

ISDN Holdings

9M11 results update

Overweight

Current Price **S\$0.133**
21 November 2011

Fair Value **S\$0.22**

Jacky Lee
65 6236 6887
jacky.lee@nracapital.com

Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$40.1m
52-HI	S\$0.24
52-LOW	S\$0.115
Avg Vol (1 yr)	603,286
Shares Outstanding	298.7m
Free Float	118.5m

Key Indicators

ROE 11F	10%
ROA 11F	6%
P/BK	0.65x
Net cash/sh	Net cash

Major Shareholders

Teo Cher Koon	51.5%
Karl Walter Braun	8.8%

Slow motion!!!

- **Earnings slightly below expectations.** 9M11 net profit of S\$7.4m (18% yoy) is slightly below our expectation of S\$7.9m due mainly to lower-than-expected revenues and gross profit margins. However, these were partially off-set by gains from forex and properties sold by a subsidiary. 9M11 result represents 69% of our full-year forecast.
- **Sales inched up 10% yoy to S\$129.8m**, on the back of higher motion control demand in China. Motion control sales increased by 12% yoy to S\$100.8m, accounting for 78% of sales in 9M11. Sales of other specialised engineering solutions and industrial computing made up 19% and 3% of the total, respectively.
- **EBITDA margins contracted by 1.2% pts yoy to 10.2% in 9M11**, following a slight decrease in GP margins (28.8% in 9M11 and 22.2% in 3Q11). Including gain on properties sold by subsidiary and higher financial expenses and associates profit contribution, pretax and net profit increased by 23% and 18% yoy respectively. Management continues to target margin of between 26-30% for the full year.
- **Balance sheet remains comfortable.** ISDN generated S\$1.2m of negative free cash flow in 3Q after increasing its working capital requirement. As a result, net cash dropped S\$1.2m from previous quarter to S\$5m as at September quarter.
- **Gloomy semiconductor outlook in 4Q.** After most of the semiconductors manufacturers announced weak 3Q results, market researchers now expect the global semiconductor market to continue to weaken in 4Q.
- **Delaying contribution from Hydroponics business.** We understand from management that due to some technical issues, there will be a slight delay in completing the construction of the farms in Malaysia. Management also updated that due to the weather, its pilot runs in Suzhou show that it is more suitable with better yield and lower costing than Malaysia.
- **Cutting forecast.** We have cut our FY11 forecasts by 24% and trimmed FY12-13 by 5-7% given the sharp fall in semiconductor sales was greater than our expectation. Our fair value has lowered from S\$0.29 to S\$0.22 after changing our valuation model from 8x FY11 PER to 1x FY12 P/NTA, lowest range of its 6 years historical. Given the 64% upside with reasonable yield of 3.8%, maintain **Overweight**.

