-y from \$20.0m to \$23.4m
 - Payment solution = increased 57.1% (\$3.9m) y-o-y from \$6.8m to \$10.7m

Revenue – Telecom segment



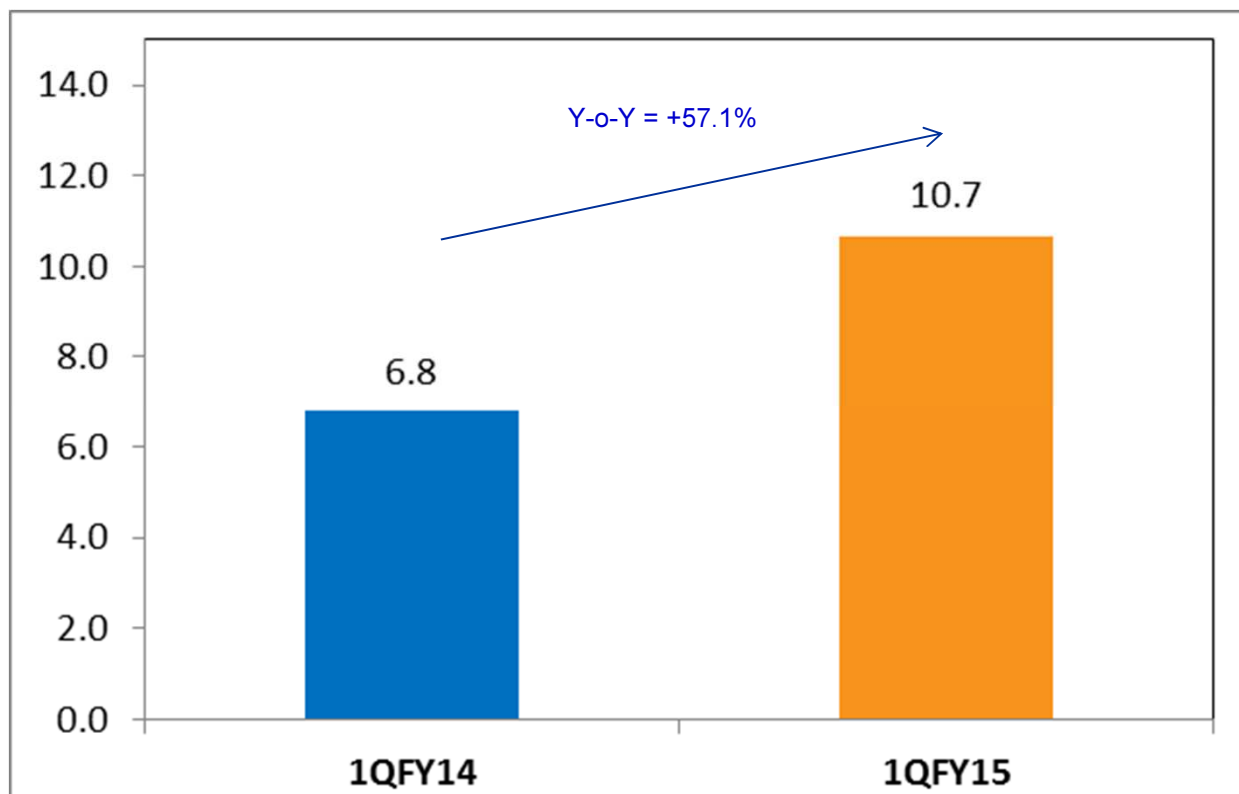
- In 1QFY15, Telecom segment revenue from SEA & Others region declined by 20.2% (S\$1.4m) Y-o-Y, while revenue from MEA region declined by 63.4% (S\$4.3m) Y-o-Y.
- As a result, total Telecom segment revenue declined 41.6% Y-o-Y from S\$13.8m in 1QFY14 to S\$8.1m in 1QFY15.
- For SEA region, the lower sales was due to some documents needed for revenue recognition could not be ready on time, particularly for Indonesia WIN. Also, the maintenance contract did not get renew on time.
- For MEA region, the lower sales was due to delay shipment of Point-to-Point equipment to Nigeria. Also, a major order from Pakistan came in late Mar FY15, vs originally anticipated in early 1QFY15. This major contract from Pakistan has also resulted in a sharp 44.3% Y-o-Y increase of order-in-take in 1QFY15 for Telecom segment.

