

Singapore

ADD (no change)

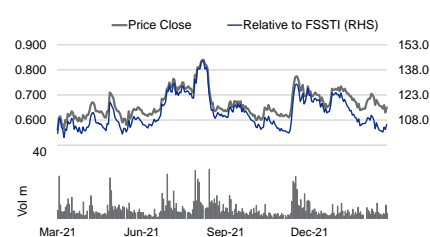
Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.65
Target price:	S\$0.96
Previous target:	S\$1.00
Up/downside:	47.7%
CGS-CIMB / Consensus:	-4.0%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$210.8m
	S\$285.1m
Average daily turnover:	US\$2.15m
	S\$2.91m
Current shares o/s:	435.3m
Free float:	54.2%

*Source: Bloomberg

Key changes in this note

- FY22-23F EPS reduced by 0.6-0.7% as we factor in the higher share base as ISDN issued scrip dividend in FY21.
- FY24F forecasts introduced.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-12.2	10.2
Relative (%)	-1.4	-14.5	-0.6

Major shareholders

	% held
Teo Cher Koon	32.2
NTCP SPV VI	8.6
Braun Karl Walter	4.6

Analyst(s)



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ISDN Holdings Ltd

Record net profit since listing

- FY21 net profit was in line with expectations at 98% of our full-year forecast.
- ISDN remains optimistic on the outlook for its core industrial automation business (98% of FY21 revenue).
- Reiterate Add. Progress in its hydropower business in Indonesia could catalyse the share price in FY22F.

Results in line with expectations

FY21 revenue grew 21.6% yoy to S\$440.1m, in line at 103% of our full-year forecast. Net profit in FY21 grew 68.3% yoy, in line at 98% of our full-year expectations. FY21 net profit was also the highest net profit on record since ISDN listed in 2005. FY21 revenue growth was driven by continued broad-based demand for industrial automation solutions from customers in the medical, semiconductor, automotive, manufacturing and electronics sectors. ISDN noted that the Covid-19 pandemic has accelerated the pace of digitalisation which has in turn spurred accelerated demand for industrial automation. In FY21, the group's core industrial automation business accounted for 98% of total revenue. ISDN also guided that its hydropower generation business in Indonesia is progressing well towards full commercialisation. A final dividend of 1.45 Scts with scrip option was declared.

Expects automation trend to continue

ISDN guided that the demand for industrial automation will remain strong as rising labour costs throughout Asia have highlighted the need to reduce labour costs through automation. Automation can also help improve productivity as industrial automation solutions can be used together with technologies such as artificial intelligence, the industrial internet of things (IIoT), and big data analytics to help companies make better use of data. ISDN has also benefitted from the upgrade of its IT systems and the consolidation of its corporate functions to improve efficiency. Given the strong demand outlook, ISDN will construct another building in its China Industrial Park campus, which could lead to an almost 39% increase in gross floor area at the campus (as per the company's press release). Two of its three hydropower plants were successfully commissioned in early-Sep 2021 and ISDN expects these plants to contribute to the group's revenue in FY22F.