Key Financial Data

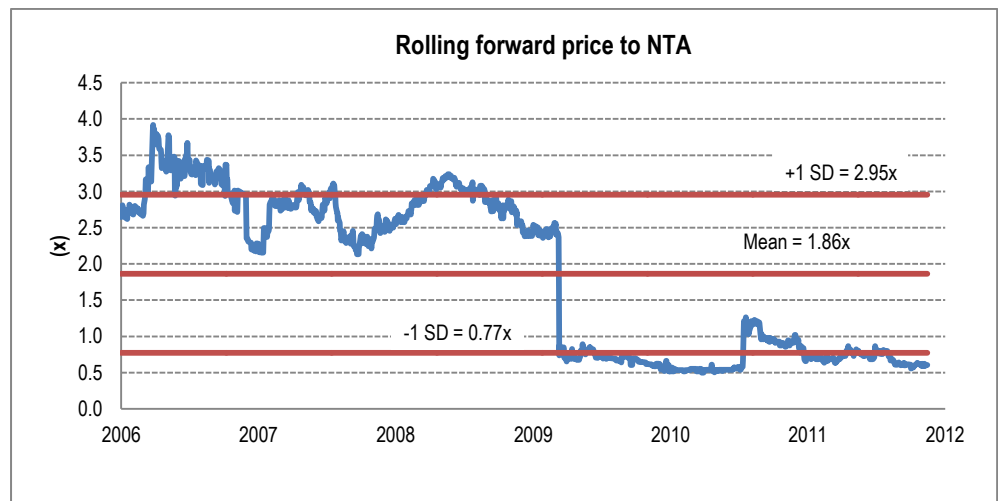
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Sales	106.7	163.6	168.8	185.7	204.3
Gross Profit	31.6	48.0	46.6	52.0	57.2
Net Profit	1.0	8.3	8.4	10.2	11.4
EPS (cents)	0.4	3.3	2.8	3.4	3.8
EPS growth (%)	(84.8)	692.4	(14.6)	21.7	11.2
PER (x)	31.9	4.0	4.7	3.9	3.5
NTA/share (cents)	13.2	20.4	19.8	21.9	24.2
DPS (cents)	0.0	0.6	0.5	0.5	0.6
Div Yield (%)	0.0	4.5	3.8	4.0	4.4

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (\$\$ m)	9M11	9M10	yoy % chg	3Q11	qoq % chg	Prev. 9M11F	Comments
Revenue	129.8	118.4	10	36.7	253	137.2	Slightly below expectation
Operating costs	(116.6)	(104.9)	11	(37.0)	215	(117.9)	In line
EBITDA	13.2	13.5	(2)	(0.3)	4,847	19.3	Below, lower-than-expected GPM
EBITDA margin (%)	10.2	11.4		(0.8)		14.1	Below
Depn & amort.	(1.5)	(1.4)	10	1.0	(249)	(4.0)	Below, reversal of depreciation expense due to the exit of project
EBIT	11.7	12.1	(3)	0.7	1,466	15.4	Below, lower-than-expected sales and GPM
Interest expense	(0.8)	(0.6)	32	(0.3)	158	(0.7)	In line
Interest & invt inc	1.8	(0.8)	344	1.9	(2)	(0.8)	Above, due mainly gain on forex and properties sold by a subsidiary
Associates' contrib	0.8	0.4	121	0.2	299	1.1	Below
Exceptionals	0.0	0.0	0	0.0	nm	0.0	
Pretax profit	13.6	11.1	23	2.5	438	15.0	Below, lower-than-expected GPM
Tax	(3.4)	(2.9)	18	(0.2)	1,798	(4.4)	Below, lower-than-expected PBT and taxation
Tax rate (%)	25.3	26.4		7.2		29.1	
Minority interests	(2.8)	(1.9)	47	(0.5)	443	(2.7)	In line
Net profit	7.4	6.3	18	1.8	302	7.9	Slightly below expectation
EPS (cts)	2.9	2.5	18	0.6	377	2.7	

Source: Bloomberg, NRA Capital Research



Source: NRA Capital Estimates

Profit & Loss (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue	106.7	163.6	168.8	185.7	204.3
Operating expenses	(99.4)	(148.0)	(154.2)	(166.8)	(183.7)
EBITDA	7.2	15.6	14.7	18.9	20.6
Depreciation & amortisation	(0.2)	(0.3)	(2.0)	(2.0)	(2.0)
EBIT	7.1	15.3	12.6	16.9	18.6
Net interest & invt income	(2.4)	(1.1)	1.5	0.4	0.6
Associates' contribution	(0.3)	0.5	1.1	1.3	1.5
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	4.4	14.7	15.3	18.6	20.7
Tax	(2.1)	(4.0)	(4.0)	(5.6)	(6.2)
Minority interests	(1.3)	(2.4)	(2.9)	(2.8)	(3.1)
Net profit	1.0	8.3	8.4	10.2	11.4
Wt. shares (m)	249.0	251.7	298.7	298.7	298.7
Shares at year-end (m)	249.0	251.7	298.7	298.7	298.7

