

## Singapore

**ADD** (no change)

Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.505
Target price:	S\$0.61
Previous target:	S\$0.70
Up/downside:	20.8%
CGS-CIMB / Consensus:	-12.9%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$161.5m
	S\$221.5m
Average daily turnover:	US\$0.32m
	S\$0.44m
Current shares o/s:	435.3m
Free float:	54.2%

\*Source: Bloomberg

### Key changes in this note

- FY22F EPS reduced by 19.4%.
- FY23F EPS reduced by 16.6%.
- FY24F EPS reduced by 13.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	-6.5	-37.3
Relative (%)	3.5	-9.8	-40

Major shareholders	% held
Teo Cher Koon	32.2
NTCP SPV VI	8.6

### Analyst(s)



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# ISDN Holdings Ltd

## Earnings could dip in FY22F

- 1H22 revenue was 8.8% above our S\$175.2m forecast and formed 44.5% of our full-year forecast.
- 1H22 net profit was 4.2% below our S\$11.6m forecast and formed 42.0% of our full-year forecast.
- With the challenging economic conditions in China, FY22F net profit could drop yoy. We reiterate our Add call with a lower TP of S\$0.61.

### 1H22 results: net profit 4.2% below expectation

1H22 revenue fell 12.2% yoy to S\$190.7m while net profit fell 9.0% yoy to S\$11.1m. 1H22 revenue (44.5% of our full-year expectation) was 8.8% above our S\$175.2m expectation. 1H22 net profit (42.0% of our full-year expectation) was 4.2% below our S\$11.6m forecast. Gross profit margin in 1H22 was 28.4% vs. 26.8% in 1H21 as ISDN managed its product mix in favour of better margin products. The company also tightened its cost control with only a 1.6% yoy increase in distribution costs and a 3.8% yoy increase in administration expenses. No interim dividend was declared.

### 2H22 outlook: order book recovery but challenging conditions

ISDN's 1H22 revenue was negatively affected by the mandatory Covid-19 lockdowns in China in 2Q22 which led to disruption in inbound manufacturing components and materials as lockdowns stalled air and ground logistics networks. Disruptions to ISDN's workflow also occurred as its employees could not meet customers during that period. ISDN guided that these conditions improved significantly in Jun-Jul 22 as the lockdowns were lifted resulting in a recovery in order book. However, the group remains worried about revenue. While the group notes that further Covid-19 restrictions remain a risk factor, ISDN also sees lower visibility on the overall macroeconomic outlook for China which could affect 2H22F revenue performance.

### Recommendation: reiterate Add given long-term growth prospects

We reiterate our Add call on ISDN with a lower TP of S\$0.61. This is due to our 16.6% cut in FY23F EPS forecast. We cut our FY22-24F EPS forecasts by 13.9-19.4% as we reduce revenue expectations on slowing economic growth. Our TP is based on 10.5x FY22F P/E (1 s.d. above the Jan 17 to Aug 22 forward P/E; previously 10.1x). Potential re-rating catalysts include earlier profit contribution from its hydropower segment (no further updates in 1H22 results release; still making progress towards commercialisation). Downside risks include a prolonged Covid-19 outbreak, leading to travel restrictions which 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	389.5	421.4	453.8
Net Profit (S\$m)	15.14	25.49	21.22	25.30	28.46
Core EPS (S\$)	0.049	0.058	0.048	0.058	0.065
Core EPS Growth	180%	19%	(17%)	19%	12%
FD Core P/E (x)	10.27	8.66	10.44	8.75	7.78
Price To Sales (x)	0.61	0.50	0.57	0.53	0.49
DPS (S\$)	0.008	0.015	0.012	0.014	0.016
Dividend Yield	1.58%	2.87%	2.40%	2.86%	3.21%
EV/EBITDA (x)	6.08	5.02	5.22	4.29	3.53
P/FCFE (x)	8.09	16.05	5.66	8.80	7.49
Net Gearing	(12.3%)	(8.7%)	(21.0%)	(26.0%)	(31.0%)
P/BV (x)	1.29	1.12	1.04	0.95	0.87
ROE	13.1%	13.9%	10.3%	11.4%	11.7%
% Change In Core EPS Estimates			(19.4%)	(16.6%)	(13.9%)
CGS-CIMB/Consensus EPS (x)			0.81	0.84	0.87