Revenue – Network Infrastructure



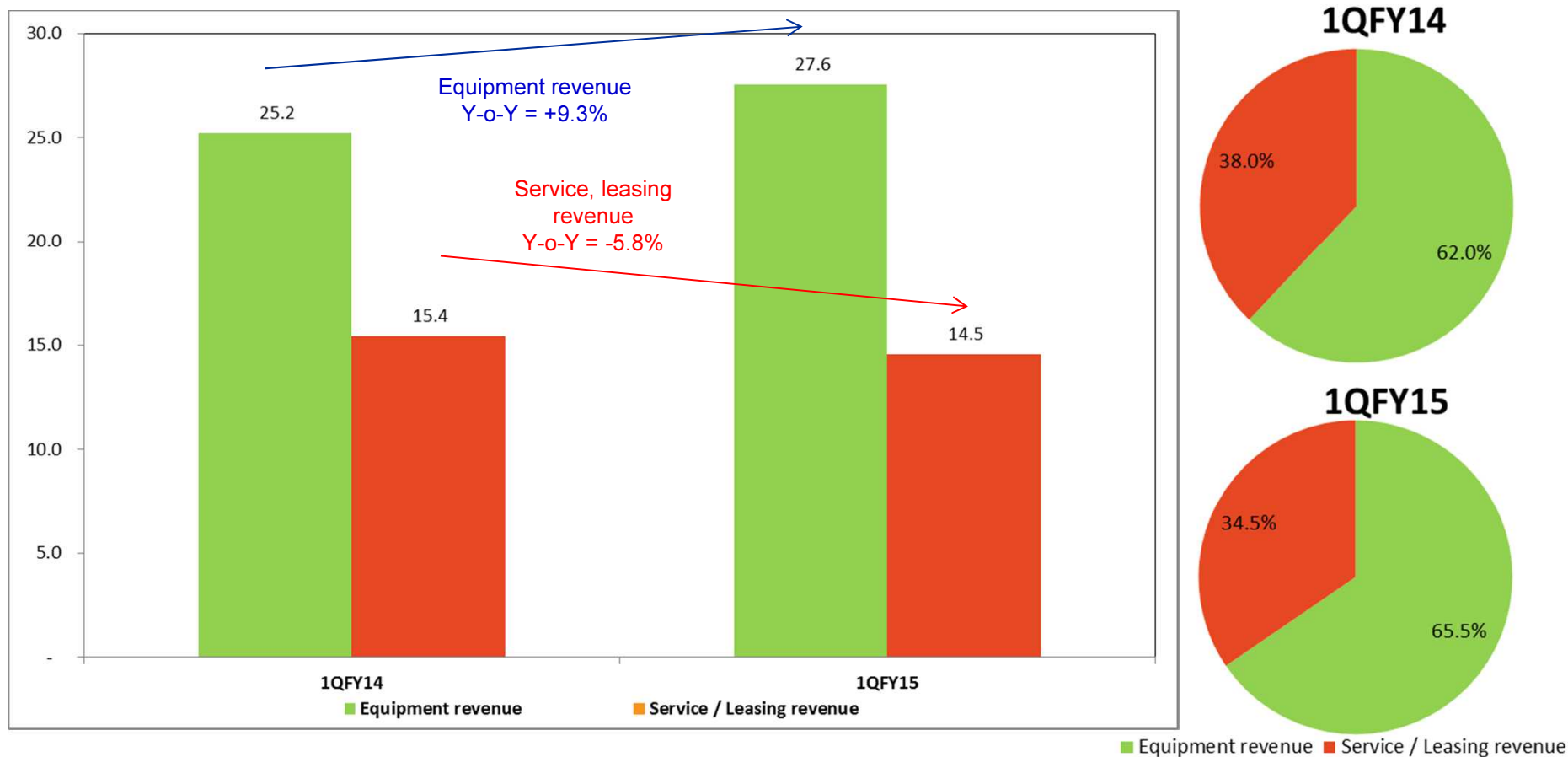
- In 1QFY15, Network Infrastructure segment revenue increased by 16.6% Y-o-Y. This was mainly driven by revenue growth outside Singapore.
- However, there was some maintenance contracts did not get renew on time within the quarter.

