

NERA TELECOMMUNICATIONS LTD

ANALYST BRIEFING

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 - 2Q FY15 vs 2Q FY14
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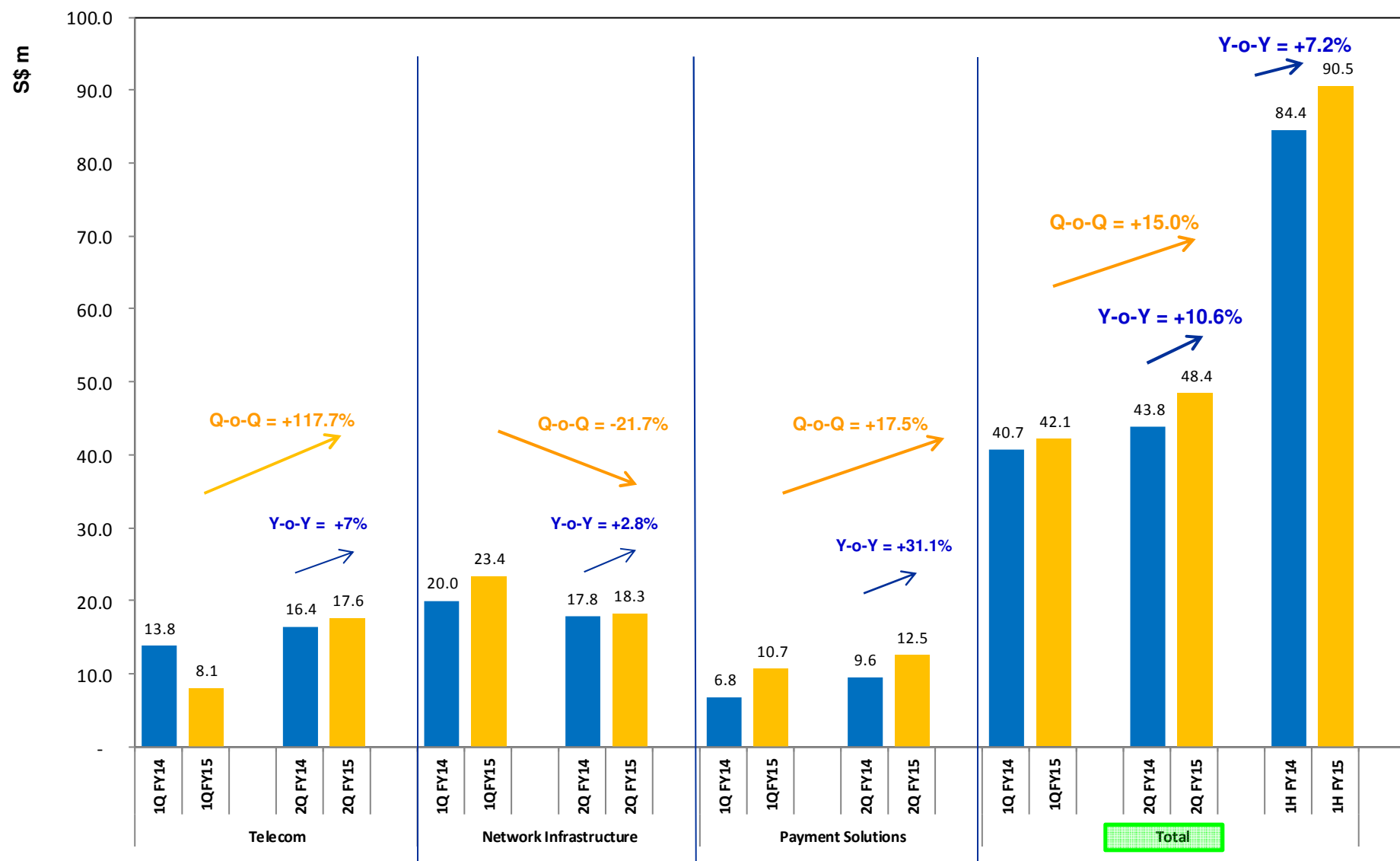
Financial performance summary



Nera Telecommunications Ltd

S\$'000	2QFY15	2QFY14	+ / (-) %	1HFY15	1HFY14	+ / (-) %
Turnover	48,415	43,790	10.6%	90,520	84,446	7.2%
Gross profit	15,878	14,140	12.3%	29,982	29,677	1.0%
Gross profit %	32.8%	32.3%	0.5%	33.1%	35.1%	(2.0%)
Other operating income	164	289	(43.3%)	455	659	(31.0%)
Distribution and selling expenses	(7,376)	(6,937)	6.3%	(14,180)	(13,922)	1.9%
Administrative expenses	(3,504)	(2,825)	24.0%	(6,489)	(5,679)	14.3%
Other operating expenses	(222)	(3)	7300.0%	(483)	(75)	544.0%
Financial expenses	(145)	(56)	158.9%	(236)	(135)	74.8%
Financial income	12	32	(62.5%)	28	73	(61.6%)
Profit before taxation	4,807	4,640	3.6%	9,077	10,598	(14.4%)
Taxation	(851)	(1,179)	(27.8%)	(2,075)	(2,538)	(18.2%)
Profit after taxation	3,956	3,461	14.3%	7,002	8,060	(13.1%)