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results comparison**

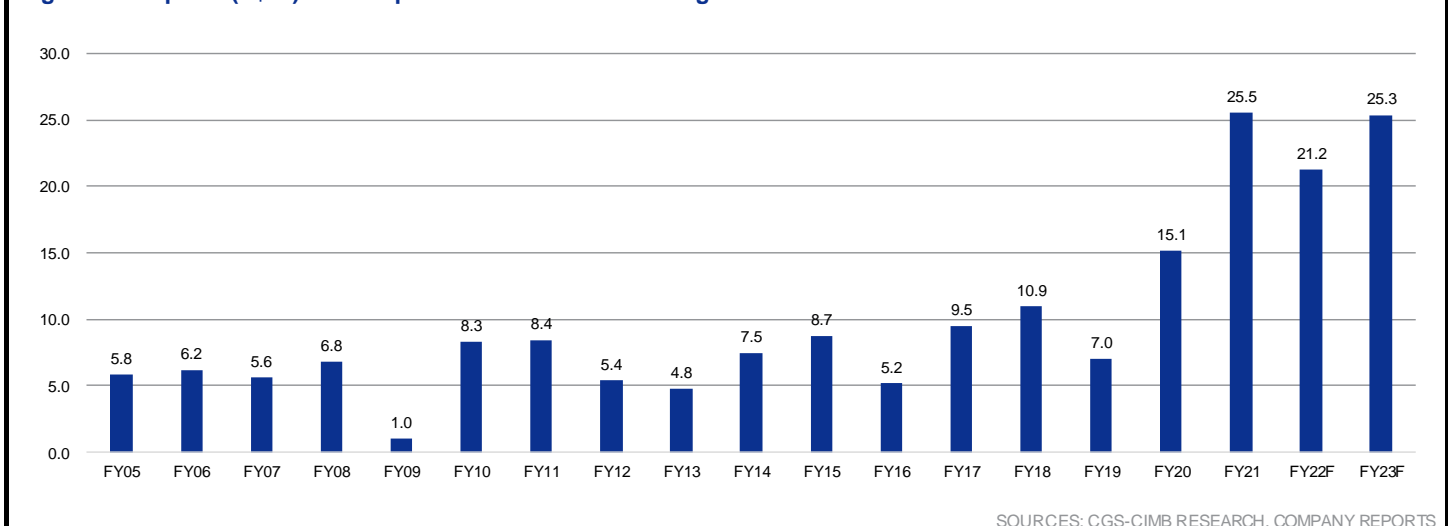
FYE Dec (S\$ m)	1HFY22	1HFY21	yoy % chg	2HFY21	hoh % chg	Prev Comments FY22F
Revenue	190.7	217.2	(12.2)	223.0	(14.5)	428.8 1H22 revenue was 8.8% above our S\$175.2m forecast. 1H22 revenue formed 44.5% of our full-year forecast.
Operating costs	(167.5)	(188.7)	(11.2)	(194.2)	(13.7)	(416.4)
EBITDA	23.2	28.5	(18.5)	28.8	(19.5)	12.4
EBITDA margin (%)	12.2	13.1	-0.9% pts	12.9	-0.8% pts	53.2 Mitigated inflationary cost pressure via adjusting sales mix and controlling costs.
Depn & amort.	(2.5)	(2.3)	10.5	(2.5)	1.0	(5.1)
EBIT	20.7	26.2	(21.0)	26.3	(21.4)	48.1
Interest income	0.2	0.2	(1.4)	0.2	43.3	0.4
Interest expense	(1.3)	(0.7)	83.8	(0.8)	58.7	(2.0)
Associate	1.1	0.4	196.4	0.7	46.6	0.7
Exceptionals	0.0	0.0	na	0.0	na	0.0
Pretax profit	20.7	26.1	(20.5)	26.4	(21.6)	47.2
Tax	(4.6)	(6.7)	(31.4)	(6.7)	(32.0)	(12.1)
Tax rate (%)	22.1	25.6	-3.5% pts	25.5	-3.4% pts	25.6
Minority interests	5.1	7.2	(29.9)	6.4	(20.4)	8.8
Net profit	11.1	12.2	(9.0)	13.3	(16.9)	26.3 1H22 net profit was 4.2% below our S\$11.6m forecast. 1H22 revenue formed 42.0% of our full-year forecast.
Core net profit	11.1	12.2	(9.0)	13.3	(16.9)	26.3
EPS (cts)	2.5	2.8	(9.7)	3.0	(17.1)	6.0
Core EPS (cts)	2.5	2.8	(9.7)	3.0	(17.1)	6.0
WAIC (m)	438.6	435.3	0.8	437.6	0.2	438.6