Revenue– Payment Solutions



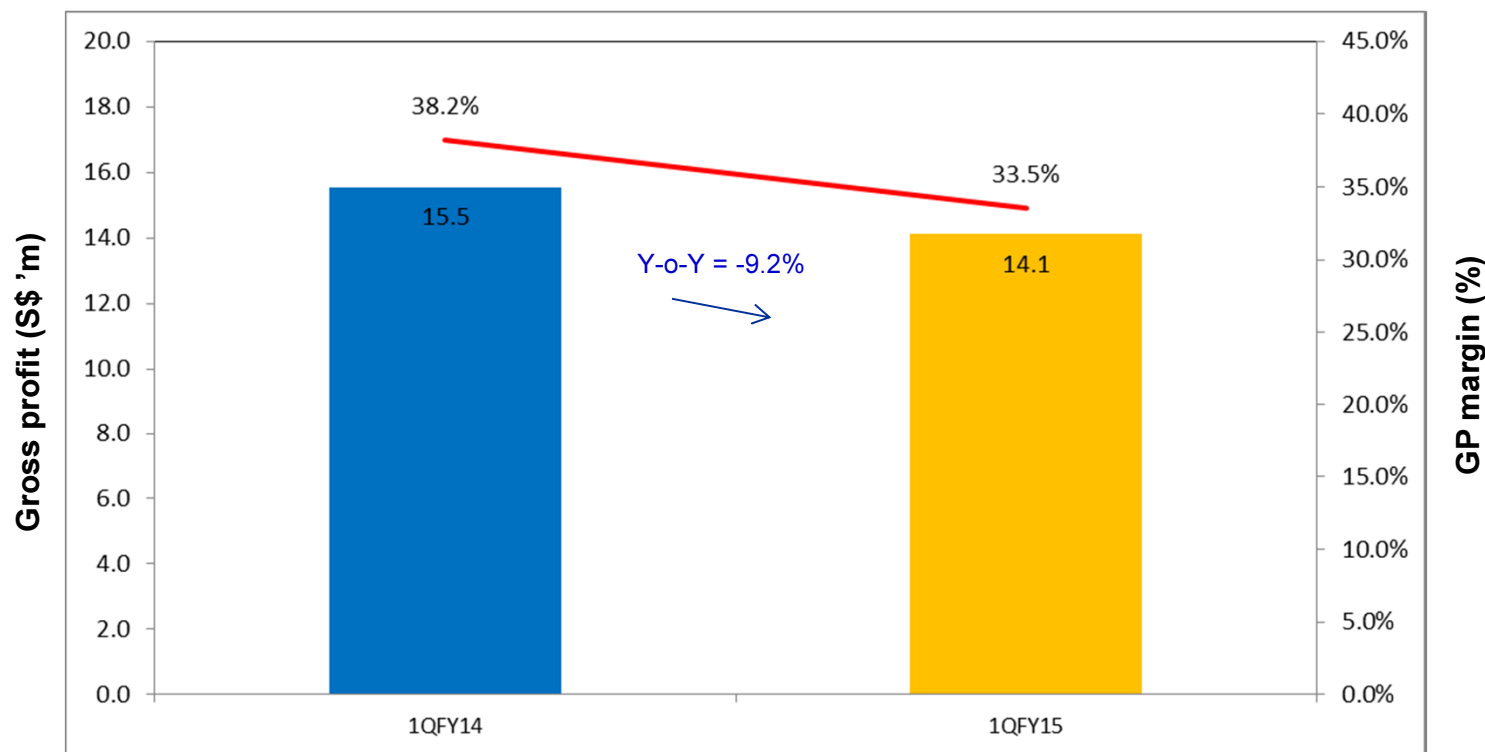
- Revenue from Payment Solutions segment increased 57.1% Y-o-Y in 1QFY15, largely driven by strong equipment invoiced during the quarter.
- For a consecutive 3 quarters, PS segment has recorded more than S\$10m revenue per quarter.
- In the quarter, PS segment also recorded a 15.3% Y-o-Y increased in order-in-take.

