

ISDN Holdings Limited

Overweight

Current Price	S\$0.270
Fair Value	S\$0.300
Up / (downside)	11.1%

Stock Statistics

Market cap	S\$95.8m
52-low	S\$0.171
52-high	S\$0.275
Avg daily vol	682,440
No of share	354.7m
Free float	49%

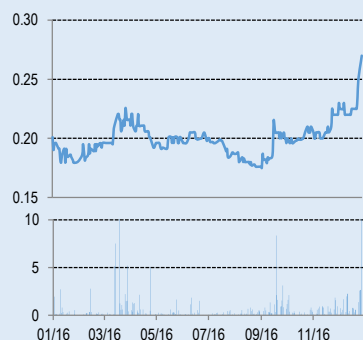
Key Indicators

ROE 17F	5.3%
ROA 17F	4.7%
P/NAV	0.8x
Net gearing	Net cash

Major Shareholders

Teo Cher Koon	37.0%
Tan Thiam Chye	8.0%
Karl Walter Braun	5.6%

Historical Chart



Source: Bloomberg

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Trading commences on Thursday in Hong Kong

- **Take-up rate likely to be positive.** ISDN will be placing out 40m new shares at an issue price of HKD1.25 (about S\$0.23) per share for its listing in Hong Kong. The results of the allocation will be announced on 11 January and trading commences 12 January. Given that ISDN's share price has risen to S\$0.270 as of market close today, the market seems to be pricing in a strong take-up rate for the new shares. If true, ISDN's first day share price performance in Hong Kong should also be positive.
- **Net proceeds to raise net cash to 7.2 cents per share.** The new shares will yield ISDN net proceeds of about HKD39.9m (or S\$7.38m) after deducting HKD10.1m of fees. As of 30 September, ISDN has net cash of about S\$21.0m or 5.92 cents of net cash per share. Adding in the net proceeds, net cash will rise to S\$28.4m or 7.19 cents per share based on an enlarged share capital of 394.7m shares.
- **Earnings to be strengthened by lower financing costs.** 90% of the net proceeds or HKD35.9m (S\$6.6m) will be applied to repay loans with a weighted average interest of 4.2%, representing an estimated S\$0.28m in annual interest costs. ISDN's annual financing costs is about S\$0.72m, based on its reported costs in 9M16. The resultant interest savings will actually reduce earnings dilution in spite of the new shares issued. In reality, the borrowings will be progressively repaid over a period of six months. Nonetheless, our revised EPS estimate for FY17 is only reduced by 5% from 1.9 to 1.8 cents per share in spite of the 11.3% increase in share capital.
- **Future earnings to be key.** At S\$0.270 and excluding net cash of 7.19 cents, ISDN actually trades at 20x FY16 EPS even after factoring in the full interest savings. However, its P/E multiple will drop to 11.3x once we reference its share price as a multiple of FY17 estimated EPS of 1.8 cents. Therefore, longer term upside for ISDN will depend on its ability to deliver on its earnings for FY17. For FY16, we expect PATMI to be about S\$3.6m, translating to 4Q16 earnings of S\$1.4m. In 3Q16, ISDN made S\$0.7m PATMI. Our 4Q16 estimate is based on the assumption of absence of S\$0.6m of foreign exchange loss which ISDN incurred in 3Q16.
- **Maintain Overweight (average return / moderate risk).** We continue to like ISDN for its strong balance sheet and motion control business. Due to the recent strong run-up in its share price, we reclassify it to average return / moderate risk. The IPO expenses amounted to HKD10.1m or S\$1.87m. That said, we have factored in S\$1.6m higher administrative expenses in FY17 to partially factor in these expenses. In this update, we leave our valuation unchanged at S\$0.300, pending revision when the company releases its full year results.

Key Financial Data (S\$ m, FYE Dec)	2014	2015	2016F	2017F	2018F
Sales	230.5	236.0	247.7	272.4	299.6
Gross Profit	61.5	65.6	61.9	68.1	74.9
Net Profit	7.5	8.7	3.6	6.9	8.0
EPS (cents)	2.1	2.5	1.02	1.8	2.0
EPS growth (%)	59.2	17.0	(58.5)	72.3	15.7
PER (x)	12.8	11.0	26.5	15.4	13.3
NTA/share (cents)	23.3	25.0	23.7	23.6	24.3
DPS (cents)	0.4	0.4	0.4	0.4	0.4
Div Yield (%)	1.5	1.5	1.5	1.3	1.3