Revenue overview



Revenue – Overall group

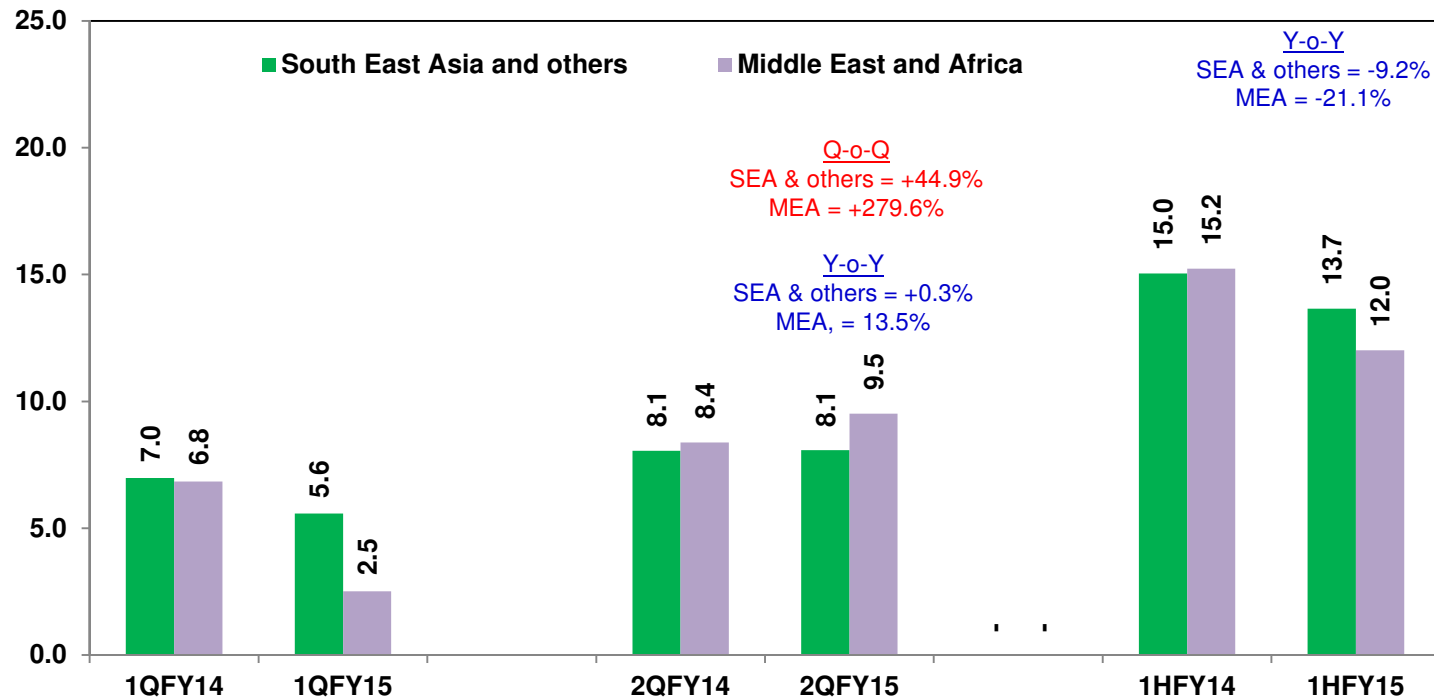
2Q FY15

- Revenue in 2Q FY15 increased 10.6% (\$4.6m) y-o-y from \$43.8m to \$48.4m
 - Telecom - increased 7.0% (\$1.2m) y-o-y from \$16.4m to \$17.6m
 - Network Infrastructure - increased 2.8% (\$0.5m) y-o-y from \$17.8m to \$18.3m
 - Payment Solutions - increased 31.1% (\$2.9m) y-o-y from \$9.6m to \$12.5m

