

KeyTech Limited

Ticker: KEY - BH
Sector: Telecom

Fiscal Year-End: March 31, 2008
Web Site: www.keytech.bm

Share Price (10/31/08):	\$9.50
Stock Rating:	Buy
Risk Profile:	Moderate
1-Year Price Target:	\$12.00
1-Year Implied ROR:	32.6%

Annual Dividend:	\$0.60
Current Yield:	6.3%
Payout Ratio:	60%
Ex-Dividend Date:	12/26/08
Frequency:	Quarterly

Shares O/S:	14.6m
Market Cap:	\$138.4m
BSX Weight:	7.0%
Book Value:	\$9.96
Price/Book:	0.95x

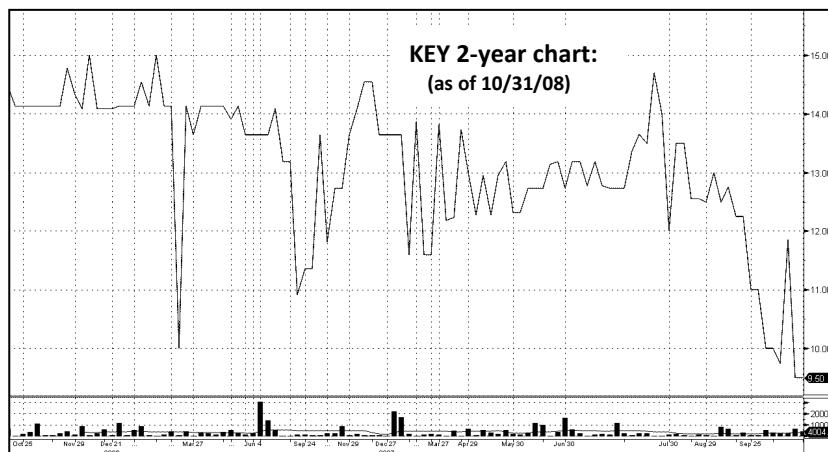
52-Week High:	\$14.70
52-Week Low:	\$9.50
Avg. Monthly Volume:	15.8k

Current P/E Ratio:	9.5x
Shareholder's Equity:	\$145.1m
Total Assets:	\$174.9m
Return on Equity:	10.1%
Return on Assets:	8.3%

Earnings Snapshot	2006	2007	2008	2009E	2010E
EPS:	\$0.80	\$0.63	\$1.00	\$1.04	\$1.12
YoY Growth:	16.1%	(21.8%)	59.4%	4.0%	7.7%
P/E Ratio:	13.4x	21.7x	13.6x	9.1x	11.0x
Fiscal YE Price:	\$10.74	\$13.64	\$13.82		

Notes:

- KEY distributed a 1-for-10 stock dividend in July 2008. Per-share numbers have been adjusted accordingly.



Company Description

KeyTech Limited is a holding company for a diversified group of telecommunications service providers and information technology businesses. Segmented information for fiscal year-end 2008 is as follows (in millions):

<u>Business Segment</u>	<u>Revenue</u>	<u>Earnings</u>	<u>Net Margin</u>
Bermuda Telephone (BTC)	\$60.9	\$12.9	21.1%
M3 Wireless	\$17.9	\$ 0.9	5.2%
Logic Communications	\$17.2	\$ 0.4	10.3%
Bermuda Yellow Pages (BYP)	\$5.6	\$ 2.1	37.6%
WestTel Communications	\$6.8	(\$ 3.4)	(50.3%)

KeyTech owns a 32% effective interest in Bermuda CableVision Limited, the main cable television service provider in Bermuda. The company also holds a 67% controlling interest in Cayman-based WestTel Communications.

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2008 Results

KeyTech's operating earnings rebounded 59% in fiscal 2008 to \$14.6 million, or \$1.00 per share (post the July 2008 1-for-10 stock dividend.) Consolidated revenues increased by 3.0%, from \$105.4 million to \$108.5 million. Growth in data, cellular, fixed wireless, and international long distance revenues more than offset a marginal decline in local fixed line revenue. Despite the strong earnings, free cash flow fell by 21.7%, as the company continued to make large capital expenditures to improve its network infrastructure. Total operating expenses declined by \$0.6 million as a result of cost containment efforts. Amortization expense fell by \$1.3 million year-on-year due to the full depreciation of certain BTC assets.

Divisional breakdown was as follows:

- **BTC** reported a relatively pedestrian year, as revenue fell by \$1.65 million, or 2.6%, due to a reduction in fixed wire-line sales. Net income, however, increased by \$2.1 million, or 19.1%, due to the full amortization of certain assets.
- **Logic Communications** delivered revenue growth of 4.1% and impressive profit growth of 325% as a result of increased residential broadband revenue and a reduction in maintenance expenses.
- **M3 Wireless** reported a revenue increase of 17.8% during the year and return to profitability, with net income of \$935,000. The division continued to build on its strong competitive position in the corporate Blackberry market and announced overall subscriber growth of 6%.
- **Bermuda Yellow Pages** once again turned in a solid performance, with a 4.9% rise in revenue and profit growth of 14.4%. The division continues to increase the offerings and interactivity of its online portal.
- **WestTel** exhibited strong revenue growth of 27%, with its fixed wireless, corporate voice and data, and residential broadband offerings continuing to attract Cayman customers. However, the division remains a significant drag on KeyTech's operating earnings – posting a net loss of \$3.4 million – roughly equivalent to the year prior.

Forecast and Recommendation

KeyTech has ramped up its capital spending significantly as of late, and the next few years hold considerable promise and excitement for the company. BTC and M3 Wireless are in the midst of rolling out their next generation networks. Together with its consortium partners, the company will soon complete the US-Bermuda submarine cable system. These new projects should result in a more reliable, advanced infrastructure from which KeyTech can offer its clientele the latest in telecommunications products and services.

Given the significant capital cost associated with the company's endeavours, we have adopted a conservative earnings growth outlook of 7% during the next two fiscal years. We anticipate that KeyTech's operational leverage will gear up over the next 24 months, following the completion of its current infrastructure projects and as WestTel inches its way towards profitability.

As with many of the BSX Domestic Issuers, KeyTech shares traded down sharply in the month of October – to levels unseen in over three years. The company's dividend yield is currently over 6.0% and the stock trades at less than book value. We apply an 11.0x multiple to our fiscal 2010 EPS estimate of \$1.12 for a price target of \$12.00 and a Buy rating.