Reiterate Add

Our FY22-23F EPS are reduced slightly by 0.6-0.7% as we factor in the larger share base given the scrip dividend in FY21. Our TP is reduced slightly to S\$0.96, based on 12.3x FY23F EPS forecast. Our 12.3x target P/E multiple is 2 s.d. above ISDN's FY17-21 historical average forward P/E of 7.9x. Previously, we used a P/E multiple of 12.8x (sector average). Potential re-rating catalysts include earlier profit contribution from its hydropower segment. Downside risks include a prolonged Covid-19 outbreak, leading to travel restrictions which could affect ISDN's ability to service its customers.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	361.9	440.1	469.6	503.7	536.3
Net Profit (S\$m)	15.14	25.49	30.10	34.10	38.20
Core EPS (S\$)	0.049	0.058	0.069	0.078	0.087
Core EPS Growth	180%	19%	18%	13%	12%
FD Core P/E (x)	13.22	11.15	9.47	8.36	7.46
Price To Sales (x)	0.78	0.65	0.61	0.57	0.53
DPS (S\$)	0.008	0.015	0.017	0.019	0.022
Dividend Yield	1.23%	2.23%	2.64%	2.99%	3.35%
EV/EBITDA (x)	7.72	6.33	5.20	4.32	3.68
P/FCFE (x)	10.41	20.66	9.22	7.81	7.07
Net Gearing	(12.3%)	(8.7%)	(16.7%)	(24.1%)	(30.6%)
P/BV (x)	1.66	1.45	1.30	1.16	1.04
ROE	13.1%	13.9%	14.4%	14.7%	14.7%
% Change In Core EPS Estimates			(0.70%)	(0.66%)	
CGS-CIMB/Consensus EPS (x)			0.99	1.00	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (\$\$ m)	FY21	FY20	yoy % chg	Prev FY21F	Comments
Revenue	440.1	361.9	21.6	426.0	In line with our expectations at 103% of our full-year forecast.
Cost of sales	(319.8)	(266.3)	20.1	(309.7)	
Gross profit	120.4	95.6	26.0	116.3	
Gross profit margin (%)	27.4	26.4	+3.6% pts	27.3	Higher gross profit margin due to economies of scale.
Exceptionals	-	(6.1)	na	0.0	Impairment loss on receivables due from investee companies.
Pretax profit	52.5	32.0	64.0	51.7	
Tax	(13.4)	(9.5)	41.2	(13.2)	
Tax rate (%)	25.6	29.7	(13.9)	25.6	
Minority interests	13.6	7.4	na	12.4	
Net profit	25.5	15.1	68.3	26.1	
Core net profit	25.5	21.2	20.0	26.1	In line with our expectations at 98% of our full-year forecast.
EPS (cts)	5.8	3.5	67.9	6.0	
Core EPS (cts)	5.8	4.9	19.7	6.0	

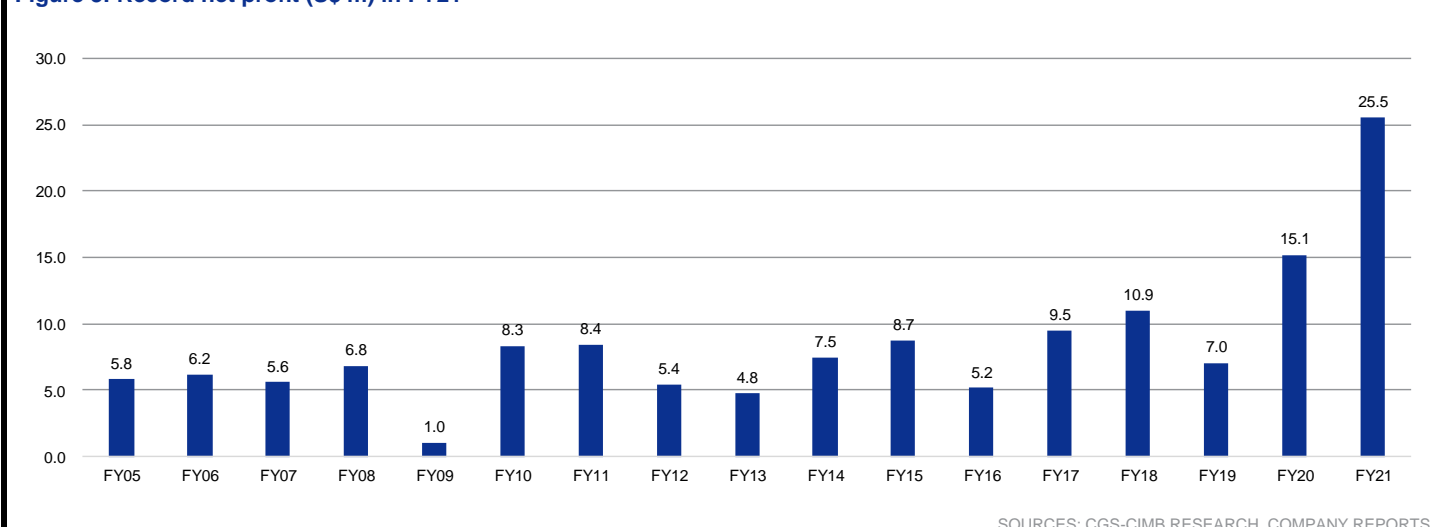
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