Revenue– Breakdown by nature



- Revenue contribution from service and terminal leasing revenue decreased 5.8% Y-o-Y in 1QFY15.
- This was largely due to some service and maintenance contracts in WIN and NI did not get recognised or renewed on time in 1QFY15.

Gross Profit, GP Margin



- In 1QFY15, gross profit margin (“GP margin”) declined by 4.7ppt Y-o-Y from 38.2% to 33.5%. This had resulted in gross profit decreased by 9.2% Y-O-Y from \$15.5m to \$14.1m.
- The decrease in GP margin in 1QFY15 was partially due a lower margin project in PS business segment. We accepted this one-off low GP margin project in PS business segment due to strategic reason.

Other income, Operating Expenses

Other operating income

- The lower other operating income of S\$291k in 1QFY15 as compared S\$370k in 1QFY14 was mainly due to lower suppliers' incentive rebates.

Distribution and Selling expenses

- Y-o-Y, Distribution and Selling expenses for 1QFY15 decreased 2.6% (\$0.2 million) Y-o-Y mainly due to lower payroll and related costs, partially offset by absence of write-back of provision for doubtful debts.

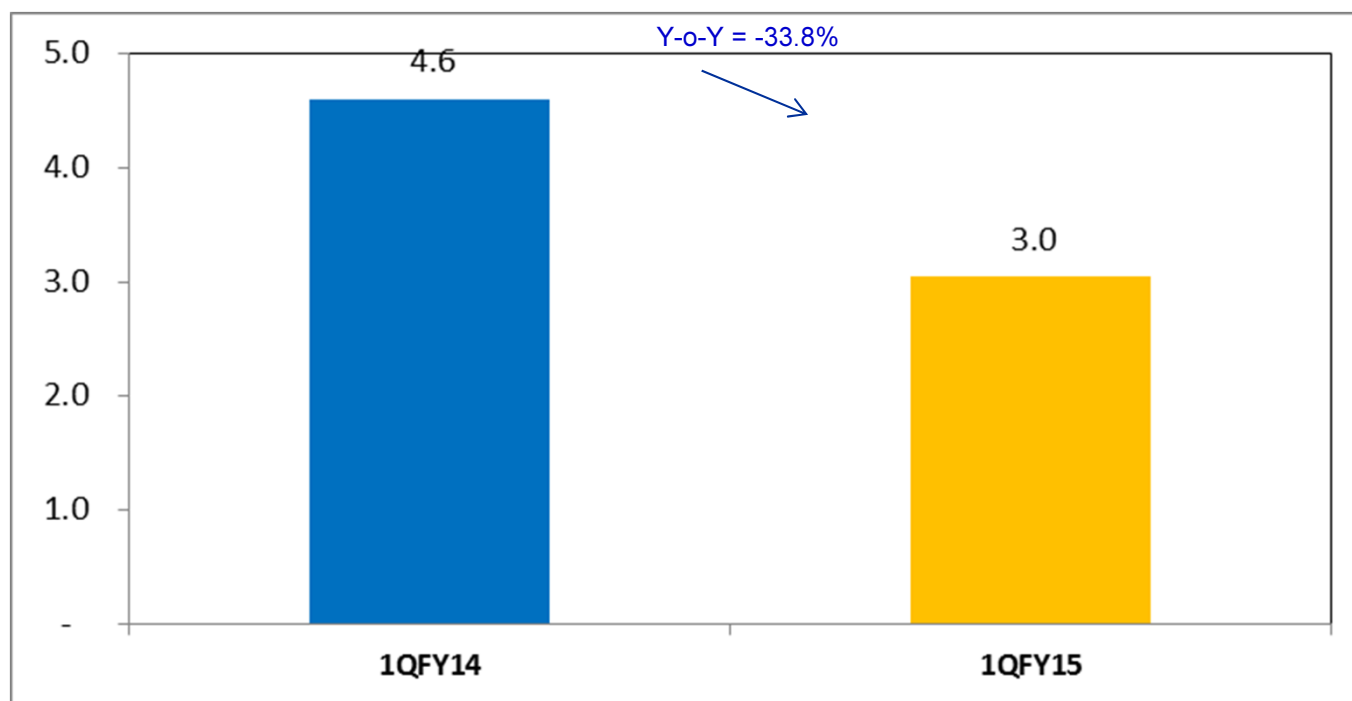
Administrative expenses