1H FY15

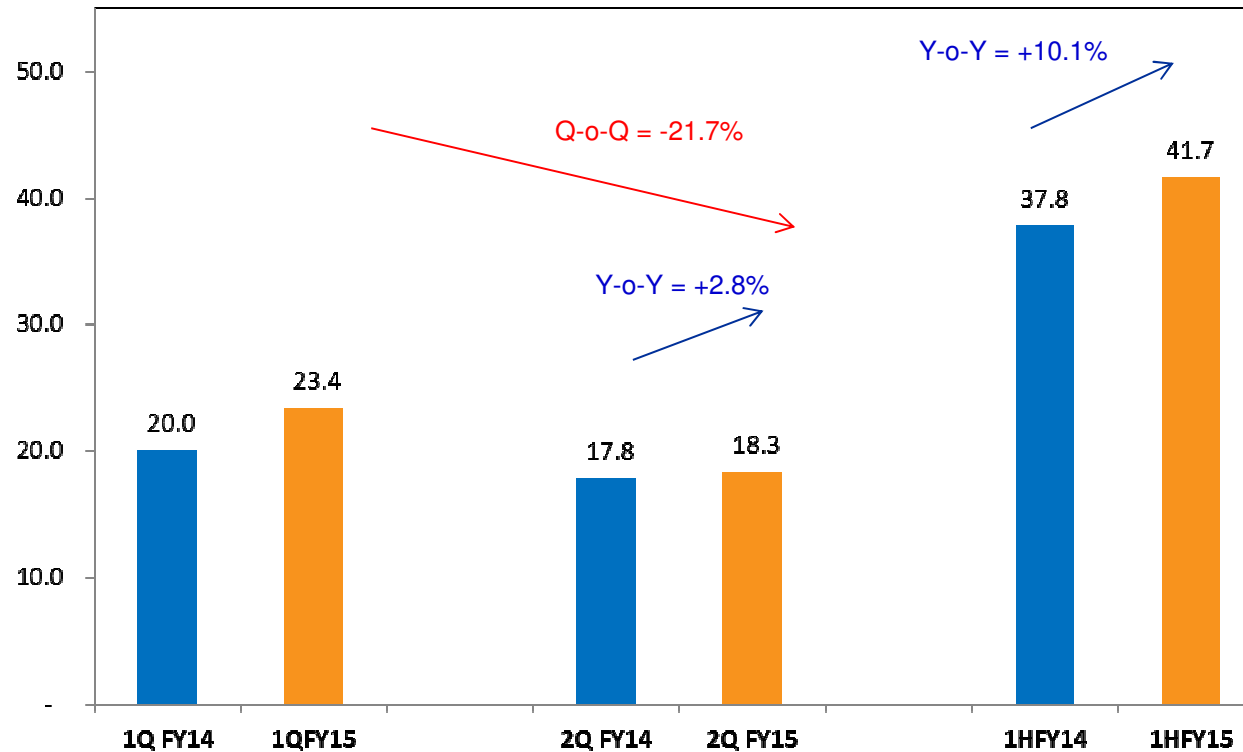
- Revenue in 1H FY15 increased 7.2% (\$6.1m) y-o-y from \$84.4m to \$90.5m
 - Telecom - decreased 15.2% (\$4.6m) y-o-y from \$30.3m to \$25.7m
 - Network Infrastructure - increased 10.1% (\$3.8m) y-o-y from \$37.8m to \$41.6m
 - Payment Solutions - increased 41.9% (\$6.9m) y-o-y from \$16.3m to \$23.2m