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 2: Earnings revision**

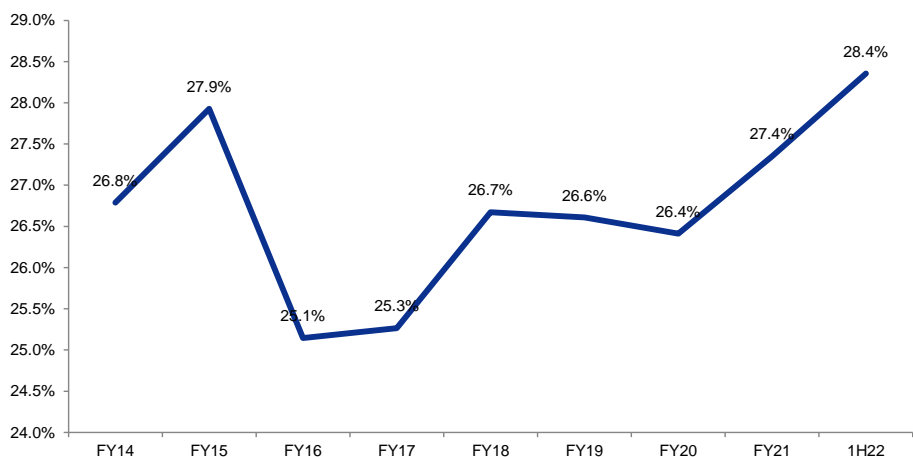
(S\$m)	Old			New			Chg (%)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	428.8	466.2	503.1	389.5	421.4	453.8	-9.2	-9.6	-9.8
Gross profit	117.5	128.2	137.9	110.6	120.1	129.8	-5.8	-6.3	-5.9
Operating expenses	(74.2)	(77.9)	(81.8)	(74.2)	(77.9)	(81.8)	0.0	0.0	0.0
Net profit	26.3	30.3	33.1	21.2	25.3	28.5	-19.4	-16.6	-13.9
Gross profit margin (%)	27.4	27.5	27.4	28.4	28.5	28.6	1.0	1.0	1.2
Net profit margin (%)	6.1	6.5	6.6	5.4	6.0	6.3	(0.7)	(0.5)	(0.3)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 3: Net profit (S\$ m) could dip in FY22F before recovering in FY23F**


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 44: Historical gross profit margin trend**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 5: Peer comparison**