- Y-o-Y, Administrative expenses for 1QFY15 increased 4.6% (\$0.1 million) Y-o-Y mainly due to higher expansion related cost (i.e. rental costs new office in Myanmar and expansion of office space in certain countries) and higher depreciation expenses.

Other expenses

- Higher other operating expenses in 1QFY15 was mainly due to exchange loss.

Profit after tax

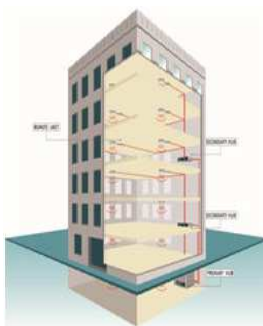


- With the combine effect from the lower gross profit, lower other operating income, and higher expenses, PAT for 1QFY15 decreased 33.8%.

- **Strong balance sheet**
 - The Group has a 5 year, S\$25m financing facility. As of 31 Mar 2015, only S\$5.4m had been drawn.
 - The remaining facility amounting to S\$19.6m will be used for purchase of leasing equipment and potential M&A / new business initiative.
- **Warranty provision, approximately S\$4.3m**
- **Strong cash position with S\$24.9m as of 31 Mar 2015**
 - In 1QFY15, the group had incurred S\$1.9m capex, mainly on purchase of Point-of-Sales (POS) terminals for leasing.
 - On top of growing recurring revenue from lease of POS terminals, the Group plans to gradually build up in-building mobile coverage network in major buildings in Indonesia. These in-building network will be leased to Telco in Indonesia. This will further drive the growth of recurring revenue in the years ahead.