Revenue – Telecom segment



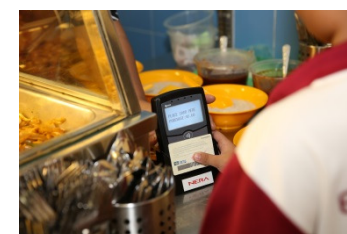
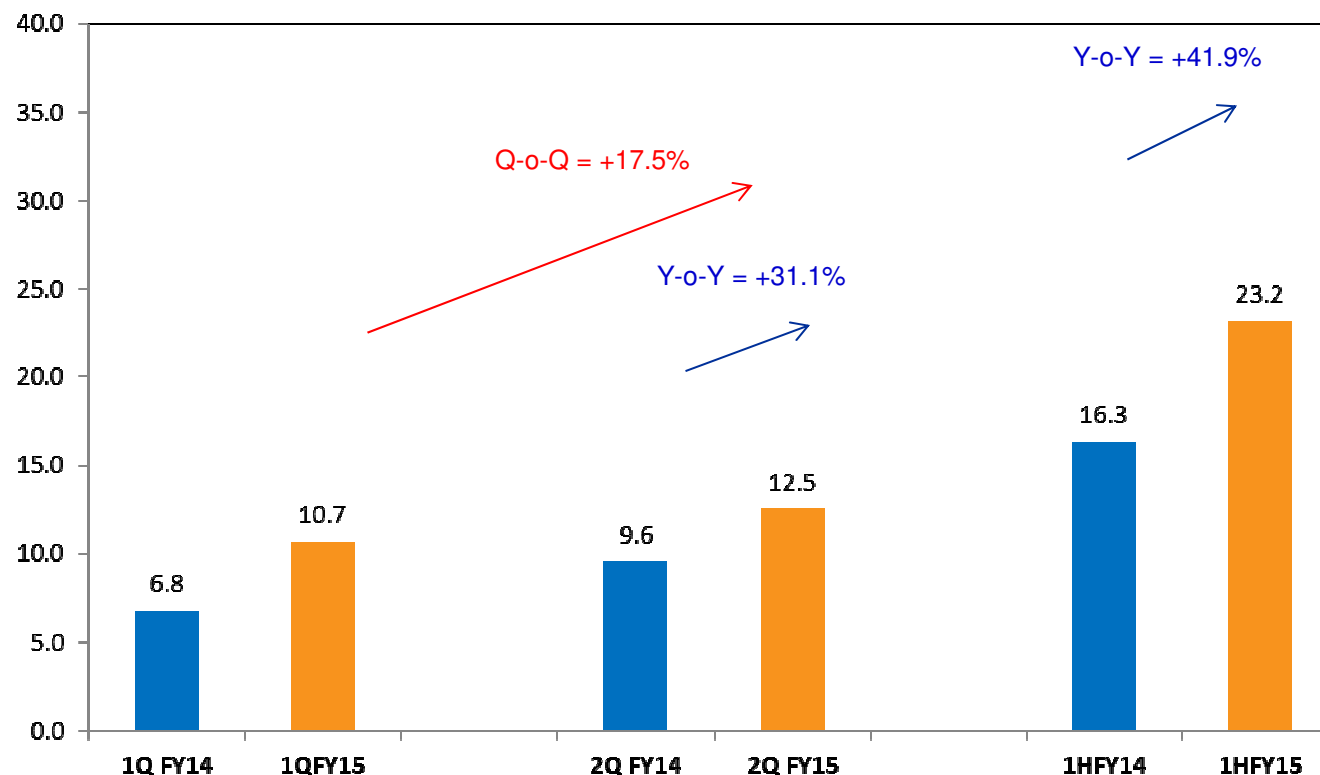
- In 2Q FY15, Telecom segment revenue from SEA & others region increased both Q-o-Q and Y-o-Y at 44.9% and 0.3% respectively.
- In 2Q FY15, Telecom segment revenue from Middle East and Africa region increased both Q-o-Q and Y-o-Y at 279.6% and 13.5% respectively.
- However, total Telecom segment revenue declined 15.2% Y-o-Y in 1H FY15 from S\$30.3m to S\$25.7m, due to lower sales in both regions in Q1 2015.