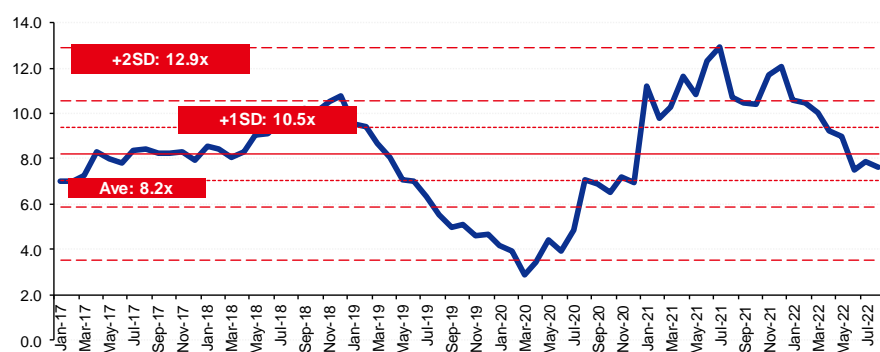
Company	Bloomberg Ticker	Recom.	Price (cl curr)	Target Price (cl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY22F	CY23F		CY22F	CY23F		
ISDN Holdings Ltd	ISDN SP	Add	0.51	0.61	162	10.4	8.8	2.9%	1.04	0.95	10.4%	2.4%
AEM Holdings Ltd	AEM SP	Add	4.38	6.85	987	11.5	10.0	11.9%	2.76	2.29	26.9%	2.2%
Aztech Global Ltd	AZTECH SP	Add	0.94	1.22	529	8.0	7.0	11.6%	2.15	1.86	29.0%	6.2%
Frencken Group Ltd	FRKN SP	Add	1.22	1.75	380	9.2	7.9	7.1%	1.24	1.12	14.3%	3.2%
Grand Venture Technology Ltd	GVTL SP	Add	0.70	0.85	173	15.3	10.7	6.3%	2.03	1.76	14.1%	1.3%
Nanofilm Technologies Int'l Ltd	NANO SP	Add	2.23	3.05	1,074	21.5	17.0	15.5%	3.05	2.69	15.1%	1.2%
UMS Holdings Ltd	UMSH SP	Add	1.21	1.63	588	11.1	10.8	13.8%	2.56	2.26	24.7%	4.1%
Vicplas International Ltd	VPS SP	Add	0.20	0.27	74	9.9	8.0	na	1.22	1.10	13.2%	2.5%
Venture Corporation	VMS SP	Add	18.15	23.32	3,851	14.6	13.6	8.8%	1.84	1.74	13.0%	4.1%
<b>Simple average excluding ISDN</b>						<b>12.6</b>	<b>10.6</b>	<b>10.7%</b>	<b>2.11</b>	<b>1.85</b>	<b>18.8%</b>	<b>3.1%</b>
<b>Simple average excluding ISDN &amp; Nanofilm</b>						<b>11.4</b>	<b>9.7</b>	<b>11.1%</b>	<b>1.97</b>	<b>1.73</b>	<b>19.3%</b>	<b>3.4%</b>

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

NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES

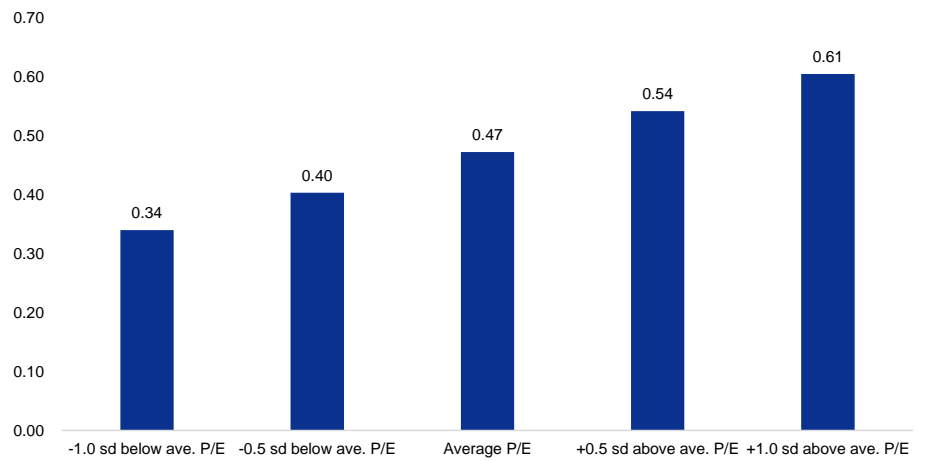
DATA AS AT 15 AUG 2022

**Figure 6: 12-month forward rolling P/E (x)**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 7: P/E-based TP scenario analysis**



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. Two of these plants have been operational since end 3Q21, while another plant is scheduled to be completed by FY22F. Mini-hydropower earnings represent upside earnings risk as we have not factored them into our projections.

### ESG highlights

At end-FY21, ISDN employed more than 1,050 employees in over 50 locations throughout Asia-Pacific. ISDN has an established whistle-blowing policy which allows the whistleblower 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.

