

ISDN Holdings

Overweight

Current Price	S\$0.11
Fair Value	S\$0.24
Up / (downside)	+118%

Stock Statistics

Market cap	S\$32.9m
52-low	S\$0.108
52-high	S\$0.15
Avg daily vol	107,683
No of share	298.7m
Free float	40%

Key Indicators

ROE 12F	9%
ROA 12F	6%
P/BK	0.41x
Net gearing	Net cash

Major Shareholders

Teo Cher Koon	51.5%
Karl Walter Braun	8.8%

Historical Chart



Source: Bloomberg

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Hydroponics business on the trot

- **Earnings below expectation.** Despite ISDN 3Q12 sales coming in above expectation, net profit of S\$1.7 (-10% yoy) was 45% below forecast due mainly to higher-than-expected operating expenses.
- **Maintain fair value and Overweight.** We have lowered our FY12 estimate by 24% to factor the lower-than-expected earnings. But we kept our FY13-14 estimates unchanged as we expect the hydroponics business contribution will offset the higher-than-expected operating expenses. As a result, our fair value remains at S\$0.24, still based on 1x FY13 P/NTA or implied 6.4x FY13 PER. Given the 118% potential upside with reasonable 5% yield, maintain **Overweight**.
- **Industrial equipment demand offsetting decline in semiconductor equipment.** Despite back-end semiconductor equipment still growing (roughly 30% of industry sales), the overall sales of semiconductor equipment slowed in the second half of 2012, with buying described as "muted" last month. ISDN's motion control revenue grew 31% yoy in 3Q12 driven by the industrial equipment especially strong demand from smartphones. We believe ISDN revenue will continue to drive this segment as the group still has some backlog orders. Nevertheless, order visibility remains short term for the time being.
- **Hydroponics business finally on the road.** Its hydroponic businesses, scheduled to start contribution in this second half of the year, was delayed due to some technical issues with the production licence. We understand its 51% owned JV has finally fixed all the problems, will start planting currently and will see harvests as early as first quarter of next year.
- **Sales increased 19% yoy to S\$43.8m** driven by its motion control division (+31% yoy), other specialised engineering solutions declined 12% yoy mainly due to weaker demand from mechanical and electronic hardware. Industrial computing was up 16% yoy.
- **Gross profit margins improved by 8.7% pts yoy to 30.9%** due to better products mix and higher revenue. However, including the S\$0.34k forex loss, higher impairment, operating expenses and taxation, pretax and net profit increased 28% and declined 10% yoy, respectively.
- **Balance sheet remains healthy.** ISDN generated S\$4m of positive free cash flow in 3Q after improving its working capital requirement. As such, net cash increased from S\$5.3m previous quarter to S\$8.3m as at Sept quarter.

Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	163.6	165.9	156.4	166.0	182.6
Gross Profit	48.0	48.5	47.7	50.6	55.7
Net Profit	8.3	8.4	8.1	10.9	12.3
EPS (cents)	3.3	2.8	2.7	3.7	4.1
EPS growth (%)	692.4	(14.6)	(4.3)	35.5	12.2
PER (x)	3.4	4.0	4.1	3.1	2.7
NTA/share (cents)	20.4	20.1	21.3	23.5	26.1
DPS (cents)	0.5	0.5	0.5	0.6	0.7
Div Yield (%)	4.5	4.5	4.4	5.4	6.0

Source: Company, NRA Capital estimates

ISDN Holdings

Results comparison

FYE Dec (S\$ m)	3Q12	3Q11	yoy % chg	2Q12	qoq % chg	Prev. 3Q12F	Comments
Revenue	43.8	36.7	19	40.0	10	38.7	13% above expectation
Operating costs	(39.6)	(37.0)	7	(35.5)	11	(34.4)	Above, higher-than-expected sales and OPEX
EBITDA	4.2	(0.3)	1,571	4.4	(5)	4.3	In line
<i>EBITDA margin (%)</i>	9.6	(0.8)		11.1		11.1	1.5% pt below expectation
Depn & amort.	(0.4)	1.0	(139)	(0.4)	(7)	(0.4)	In line
EBIT	3.8	0.7	406	4.0	(5)	3.8	In line
Interest expense	(0.3)	(0.3)	(5)	(0.2)	70	(0.2)	Above, higher-than-expected interest bearing
Interest & invt inc	(0.4)	1.9	(122)	(0.1)	469	0.3	Below, higher-than-expected forex loss and impairment
Associates' contrib	0.2	0.2	(22)	0.7	(77)	0.7	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	3.2	2.5	28	4.4	(27)	4.6	Below, higher-than-expected operating expenses
Tax	(1.0)	(0.2)	454	(1.5)	(34)	(1.1)	Below, lower-than-expected pretax profit
Tax rate (%)	31.0	7.2		34.4		23.0	Above, higher-than-expected taxation
Minority interests	(0.6)	(0.5)	14	(0.5)	10	(0.5)	
Net profit	1.7	1.8	(10)	2.4	(30)	3.0	45% below due higher-than-expected taxation
EPS (cts)	0.6	0.6	(10)	0.8	(30)	1.0	

Source: NRA Capital estimates

Hydroponics business

Its hydroponics farm in Malaysia is now able to plant many types of lettuce, such as Cos Lettuce, Frisee Red Lettuce, Iceberg Lettuce, Red Oakleaf Lettuce and etc, as well as Green Frisee, Butterhead and Pak Choy.