Balance Sheet (S\$ m, as at Dec)	2009	2010	2011F	2012F	2013F
Fixed assets	23.5	24.9	28.9	32.8	36.8
Intangible assets	12.9	11.9	11.9	11.9	11.9
Other long-term assets	3.1	4.2	5.3	5.4	5.6
Total non-current assets	39.6	41.0	46.1	50.2	54.3
Cash and equivalents	19.0	29.0	30.6	33.2	35.3
Stocks	19.9	25.8	29.3	32.1	35.3
Trade debtors	34.1	42.5	38.5	43.7	49.7
Other current assets	0.0	0.6	0.0	0.0	0.0
Total current assets	73.0	97.8	98.4	109.0	120.3
Trade creditors	32.0	37.2	38.2	41.1	44.3
Short-term borrowings	12.4	16.8	10.1	9.3	8.2
Other current liabilities	0.5	2.1	2.0	2.8	3.1
Total current liabilities	45.0	56.1	50.3	53.2	55.5
Long-term borrowings	10.4	8.3	10.2	10.3	10.3
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	10.5	8.3	10.2	10.3	10.3
Shareholders' funds	51.5	68.9	77.4	86.5	96.5
Minority interests	5.6	5.6	6.5	9.3	12.3
NTA/share (S\$)	0.13	0.20	0.20	0.22	0.24
Total Assets	112.6	138.8	144.4	159.2	174.6
Total Liabilities + S'holders' funds	112.6	138.8	144.4	159.2	174.6

Cash Flow (S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
Pretax profit	4.4	14.7	15.3	18.6	20.7
Depreciation & non-cash adjustments	4.2	4.2	(1.4)	(1.0)	(1.4)
Working capital changes	1.3	(5.0)	0.5	(5.7)	(6.6)
Cash tax paid	(2.4)	(2.5)	(2.1)	(2.0)	(2.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	7.5	11.4	12.2	9.9	9.8
Capex	(11.5)	(4.9)	(5.0)	(5.0)	(5.0)
Net investments & sale of FA	(0.3)	(0.3)	2.5	0.0	0.0
Others	0.0	(3.7)	(0.0)	0.0	0.0
Cash flow from investing	(11.8)	(8.8)	(2.5)	(5.0)	(5.0)
Debt raised/(repaid)	10.0	2.6	(4.7)	(0.8)	(1.1)
Equity raised/(repaid)	(0.3)	5.4	0.0	0.0	0.0
Dividends paid	(0.5)	0.0	(1.5)	(1.5)	(1.6)
Cash interest & others	(2.0)	(0.3)	(1.9)	0.0	0.0
Cash flow from financing	7.2	7.6	(8.1)	(2.3)	(2.7)
Change in cash	2.9	10.3	1.6	2.7	2.1
Change in net cash/(debt)	(7.2)	7.8	6.3	3.5	3.2
Ending net cash/(debt)	(3.9)	3.9	10.2	13.7	16.9

KEY RATIOS (FYE Dec)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	(8.4)	53.4	3.2	10.0	10.0
EBITDA growth (%)	(31.3)	115.5	(6.0)	29.3	8.9
Pretax margins (%)	4.1	9.0	9.0	10.0	10.1
Net profit margins (%)	1.0	5.1	5.0	5.5	5.6
Interest cover (x)	6.1	16.0	14.6	24.8	29.0
Effective tax rates (%)	47.1	27.4	26.0	30.0	30.0
Net dividend payout (%)	0.0	18.0	0.0	0.0	0.0
Debtors turnover (days)	116.8	94.7	83.2	85.9	88.8
Stock turnover (days)	96.8	81.5	87.6	87.6	87.6
Creditors turnover (days)	109.4	82.9	82.5	80.7	79.1

Source: Company, NRA Capital Estimates

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.