Source: NRA Capital forecasts

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Profit & Loss (S\$ m, FYE Dec)	2014	2015	2016F	2017F	2018F
Revenue	230.5	236.0	247.7	272.4	299.6
Operating expenses	(214.3)	(218.0)	(233.8)	(256.0)	(281.6)
EBITDA	16.3	18.0	13.9	16.4	18.1
Depreciation & amortisation	(2.2)	(2.2)	(2.3)	(2.3)	(2.3)
EBIT	14.1	15.8	11.7	14.1	15.7
Net interest & invt income	0.1	0.6	(1.8)	1.0	1.5
Associates' contribution	1.1	0.8	0.0	0.0	0.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	15.2	17.2	9.9	15.1	17.2
Tax	(4.6)	(5.3)	(3.0)	(4.5)	(5.2)
Minority interests	(3.1)	(3.2)	(3.3)	(3.7)	(4.0)
Net profit	7.5	8.7	3.6	6.9	8.0
Shares at year-end (m)	354.7	354.7	354.7	394.7	394.7
Balance Sheet (S\$ m, as at Dec)	2014	2015	2016F	2017F	2018F
Fixed assets	31.4	35.6	39.3	43.0	40.7
Intangible assets	11.7	11.7	11.7	11.7	11.7
Other long-term assets	6.8	7.2	7.4	7.6	7.8
Total non-current assets	49.9	54.4	58.4	62.3	60.2
Cash and equivalents	37.5	39.1	34.2	36.3	43.2
Stocks	34.6	40.9	44.6	49.0	53.9
Trade debtors	68.0	73.1	76.8	84.4	92.9
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	140.1	153.1	155.5	169.8	190.0
Trade creditors	45.1	51.9	56.6	62.3	68.5
Short-term borrowings	13.1	14.1	12.4	6.8	7.5
Other current liabilities	1.5	1.5	3.0	4.5	5.2
Total current liabilities	59.7	67.5	72.0	73.6	81.1
Long-term borrowings	0.6	0.7	0.5	0.5	0.5
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	0.6	0.7	0.5	0.5	0.5
Shareholders' funds	112.1	119.7	118.5	131.4	138.1
Minority interests	17.7	19.5	22.9	26.5	30.5
NTA/share (S\$)	0.23	0.25	0.24	0.24	0.24
Total Assets	190.0	207.5	213.9	232.1	250.2
Total Liabilities + S'holders' funds	190.0	207.5	213.9	232.1	250.2
Cash Flow (S\$ m, FYE Dec)	2014	2015	2016F	2017F	2018F
Pretax profit	15.2	17.2	9.9	15.1	17.2
Depreciation & non-cash adjustments	3.4	4.7	(1.8)	1.4	6.9
Working capital changes	(15.7)	(10.0)	(3.2)	(6.7)	(6.8)
Cash tax paid	(3.8)	(5.3)	(1.5)	(3.0)	(4.5)
Cash flow from operations	(0.9)	6.6	3.4	6.8	12.7
Capex	(4.1)	(6.0)	(6.0)	(6.0)	(6.0)
Net investments & sale of FA	(0.4)	(0.5)	0.0	0.0	0.0
Others	0.1	0.4	0.0	0.0	0.0
Cash flow from investing	(4.4)	(6.1)	(6.0)	(6.0)	(6.0)
Debt raised/(repaid)	0.0	1.5	(1.9)	(5.6)	0.7
Equity raised/(repaid)	(1.4)	0.0	0.0	7.4	0.0
Dividends paid	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Cash interest & others	4.0	1.3	1.0	1.0	1.0
Cash flow from financing	1.2	1.5	(2.3)	1.3	0.2
Change in cash	(4.1)	2.0	(4.9)	2.1	6.9
Change in net cash/(debt)	(4.1)	0.5	(3.0)	7.7	6.2
Ending net cash/(debt)	23.8	24.3	21.3	29.0	35.3
KEY RATIOS (FYE Dec)	2014	2015	2016F	2017F	2018F
Revenue growth (%)	32.7	2.4	5.0	10.0	10.0
EBITDA growth (%)	46.5	10.8	(22.6)	17.8	10.0
Pretax margins (%)	6.6	7.3	4.0	5.6	5.7
Net profit margins (%)	3.2	3.7	1.5	2.5	2.7
Effective tax rates (%)	30.4	31.0	30.0	30.0	30.0
Net dividend payout (%)	19.0	16.3	39.2	20.5	17.7
ROE (%)	6.7	7.3	3.1	5.3	5.8
Free cash flow yield (%)	(5.2)	0.7	(2.7)	0.9	7.0

Source: NRA Capital forecasts

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