(\$\$ m)	Old		New		Chg (%)	
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Revenue	460.1	493.5	469.6	503.7	2.1	2.1
Gross profit	123.3	134.2	128.7	138.5	4.3	3.2
Operating expenses	(75.1)	(79.2)	(82.6)	(85.8)	10.0	8.3
Operating profit	53.0	60.2	51.2	58.2	-3.4	-3.3
Net profit	30.1	34.1	30.1	34.1	0.0	0.0
					% pts	
Gross profit margin (%)	26.8	27.2	27.4	27.5	0.6	0.3
Net profit margin (%)	6.5	6.9	6.4	6.8	(0.1)	(0.1)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Record net profit (\$\$ m) in FY21



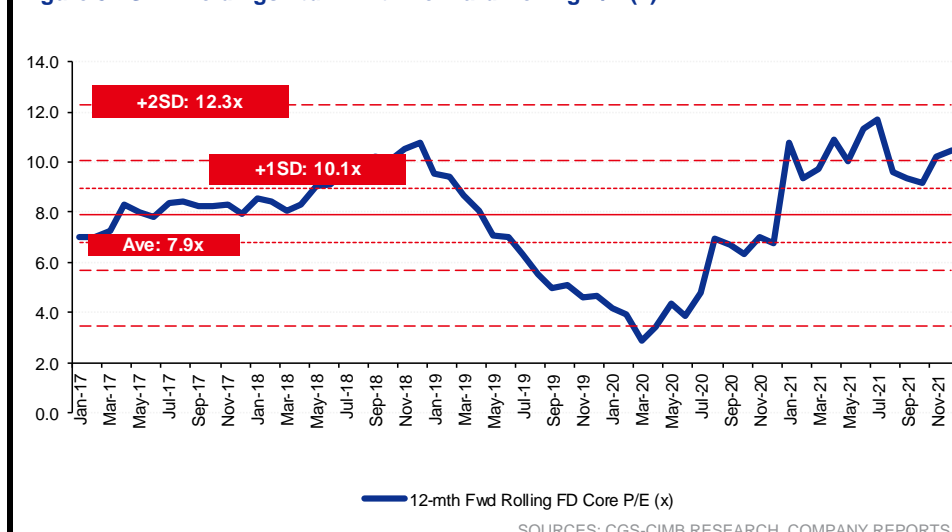
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Peer Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY22F	CY23F		CY22F	CY23F		
ISDN Holdings Ltd	ISDN SP	Add	0.65	0.96	211	9.5	8.4	14.0%	1.30	1.16	14.5%	2.6%
AEM Holdings Ltd	AEM SP	Add	4.21	7.90	963	10.2	9.3	na	2.66	2.20	28.6%	2.4%
Aztech Global Ltd	AZTECH SP	Add	0.94	1.59	536	8.0	7.1	11.0%	2.15	1.86	28.6%	6.2%
Frencken Group Ltd	FRKN SP	Add	1.63	2.07	515	9.7	8.9	na	1.57	1.37	17.3%	1.8%
Grand Venture Technology Ltd	GVTL SP	Add	1.01	1.60	248	11.6	9.2	26.0%	2.67	2.16	25.4%	1.7%
Nanofilm Technologies Int'l Ltd	NANO SP	Add	2.90	3.50	1,410	23.6	19.3	22.5%	3.90	3.39	17.6%	1.1%
UMS Holdings Ltd	UMSH SP	Add	1.22	1.63	601	11.2	10.8	na	2.63	2.36	24.8%	4.9%
Vicplas International Ltd	VPS SP	Add	0.22	0.28	81	9.5	8.6	na	1.31	1.18	14.5%	2.6%
Venture Corporation	VMS SP	Add	17.68	23.32	3,798	14.3	13.2	na	1.80	1.70	12.8%	4.2%
Simple average excluding ISDN						12.3	10.8	19.8%	2.34	2.03	21.2%	3.1%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 5: ISDN Holdings Ltd 12-mth Forward Rolling P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

ISDN focuses on the motion control industry and provides the full spectrum of integrated precision engineering services from conceptualisation, design and development to prototyping, production, sales and marketing and after-sales engineering support. The group is also involved in mini-hydropower projects in Indonesia. Through its role in industrial automation, ISDN aims to help drive efficiency to save energy and reduce the environmental impact of a multitude of industries.