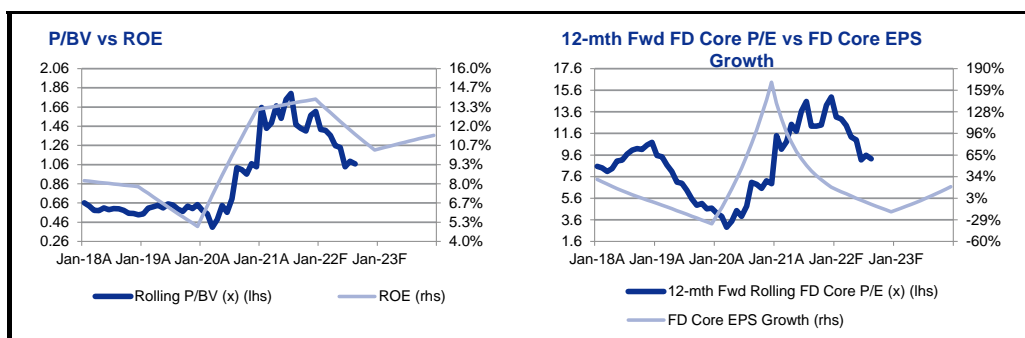
### Trends

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. According to management, the group 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. 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 reimbursements for doctor visits, 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
<b>Total Net Revenues</b>	<b>361.9</b>	<b>440.1</b>	<b>389.5</b>	<b>421.4</b>	<b>453.8</b>
<b>Gross Profit</b>	<b>99.7</b>	<b>125.2</b>	<b>115.7</b>	<b>125.5</b>	<b>135.6</b>
<b>Operating EBITDA</b>	<b>38.6</b>	<b>48.7</b>	<b>41.6</b>	<b>47.7</b>	<b>53.8</b>
Depreciation And Amortisation	(4.1)	(4.8)	(5.1)	(5.4)	(5.8)
<b>Operating EBIT</b>	<b>34.5</b>	<b>43.9</b>	<b>36.4</b>	<b>42.2</b>	<b>48.0</b>
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
<b>Profit Before Tax (pre-EI)</b>	<b>38.1</b>	<b>52.5</b>	<b>40.4</b>	<b>46.1</b>	<b>51.7</b>
Exceptional Items	(6.1)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>32.0</b>	<b>52.5</b>	<b>40.4</b>	<b>46.1</b>	<b>51.7</b>
Taxation	(9.5)	(13.4)	(10.3)	(11.8)	(13.2)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>22.5</b>	<b>39.1</b>	<b>30.0</b>	<b>34.3</b>	<b>38.5</b>
Minority Interests	(7.4)	(13.6)	(8.8)	(9.0)	(10.0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>15.1</b>	<b>25.5</b>	<b>21.2</b>	<b>25.3</b>	<b>28.5</b>
Recurring Net Profit	21.3	25.5	21.2	25.3	28.5
<b>Fully Diluted Recurring Net Profit</b>	<b>21.3</b>	<b>25.5</b>	<b>21.2</b>	<b>25.3</b>	<b>28.5</b>

**Cash Flow**

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>38.62</b>	<b>48.65</b>	<b>41.56</b>	<b>47.65</b>	<b>53.77</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	23.44	(28.76)	11.88	(6.77)	(6.86)
(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)	(10.33)	(11.80)	(13.23)
<b>Cashflow From Operations</b>	<b>30.58</b>	<b>8.77</b>	<b>44.10</b>	<b>30.18</b>	<b>34.57</b>
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
<b>Cash Flow From Investing</b>	<b>(6.09)</b>	<b>(1.49)</b>	<b>(5.00)</b>	<b>(5.00)</b>	<b>(5.00)</b>
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)	(5.31)	(6.33)	(7.11)
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
<b>Cash Flow From Financing</b>	<b>(3.56)</b>	<b>0.97</b>	<b>(5.31)</b>	<b>(6.33)</b>	<b>(7.11)</b>
Total Cash Generated	20.94	8.24	33.80	18.86	22.46
<b>Free Cashflow To Equity</b>	<b>27.00</b>	<b>13.75</b>	<b>39.10</b>	<b>25.18</b>	<b>29.57</b>
<b>Free Cashflow To Firm</b>	<b>26.23</b>	<b>8.75</b>	<b>41.10</b>	<b>27.18</b>	<b>31.67</b>