Revenue – Network Infrastructure



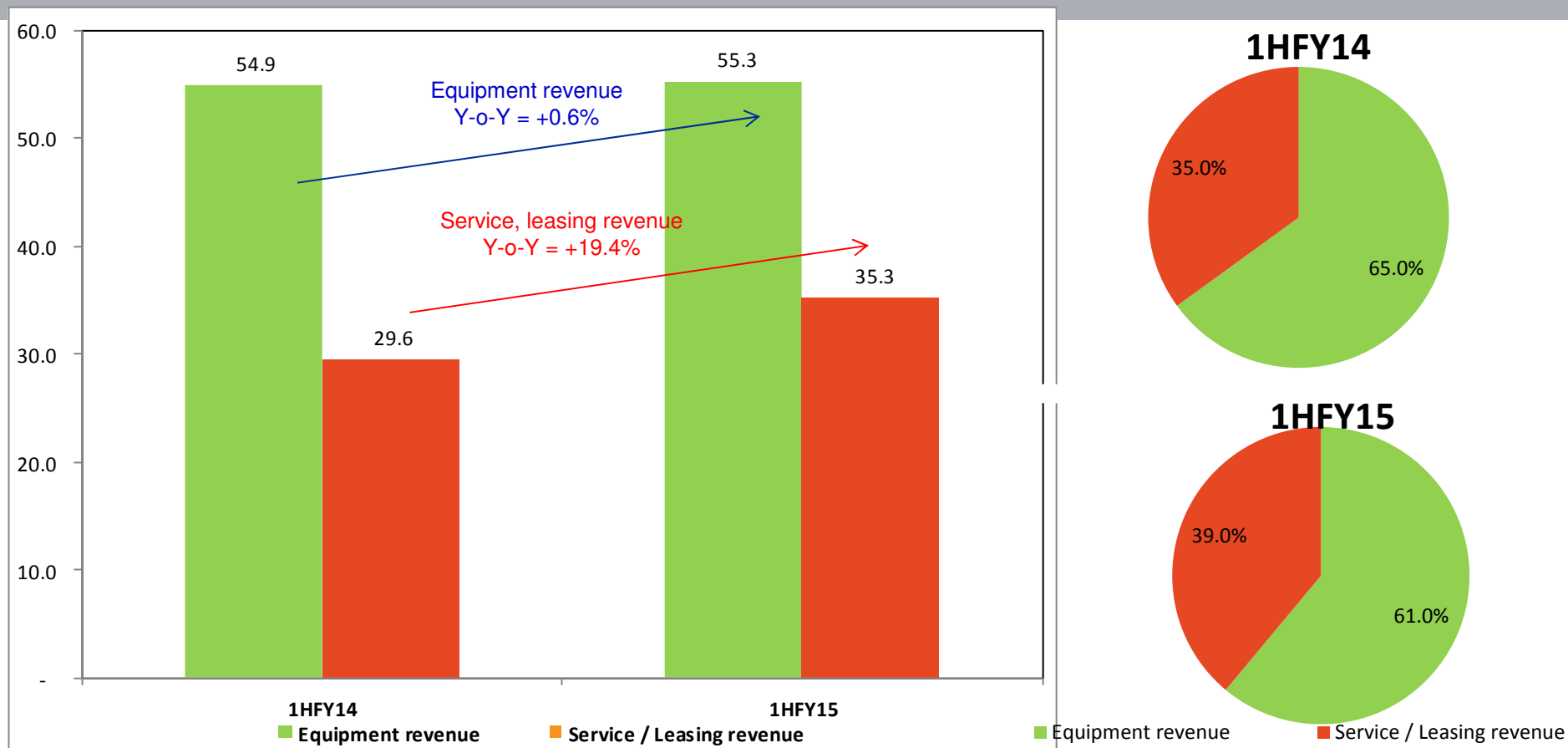
- 2Q FY15 revenue contribution from Network Infrastructure segment decreased 21.7% Q-o-Q but increased 2.8% Y-o-Y.
- The higher revenue for 2Q FY15 Y-o-Y was mainly due to higher sales of network equipment to the Service Provider market.
- For 1H 2015, turnover increased 10.1% YOY from \$37.8 million to \$41.6 million, with higher sales of network equipment to all