Overall Nera Telecommunications

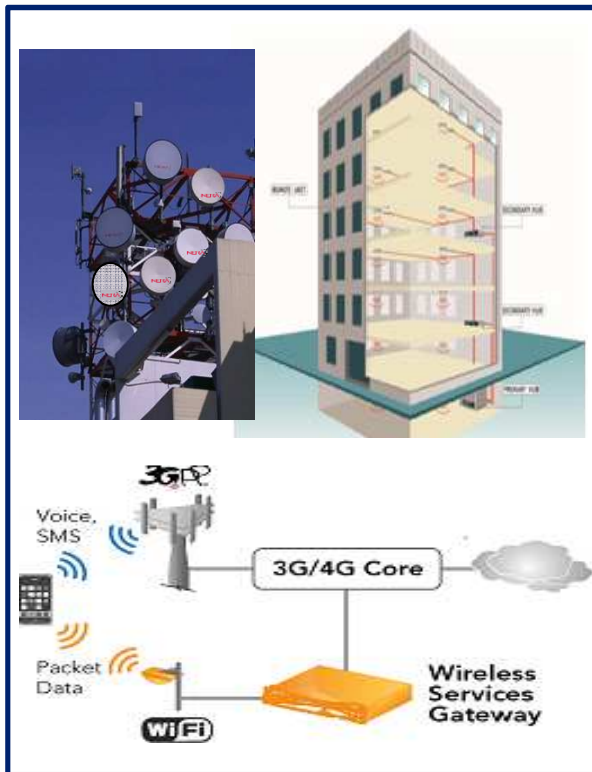


- The Group's business comprises two main business segments, namely Telecommunications and Infocommunications.
- In Q1 2015, the Group secured approximately \$57.6 millions in order intake, an increase of 1.3% compared with the \$56.8 million in Q1 2014 due to significant orders received from the Telecommunications business area offset by lower order intake from the Infocomm business area.

Infocomm Network Infrastructure



BA : Wireless Infrastructure Networks (“WIN”)



- Competition in the wireless infrastructure network market remains intense and consolidation in the industry is expected to continue.
- In Q1 2015, the Group's Telecom business area secured approximately \$27.7 million in order in-take, a significant increase of 44.3% compared \$19.2 million in Q1 2014 as a result of higher order in-take from a customer in the Middle East region.
- The Group believes that demand for mobile broadband products and solutions will rise due to consumer demand for data services and mobile operators will continue to expand their networks to meet their customers' needs and various regulatory compliances.
- The Group will continue to provide comprehensive wireless products and solutions comprising point-to-point trunk and access radios, point-to-multi-point radios, radio access networks, mobile coverage, wifi 3G data offload and performance networks that will help mobile and non-mobile operators to lower their capex and opex.

INFOCOMM BUSINESS SEGMENT

Infocomm Network Infrastructure



- The Infocomm business segment comprises two business areas, namely Network Infrastructure and Payment Solutions.
- The Group's Infocomm business segment secured 20.6% lower in order intake in Q1 2015 of approximately \$29.9 million compared to Q1 2014 of \$37.7 million.

INFOCOMM

BA : Network Infrastructure



- Competition in the network infrastructure business remains high and fragmented with many local resellers, distributors and system integrators partnering various global network equipment manufacturers to offer various networking products and services.
- In Q1 2015, the Group's Network Infrastructure business area managed to secure approximately \$18.1 million in order in-take, a decrease of 34.0% compared to \$27.4 million in Q1 2014 as a result of delays in tender award.
- The Group believes that growth in the network infrastructure products and services will continue as a result of rapid increase in internet traffic, web services, mobile data and security threats. Organisation IT spend will be driven by productivity improvements, lower cost and improve competitiveness as well as meeting more stringent regulatory compliances.
- The Group will focus on providing IP, Optical and Broadcast network infrastructure products and solutions to three targeted key market verticals, namely Service Providers, Enterprises and Government, and Transport and Utilities.

INFOCOMM BA : Payment Solutions



- Competition in the POS market remains high and fragmented with many local resellers selling different or even similar brands of point-of-sale terminals. In addition, there are also new market entrants offering alternative payment methods to try and disrupt the market.
- In Q1 2015, the Group's Payment Solutions business area managed to secure approximately \$11.8 million in order in-take, an increase of 15.3% compared to \$10.3 million in Q1 2014 as a result of higher sales of point-of-sale terminals to a customer.
- Growth in the payment business is driven by increase in spending and transactions using plastic cards for payments, various government cashless initiatives, outsourcing trends, industry standards and regulatory compliances.
- The Group will focus on providing secured end-to-end electronic payment infrastructure solutions to financial institutions, payment service providers, retailers, telcos, healthcare and transport organisations.

Order in-take summary

NERA

Nera Telecommunications Ltd

