

Neutral **Current Price** S\$0.315Fair Value S\$0.24
Up / (downside) -24%**Stock Statistics**

Market cap	S\$94.1m
52-low	S\$0.108
52-high	S\$0.33
Avg daily vol	1,202,897
No of share	298.7m
Free float	40%

Key Indicators

ROE 12F	9%
ROA 12F	6%
P/BK	0.9x
Net gearing	Net cash

Major Shareholders

Teo Cher Koon	51.5%
Karl Walter Braun	8.8%

Historical Chart

Source: Bloomberg

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www.nrcapital.com**Investment in the Hydropower business**

- **Earnings below expectation.** ISDN 4Q12 net loss of S\$0.6m was below our S\$2m expectation due mainly to lower-than-expected sales and higher-than-expected operating expenses.
- **Maintain fair value but downgraded to Neutral.** After lowering our FY13 and FY14 sales estimates, our net profit forecasts have been reduced by 18% (not including its new hydropower business). However, our fair value remains S\$0.24, after rolling forward our base from FY13 to FY14, still pegged at 1x P/NTA. While we are reviewing the impact of its new hydropower business on earnings, the near-term valuation is not changed and we downgrade our recommendation to **Neutral**.
- **From hydroponics to hydropower.** The sluggish global economy impacted its core motion control business but its hydroponics division is finally taking off and we expect there will be a small contribution to the group this year. To continue to explore and develop new businesses for more new revenue sources, the group announced a subscription and shareholders' agreement and investment in the *hydropower business* for an aggregate subscription price of US\$749,400.
- **4Q12 sales inched up 2% yoy to S\$37m** driven by its other specialised engineering solutions (+52% yoy), motion control division declined 9% yoy mainly due to weaker demand from its semiconductor equipment customers. Industrial computing was down slightly by 6% 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\$3.5m of negative free cash flow in 4Q after increasing its working capital requirement. As such, net cash reduced from S\$8.3m previous quarter to S\$3.6m as at December quarter. As expected, the board declared a final dividend of S\$0.005, same as last year.
- **New share placement.** To further enhance its balance sheet, the group proposed a placement of up to 36m new shares @ S\$0.24 each. The placement shares represent approximately 11.99% of the issued share capital. The group intends to utilise the entire net proceeds to supplement the working capital requirements, in particular that of the business segments that the group has embarked on in recent years such as the hydroponics and mining related businesses.

Key Financial Data

(S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Sales	165.9	153.5	163.1	179.4	197.3
Gross Profit	48.5	47.4	50.6	55.1	60.6
Net Profit	8.4	5.4	9.0	10.1	12.3
EPS (cents)	2.8	1.8	3.0	3.4	4.1
EPS growth (%)	(14.6)	(35.9)	66.3	12.3	22.0
PER (x)	9.4	14.7	8.8	7.8	6.4
NTA/share (cents)	20.1	20.7	22.6	24.6	27.1
DPS (cents)	0.5	0.5	0.5	0.5	0.7
Div Yield (%)	1.9	1.9	1.8	2.1	2.5

Source: Company, NRA Capital estimates

ISDN Holdings

Results comparison

FYE Dec (S\$ m)	4Q12	4Q11	yoy % chg	3Q12	qoq % chg	Prev. 4Q12F	Comments
Revenue	37.0	36.1	2	43.8	(16)	39.8	7% below expectation
Operating costs	(35.7)	(34.3)	4	(39.6)	(10)	(36.0)	In line, offset by higher-than-expected OPEX
EBITDA	1.3	1.8	(28)	4.2	(69)	3.8	Below, lower-than-expected sales and margins
<i>EBITDA margin (%)</i>	3.5	5.0		9.6		9.5	6% pt below expectation
Depn & amort.	(0.5)	(0.7)	(28)	(0.4)	21	(0.5)	In line
EBIT	0.8	1.1	(29)	3.8	(79)	3.3	Below, lower-than-expected sales and margins
Interest expense	(0.3)	(0.3)	(14)	(0.3)	(7)	(0.3)	In line
Interest & invt inc	0.5	0.8	(33)	(0.4)	233	0.3	Above, higher-than-expected other income
Associates' contrib	(0.2)	(0.1)	77	0.2	(206)	0.4	Below
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	0.9	1.5	(41)	3.2	(72)	3.7	Below, lower-than-expected sales and margins
Tax	(1.1)	(0.6)	88	(1.0)	7	(1.1)	In line
Tax rate (%)	120.1	37.6		31.0		30.2	
Minority interests	(0.5)	0.1	(501)	(0.6)	(22)	(0.5)	
Net profit	(0.6)	1.1	(160)	1.7	(138)	2.0	Below, lower-than-expected sales and margins
EPS (cts)	(0.2)	0.4	(160)	0.6	(138)	0.7	