three markets (Service Provider, Enterprise, and Government / Transport / Utilities).

Revenue – Payment Solutions



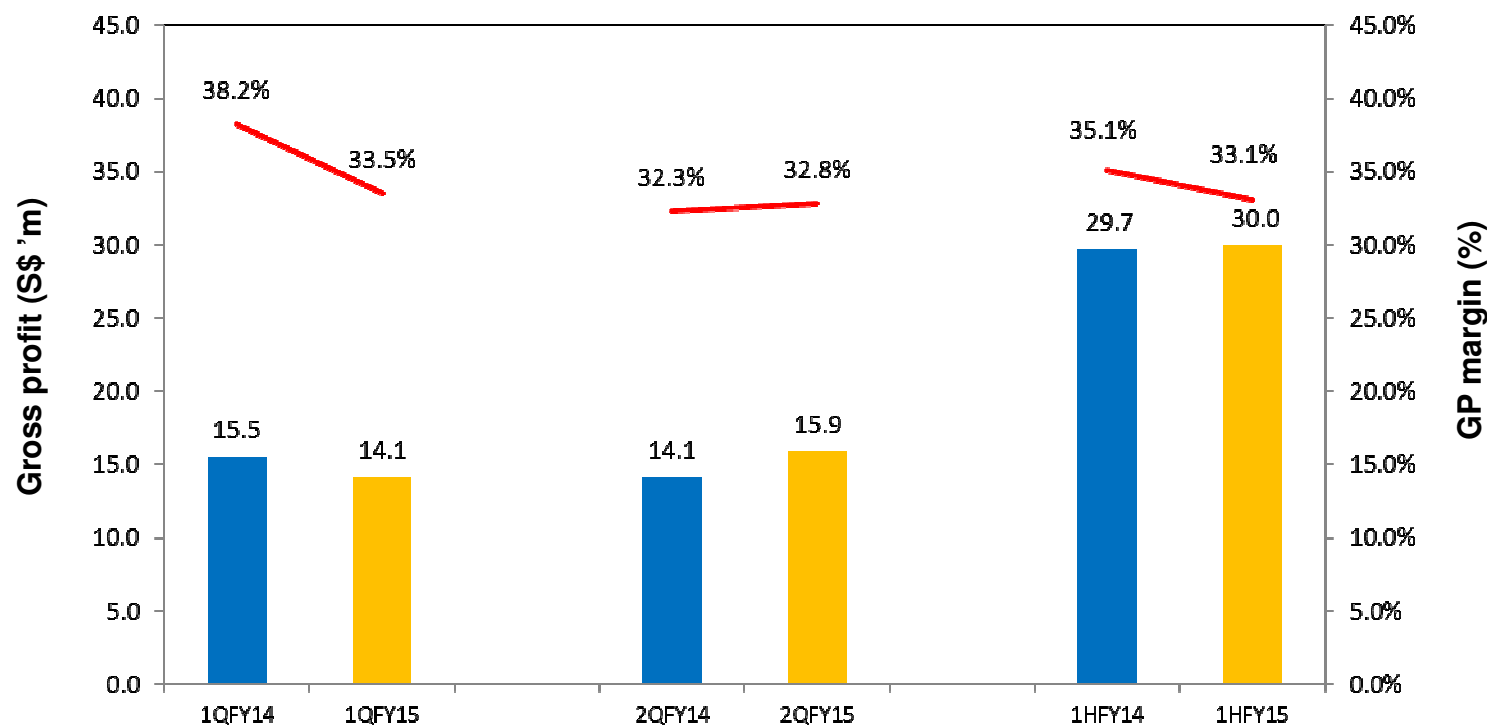
- For 2Q FY15, revenue contribution for Payment Solutions segment increased both Q-o-Q and Y-o-Y at 17.5% and 31.1% respectively.
- For 1H 2015, revenue contribution for Payment Solutions segment increased 41.9% Y-o-Y.
- Higher revenue from the sale and leasing of point-of-sale terminals.