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	97.3	118.1	142.6
Total Debtors	103.0	118.5	111.0	120.1	129.3
Inventories	55.6	77.5	69.5	75.1	80.8
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>217.0</b>	<b>257.7</b>	<b>277.8</b>	<b>313.3</b>	<b>352.7</b>
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
<b>Total Non-current Assets</b>	<b>141.0</b>	<b>157.5</b>	<b>158.1</b>	<b>158.2</b>	<b>157.9</b>
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	92.8	100.4	108.2
Other Current Liabilities	22.6	25.9	25.9	25.9	25.9
<b>Total Current Liabilities</b>	<b>129.1</b>	<b>150.2</b>	<b>146.1</b>	<b>153.7</b>	<b>161.5</b>
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
<b>Total Non-current Liabilities</b>	<b>11.3</b>	<b>18.1</b>	<b>18.1</b>	<b>18.1</b>	<b>18.1</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>140.4</b>	<b>168.3</b>	<b>164.3</b>	<b>171.8</b>	<b>179.6</b>
Shareholders' Equity	170.0	197.1	213.1	232.0	253.4
Minority Interests	47.6	49.8	58.6	67.6	77.6
<b>Total Equity</b>	<b>217.6</b>	<b>247.0</b>	<b>271.7</b>	<b>299.7</b>	<b>331.0</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	24.4%	21.6%	(11.5%)	8.2%	7.7%
Operating EBITDA Growth	48.8%	26.0%	(14.6%)	14.7%	12.8%
Operating EBITDA Margin	10.7%	11.1%	10.7%	11.3%	11.9%
Net Cash Per Share (S\$)	0.06	0.05	0.13	0.18	0.23
BVPS (S\$)	0.39	0.45	0.49	0.53	0.58
Gross Interest Cover	19.90	29.72	18.22	21.10	22.85
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	107.5	100.1	100.6
Inventory Days	75.96	77.14	98.03	89.23	89.65
Accounts Payables Days	105.2	105.0	126.5	119.2	120.0
ROIC (%)	20.6%	23.5%	16.2%	19.7%	21.8%
ROCE (%)	14.6%	16.5%	12.3%	13.1%	13.6%
Return On Average Assets	9.2%	10.4%	7.4%	7.9%	8.2%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Motion control rev growth (%)	20.2%	28.3%	-15.0%	10.0%	10.0%
Gross profit margin (%)	26.4%	27.4%	28.4%	28.5%	28.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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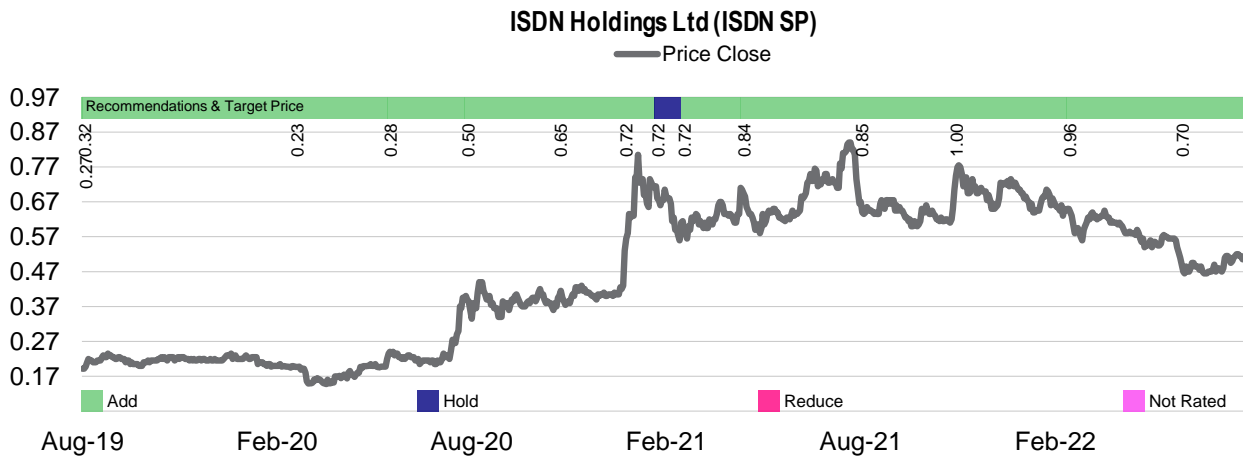
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Spitzer Chart for stock being researched ( 2 year data )



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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.