Source: NRA Capital estimates

ISDN Holdings

Profit & Loss (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue	165.9	153.5	163.1	179.4	197.3
Operating expenses	(150.9)	(140.4)	(148.1)	(162.9)	(177.9)
EBITDA	15.1	13.1	15.0	16.5	19.5
Depreciation & amortisation	(2.2)	(1.8)	(1.8)	(1.8)	(1.8)
EBIT	12.8	11.3	13.2	14.6	17.6
Net interest & invt income	1.5	(0.9)	0.4	0.6	0.7
Associates' contribution	0.7	1.0	1.1	1.3	1.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	15.1	11.4	14.7	16.5	19.8
Tax	(4.0)	(4.1)	(3.7)	(4.1)	(4.9)
Minority interests	(2.7)	(1.9)	(2.1)	(2.3)	(2.5)
Net profit	8.4	5.4	9.0	10.1	12.3
Wt. shares (m)	298.7	299.1	299.1	299.1	299.1
Shares at year-end (m)	298.7	299.1	299.1	299.1	299.1
Balance Sheet (S\$ m, as at Dec)	2011	2012	2013F	2014F	2015F
Fixed assets	27.9	26.5	26.8	27.0	27.2
Intangible assets	11.7	11.7	11.7	11.7	11.7
Other long-term assets	4.8	5.5	5.7	5.8	6.0
Total non-current assets	44.4	43.8	44.1	44.5	44.9
Cash and equivalents	28.4	25.1	36.6	43.5	52.1
Stocks	29.2	25.5	27.1	29.9	32.9
Trade debtors	36.7	49.1	52.2	57.4	63.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	94.3	99.7	115.9	130.8	148.1
Trade creditors	31.3	33.1	35.1	38.8	42.7
Short-term borrowings	11.1	15.7	16.3	16.1	15.8
Other current liabilities	1.6	2.0	3.7	4.1	4.9
Total current liabilities	43.9	50.7	55.1	59.1	63.4
Long-term borrowings	10.9	5.8	8.4	9.1	10.0
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	11.0	5.8	8.4	9.2	10.0
Shareholders' funds	77.8	80.3	87.9	96.2	106.2
Minority interests	6.0	6.6	8.7	10.9	13.4
NTA/share (S\$)	0.20	0.21	0.23	0.25	0.27
Total Assets	138.7	143.5	160.0	175.3	193.0
Total Liabilities + S'holders' funds	138.7	143.5	160.0	175.3	193.0
Cash Flow (S\$ m, FYE Dec)	2011	2012	2013F	2014F	2015F
Pretax profit	15.1	11.4	14.7	16.5	19.8
Depreciation & non-cash adjustments	3.6	3.7	2.8	2.4	2.0
Working capital changes	(9.7)	(8.2)	(3.6)	(5.4)	(5.9)
Cash tax paid	(4.5)	(3.7)	(2.0)	(3.7)	(4.1)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	4.5	3.2	12.0	9.8	11.8
Capex	(4.2)	(1.6)	(2.0)	(2.0)	(2.0)
Net investments & sale of FA	6.3	0.1	0.0	0.0	0.0
Others	(0.0)	0.1	0.0	0.0	0.0
Cash flow from investing	2.1	(1.4)	(2.0)	(2.0)	(2.0)
Debt raised/(repaid)	(2.6)	(1.0)	3.2	0.6	0.5
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(1.5)	(1.5)	(1.5)	(1.5)	(1.6)
Cash interest & others	(2.5)	(3.1)	(0.1)	(0.1)	(0.1)
Cash flow from financing	(6.6)	(5.6)	1.6	(0.9)	(1.2)
Change in cash	(0.1)	(3.8)	11.6	6.9	8.6
Change in net cash/(debt)	2.5	(2.8)	8.4	6.2	8.1
Ending net cash/(debt)	6.4	3.6	11.9	18.2	26.3
KEY RATIOS (FYE Dec)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	1.4	(7.5)	6.2	10.0	10.0
EBITDA growth (%)	(18.0)	(13.0)	14.5	9.8	18.2
Pretax margins (%)	9.1	7.5	9.0	9.2	10.0
Net profit margins (%)	5.1	3.5	5.5	5.6	6.2
Interest cover (x)	14.1	12.3	13.7	14.9	17.3
Effective tax rates (%)	26.6	35.7	25.0	25.0	25.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	80.7	116.8	116.8	116.8	116.8
Stock turnover (days)	90.8	87.8	87.8	87.8	87.8
Creditors turnover (days)	97.2	113.9	113.9	113.9	113.9

Source: Company, NRA Capital estimates

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