Revenue– Breakdown by nature



- Revenue contribution from service and terminal leasing revenue increased 19.4% Y-o-Y in 1H FY15.
- Revenue contribution from equipment sales also increased slightly at 0.6% Y-o-Y in 1H FY15.

Gross Profit, GP Margin



- In 2Q FY15, gross profit margin (“GP margin”) improved 0.5 ppt Y-o-Y from 32.3% to 32.8%. The higher revenue and GP margin resulted in an increase of 12.3% in gross profit Y-O-Y from \$14.1m to \$15.9m.
- Gross profit for 1H 2015 increased slightly by 1.0% from \$29.7 million to \$30.0 million. However, GP% declined from 35.1% to 33.1%.
- The changes in gross profit and GP% can be attributed to sales mix in product, project and services.

Other income, Operating Expenses

Other operating income

- The lower other operating income for Q2 2015 and 1H 2015 was mainly due to absence of exchange gain for the respective periods.

Distribution and Selling expenses

- Distribution and selling expenses increased 6.3% (\$0.4 million) Y-O-Y for the quarter mainly due to higher payroll related costs.
- For 1H 2015, the increase of 1.9% (\$0.3 million) was mainly due lower writeback of doubtful debts provision and bad debts recovered as compared to 1H 2014.

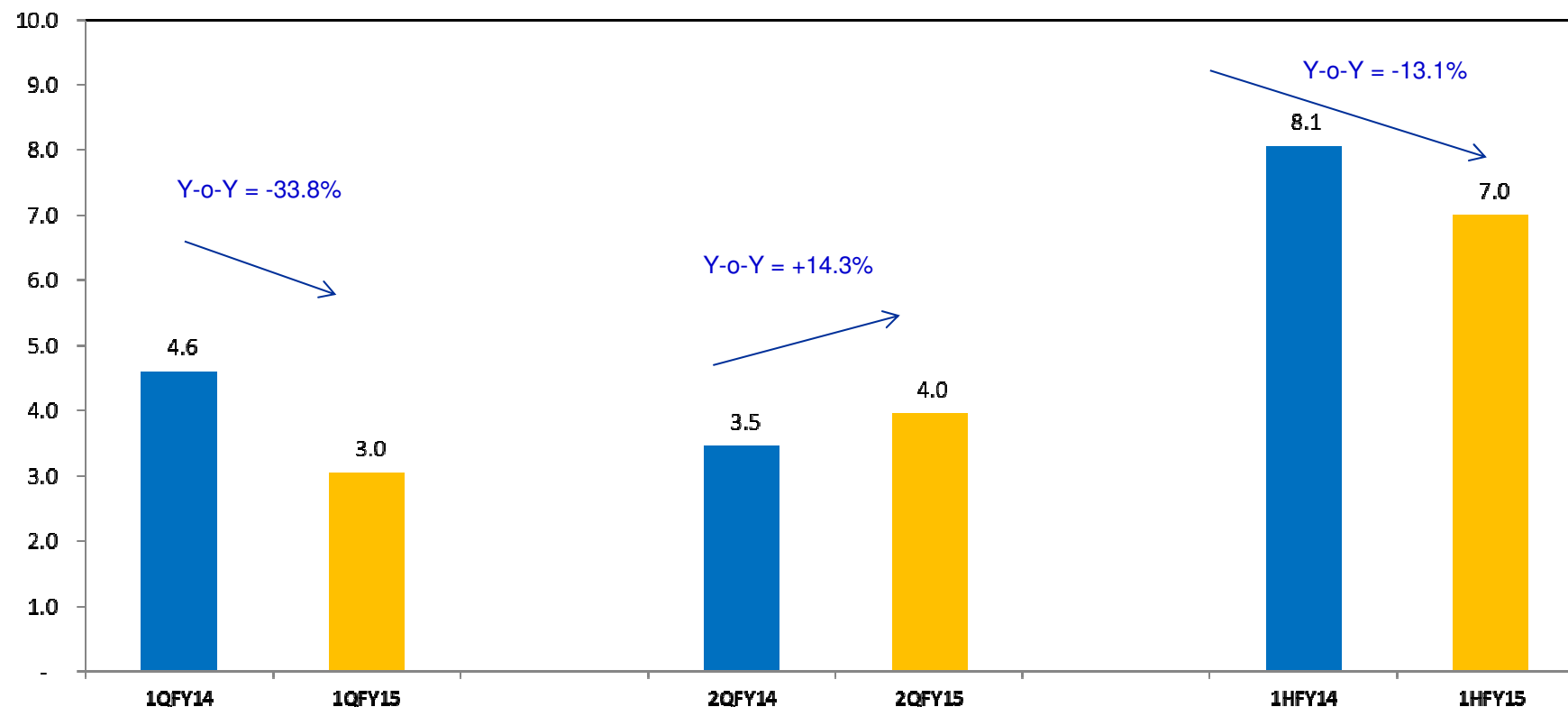
Administrative expenses

- Administrative expenses increased by 24.0% (\$0.7 million) Y-O-Y for the quarter and 14.3% (\$0.8 million) Y-O-Y for 1H 2015 was mainly due to higher payroll and related costs, rental costs (from new office in Myanmar and expansion of office space in certain countries) and higher depreciation expenses.

Other expenses

- Higher other operating expenses in 2Q FY15 and 1H FY15 was mainly due to exchange loss.

Profit after tax



- PAT for Q2 2015 registered an increase of 14.3% YOY mainly due to higher gross profit and lower taxes, partially offset by lower other operating income, higher operating expenses and exchange loss.
- PBT for 1H 2015 registered a decline of 13.1% YOY mainly due to higher operating expenses and exchange loss, partially offset by lower taxes.

Financial Positions

- **Borrowings**

- As of 30 June 2015, S\$10.6m of loan had been drawn.

- **Warranty provision, approximately S\$3.8m**

- **Cash position of S\$18.3m as of 30 June 2015**

For Q2 2015 and 1H 2015, the decrease in cash and cash equivalents of \$6 million was mainly due to :

- negative cashflow from operating activities of \$3.5 million and \$2.4 million respectively, as a result of higher working capital requirements from higher level of business activities.
- payment of FY 2014 dividend of \$7.2 million in May 2015
- outlay on capital expenditure of \$0.5 million and \$2.4 million for Q2 2015 and 1H 2015 respectively.
- The above was partially offset by loans taken up in Q2 2015 and 1H 2015 of \$5.2 million and \$5.9 million respectively.

Interim Dividend

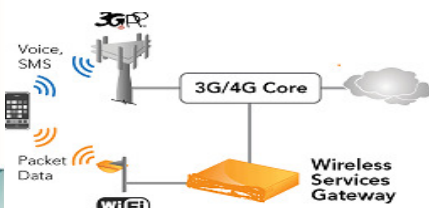
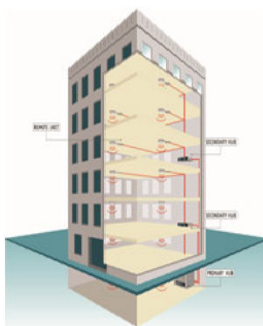
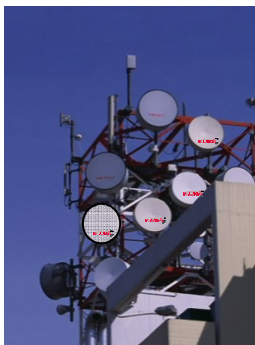
The Board is pleased to recommend an interim dividend as follow :

Name of Dividend :	Interim (one-tier)
Dividend Type :	Cash
Dividend Amount per Share :	2.5 cents
Tax Rate :	Tax exempt

Date payable : 28 August 2015



Overall Nera Telecommunications



- The Group's business comprises two main business segments, namely Telecommunications and Infocommunications.
- In 1H 2015, the Group secured approximately \$125.6 millions in order intake, a significant increase of 20.6% compared with \$104.1 million in 1H 2014 due to significant orders received from both the Telecommunications business area and the Infocomm business area.