Keep your eye on

The group's mini-hydropower plant project in Indonesia helps offset carbon emissions and mitigate climate change. The mini-hydropower plants targets the remote and rural areas in Indonesia, generating clean energy and job opportunities.

Implications

ISDN's mini-hydropower plants face delays due to the Covid-19 pandemic. Management aims to turn on the plants by end-2021. Mini-hydropower earnings represent upside earnings risk as we have not factored them into our projections.

ESG highlights

At end-FY20, ISDN had 82 subsidiaries and 74 sales offices in Asia. ISDN has an established whistle-blowing policy which allows the whistle-blower direct access to their superiors, any of the Group's Managing Director and President, or the Chairman of the Audit Committee.

Implications

The large number of subsidiaries in various geographies could pose operational risk. In 2018, ISDN's Beijing subsidiary was served a writ of summons alleging that its ex-employee had borrowed monies for which the Beijing subsidiary has acted as a guarantor. Ineffective risk control could pose financial and reputational risks to ISDN.

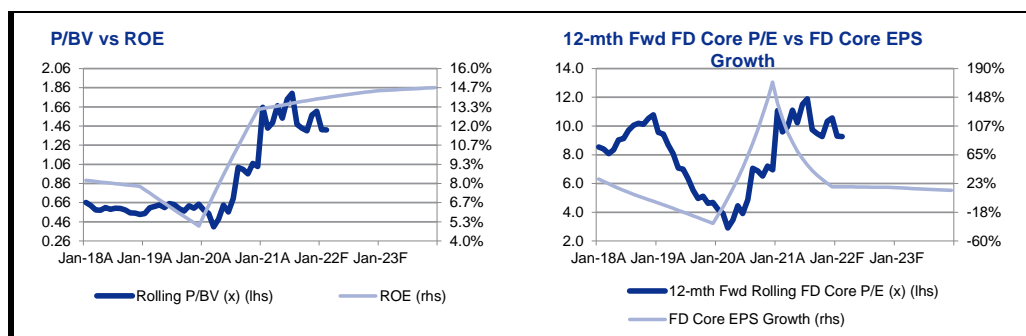
Trends

Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

Implications

ISDN provides equal opportunities for employees in respect of recruitment, training and development, job advancement, and remuneration and benefits as per management. The group has does not discriminate on the basis of gender, ethnicity, religion, colour, age, marital status, family status, pregnancy or any other discrimination prohibited by applicable laws [source: company management]. In addition to the basic wage package, ISDN also provides benefits and welfare such as severance pay, mandatory/central provident fund, employment compensation insurance, medical insurance, unlimited times doctor visit reimbursement, annual leave, sick leave, additional remuneration and benefits to reward and recognise performing employees such as performance-based bonus, commissions and variable annual bonuses. Based on the different job duties of employees, local travelling (parking and petrol inclusive) allowance, mobile phone allowance, overseas travelling and meals allowance, and overtime taxi claim are included in the total remuneration and benefits package for employees.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	361.9	440.1	469.6	503.7	536.3
Gross Profit	99.7	125.2	133.8	144.0	152.7
Operating EBITDA	38.6	48.7	56.3	63.6	68.7
Depreciation And Amortisation	(4.1)	(4.8)	(5.1)	(5.4)	(5.8)
Operating EBIT	34.5	43.9	51.2	58.2	63.0
Financial Income/(Expense)	(1.4)	(1.1)	(1.6)	(1.6)	(1.8)
Pretax Income/(Loss) from Assoc.	1.0	1.1	0.7	0.5	0.5
Non-Operating Income/(Expense)	4.0	8.6	4.8	5.0	5.0
Profit Before Tax (pre-EI)	38.1	52.5	55.1	62.1	66.7
Exceptional Items	(6.1)	0.0	0.0	0.0	0.0
Pre-tax Profit	32.0	52.5	55.1	62.1	66.7
Taxation	(9.5)	(13.4)	(14.1)	(15.9)	(17.1)
Exceptional Income - post-tax					
Profit After Tax	22.5	39.1	41.0	46.2	49.6
Minority Interests	(7.4)	(13.6)	(10.9)	(12.1)	(11.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15.1	25.5	30.1	34.1	38.2
Recurring Net Profit	21.3	25.5	30.1	34.1	38.2
Fully Diluted Recurring Net Profit	21.3	25.5	30.1	34.1	38.2