Source: <http://www.agri-source.com>

ISDN Holdings

Profit & Loss (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	163.6	165.9	156.4	166.0	182.6
Operating expenses	(145.2)	(150.9)	(140.8)	(148.3)	(163.1)
EBITDA	18.4	15.1	15.6	17.7	19.5
Depreciation & amortisation	(2.7)	(2.2)	(1.8)	(1.8)	(1.9)
EBIT	15.6	12.8	13.8	15.9	17.6
Net interest & invt income	(1.4)	1.5	(1.2)	(0.2)	(0.1)
Associates' contribution	0.5	0.7	1.6	1.8	2.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	14.7	15.1	14.2	17.4	19.5
Tax	(4.0)	(4.0)	(4.1)	(4.4)	(4.9)
Minority interests	(2.4)	(2.7)	(2.0)	(2.2)	(2.4)
Net profit	8.3	8.4	8.1	10.9	12.3
Wt. shares (m)	251.7	298.7	298.7	298.7	298.7
Shares at year-end (m)	251.7	298.7	298.7	298.7	298.7
Balance Sheet (S\$ m, as at Dec)	2010	2011	2012F	2013F	2014F
Fixed assets	24.9	27.9	28.7	30.8	32.9
Intangible assets	11.9	11.7	11.7	11.7	11.7
Other long-term assets	4.2	4.8	4.9	5.1	5.2
Total non-current assets	41.0	44.4	45.3	47.6	49.8
Cash and equivalents	29.0	28.4	38.1	44.6	52.0
Stocks	25.8	29.2	27.0	28.7	31.6
Trade debtors	42.5	36.7	34.6	36.7	40.4
Other current assets	0.6	0.0	0.0	0.0	0.0
Total current assets	97.8	94.3	99.8	110.0	123.9
Trade creditors	37.2	31.3	28.9	30.7	33.8
Short-term borrowings	16.8	11.1	12.5	11.6	11.0
Other current liabilities	2.1	1.6	4.1	4.3	4.8
Total current liabilities	56.1	43.9	45.6	46.7	49.6
Long-term borrowings	8.3	10.9	8.1	8.5	9.3
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	8.3	11.0	8.1	8.5	9.3
Shareholders' funds	68.9	77.8	83.4	92.2	102.3
Minority interests	5.6	6.0	8.1	10.2	12.6
NTA/share (S\$)	0.20	0.20	0.21	0.24	0.26
Total Assets	138.8	138.7	145.1	157.6	173.8
Total Liabilities + S'holders' funds	138.8	138.7	145.1	157.6	173.8
Cash Flow (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	14.7	15.1	14.2	17.4	19.5
Depreciation & non-cash adjustments	4.2	3.6	1.6	2.0	2.2
Working capital changes	(5.0)	(9.7)	1.1	(2.9)	(4.3)
Cash tax paid	(2.5)	(4.5)	(1.6)	(4.1)	(4.4)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	11.4	4.5	15.3	12.4	13.0
Capex	(4.9)	(4.2)	(2.6)	(4.0)	(4.0)
Net investments & sale of FA	(0.3)	6.3	0.0	0.0	0.0
Others	(3.7)	(0.0)	0.0	0.0	0.0
Cash flow from investing	(8.8)	2.1	(2.6)	(4.0)	(4.0)
Debt raised/(repaid)	2.6	(2.6)	(1.4)	(0.5)	0.1
Equity raised/(repaid)	5.4	0.0	0.0	0.0	0.0
Dividends paid	0.0	(1.5)	(1.5)	(1.5)	(1.8)
Cash interest & others	(0.3)	(2.5)	(0.1)	(0.1)	(0.1)
Cash flow from financing	7.6	(6.6)	(3.0)	(2.0)	(1.7)
Change in cash	10.3	(0.1)	9.7	6.5	7.4
Change in net cash/(debt)	7.8	2.5	11.2	6.9	7.2
Ending net cash/(debt)	3.9	6.4	17.6	24.5	31.8
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	53.4	1.4	(5.8)	6.2	10.0
EBITDA growth (%)	113.8	(18.0)	3.6	13.7	10.0
Pretax margins (%)	9.0	9.1	9.1	10.5	10.7
Net profit margins (%)	5.1	5.1	5.2	6.6	6.7
Interest cover (x)	16.0	14.1	14.8	18.4	20.3
Effective tax rates (%)	27.4	26.6	29.0	25.0	25.0
Net dividend payout (%)	15.1	0.0	0.0	0.0	0.0
Debtors turnover (days)	94.7	80.7	80.7	80.7	80.7
Stock turnover (days)	81.5	90.8	90.8	90.8	90.8
Creditors turnover (days)	117.4	97.2	97.2	97.2	97.2

Source: Company, NRA Capital estimates

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