Infocomm Network Infrastructure



IP
Networks



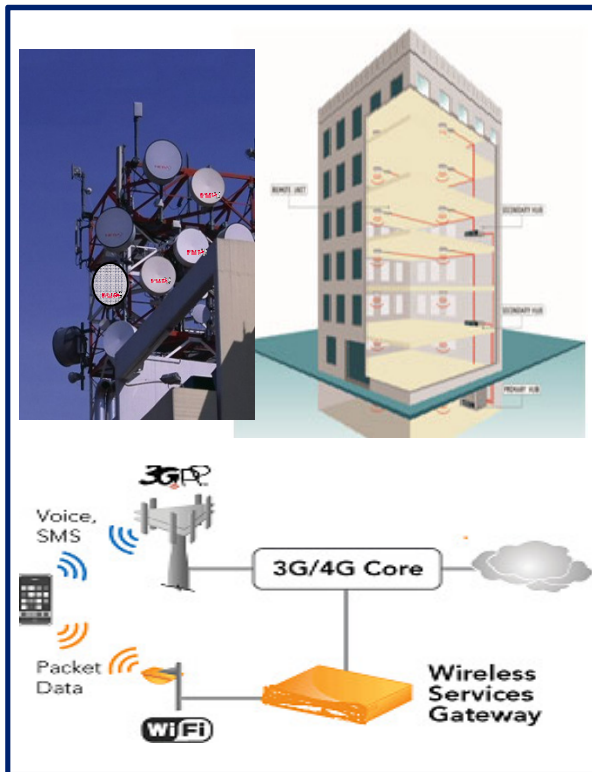
Optical
Networks



Broadcast
Networks



BA : Wireless Infrastructure Networks (“WIN”)



- Competition in the wireless infrastructure network market is expected to remain intense as mobile operators continue to demand for lower capex and opex costs, and introduce new revenue streams.
- In 1H 2015, the Group's Telecom business segment secured approximately \$44.1 million in order in-take, a significant increase of 19.6% compared to \$36.8 million in 1H 2014 as a result of higher point-to-point radio order intake from customers in the Middle East and Africa market in Q1 2015.
- The Group believes that growth in data and video traffic, the increase in mobile devices and demand for broadband services as well as regulatory compliances will drive mobile operators to continue to invest in expanding their wireless infrastructure networks coverage, capacity and capabilities.
- The Group will continue to provide end-to-end wireless infrastructure network, comprising point-to-point radios, point-to-multi-point radios, mobile coverage solutions, DAS (“Distributed Antenna System”) in-building coverage solutions, wifi 3G data offload as well as network performances and management solutions to enable our customers to deploy new services with a cost-effective wireless infrastructure.

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 \$81.5 million in order intake in 1H 2015 as compared to \$67.3 million in 1H 2014. The increase of about 21.1% was due to higher order intake from both the Network Infrastructure and Payment Solutions business areas.

INFOCOMM

BA : Network Infrastructure



- Competition in the Network Infrastructure business area remains high and very fragmented with local resellers, distributors and system integrators as well as some global equipment vendors competing in the various market verticals.
- In 1H 2015, the Group Network Infrastructure business area secured approximately \$47.2 million in order in-take, an increase of 12.3% compared to \$42.0 million in 1H 2014 due to significantly higher order in-take in Q2 2015.
- The Group believes that Telcos and ISP (“Internet Services Provides”) will continue to invest in their network infrastructure capacity and capabilities to support the growth in the number of internet devices, data and video traffic and web services as well as addressing the demand for mobility, security and regulatory compliances. Enterprise IT will continue to invest and refresh their IT 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 lower the costs of providing public services.
- The Group will continue to focus on providing IP, Optical and Broadcast network infrastructure products and solutions to meet our various customers’ business objectives. As more and more organisation are using and testing Cloud Services, the Group intends to gradually build up a comprehensive range of cloud infrastructure products to enable our customers to roll out cloud services

INFOCOMM BA : Payment Solutions



- Competition in the payment industry is very fragmented with many local players offering various payment products and services to banks, financial institutions and retailers.
- In 1H 2015, the Group's Payment Solutions business area managed to secure approximately \$34.3 million in order in-take, a significant increase of 35.8% compared to \$25.3 million in 1H 2014 due to strong order in-take in both Q1 and Q2 2015.
- We believe that growth in the payment business is driven by the increase in number of plastic cards, credit and debit cards spending, the increase in transactions, governments' cashless initiatives, banks outsourcing their point-of-sale infrastructure as well as regulatory compliances.
- The Group will focus on providing a comprehensive and secured end-to-end payment infrastructure, various types of point-of-sale terminals and related services, mobile payment and e-Commerce payment products and solutions.

Order in-take summary



Nera Telecommunications Ltd