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	38.62	48.65	56.33	63.64	68.74
Cash Flow from Inv. & Assoc.					
Change In Working Capital	23.44	(28.76)	(7.31)	(7.34)	(7.24)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(21.86)	2.80	2.60	2.70	2.70
Net Interest (Paid)/Received	(1.43)	(1.08)	(1.60)	(1.60)	(1.80)
Tax Paid	(8.19)	(12.85)	(14.11)	(15.90)	(17.06)
Cashflow From Operations	30.58	8.77	35.91	41.51	45.33
Capex	(10.51)	(6.84)	(5.00)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	4.42	5.35	0.00	0.00	0.00
Cash Flow From Investing	(6.09)	(1.49)	(5.00)	(5.00)	(5.00)
Debt Raised/(repaid)	2.51	6.47	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(5.74)	(10.33)	(7.53)	(8.53)	(9.55)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	(0.32)	4.83	0.00	0.00	0.00
Cash Flow From Financing	(3.56)	0.97	(7.53)	(8.53)	(9.55)
Total Cash Generated	20.94	8.24	23.38	27.98	30.78
Free Cashflow To Equity	27.00	13.75	30.91	36.51	40.33
Free Cashflow To Firm	26.23	8.75	32.91	38.51	42.43

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	58.5	61.7	86.9	116.9	149.6
Total Debtors	103.0	118.5	133.8	143.5	152.8
Inventories	55.6	77.5	85.0	91.0	97.1
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	217.0	257.7	305.7	351.4	399.5
Fixed Assets	61.6	67.7	67.6	67.1	66.4
Total Investments	5.8	5.3	6.0	6.5	7.0
Intangible Assets	12.2	12.2	12.2	12.2	12.2
Total Other Non-Current Assets	61.4	72.3	72.3	72.3	72.3
Total Non-current Assets	141.0	157.5	158.1	158.2	157.9
Short-term Debt	22.1	27.4	27.4	27.4	27.4
Current Portion of Long-Term Debt					
Total Creditors	84.4	96.9	111.9	120.1	127.8
Other Current Liabilities	22.6	25.9	25.9	25.9	25.9
Total Current Liabilities	129.1	150.2	165.2	173.4	181.1
Total Long-term Debt	9.6	12.8	12.8	12.8	12.8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1.7	5.3	5.3	5.3	5.3
Total Non-current Liabilities	11.3	18.1	18.1	18.1	18.1
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	140.4	168.3	183.3	191.5	199.2
Shareholders' Equity	170.0	197.1	219.7	245.3	273.9
Minority Interests	47.6	49.8	60.8	72.9	84.3
Total Equity	217.6	247.0	280.5	318.1	358.2

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	24.4%	21.6%	6.7%	7.3%	6.5%
Operating EBITDA Growth	48.8%	26.0%	15.8%	13.0%	8.0%
Operating EBITDA Margin	10.7%	11.1%	12.0%	12.6%	12.8%
Net Cash Per Share (S\$)	0.06	0.05	0.11	0.17	0.25
BVPS (S\$)	0.39	0.45	0.50	0.56	0.62
Gross Interest Cover	19.90	29.72	25.61	29.10	29.98
Effective Tax Rate	29.7%	25.6%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	3.76%	5.69%	5.70%	5.70%	5.70%
Accounts Receivables Days	98.8	91.8	98.1	100.5	101.1
Inventory Days	75.96	77.14	88.33	89.31	89.75
Accounts Payables Days	105.2	105.0	113.5	117.7	118.3
ROIC (%)	20.6%	23.5%	22.7%	25.0%	26.2%
ROCE (%)	14.6%	16.5%	17.0%	17.3%	16.7%
Return On Average Assets	9.2%	10.4%	9.7%	9.8%	9.6%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Motion control rev growth (%)	20.2%	28.3%	9.0%	8.0%	8.0%
Gross profit margin (%)	26.4%	27.4%	27.4%	27.5%	27.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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