

## ISDN Holdings

## Overweight

Current Price	S\$0.205
Fair Value	S\$0.30
Up / (downside)	46.3%

## Stock Statistics

Market cap	S\$72.7m
52-low	S\$0.168
52-high	S\$0.325
Avg daily vol	1,719,236
No of share	354.7m
Free float	37.4%

## Key Indicators

ROE 15F	8.0%
ROA 15F	4.5%
P/BK	0.63x
Net gearing	Net cash

## Major Shareholders

Teo Cher Koon	36.5%
Tan Thiam Chye	8.0%
Karl Walter Braun	5.6%

## Historical Chart



Source: Bloomberg

## Research Team

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## Gaining Momentum in Indonesia

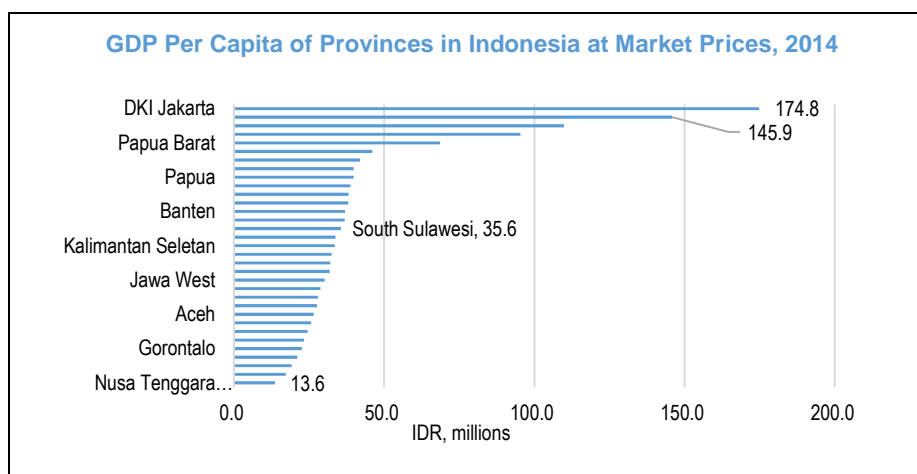
- To co-develop and manage industrial park.** ISDN announced on 8 October that it's 85% owned PT ISDN Bantaeng Corporation (PTIBC) has been appointed by the Bantaeng Bupati Regency as the exclusive manager and developer of the Bantaeng Industrial Park in South Sulawesi, Indonesia.
- Government endorsed project.** 3,000 hectares or close to 323m sq. ft. of land has been allocated for the industrial park, which has been endorsed by the Indonesian central and local government. The other shareholders of PTIBC are PT Centuri Indonesia Sekawan and Perusda Bajiminasa Kabupaten Bantaeng. The former is a company with interests in resource mining, property development and construction, while the latter is a state-owned entity under the Bantaeng Regency.
- To benefit from growth of downstream industry.** In 2014, the Indonesian government restricted the export of various mineral ore and concentrates in a bid to grow the domestic ore processing industry. While certain exceptions have since been made, the 2014 law has had some success in attracting investments to the downstream industry. Some 11 nickel smelters are to be built in Indonesia during 2015 and 2016 at a cost of US\$1.4 billion. The Bantaeng Industrial Park is being positioned as a key smelting hub for the commodities trade, particularly nickel, which is a major produce of Sulawesi, with Indonesia accounting for about 20% of global supply.
- Incentives and tax holiday to lure investors.** ISDN plans to leverage on its network, especially in China, to solicit interests from key investors such as steel makers and mineral smelters to invest in Bantaeng. To accelerate the investment process, ISDN will also provide one-stop service encompassing new business registration and licence application to the set-up of ground operations. To further enhance the value proposition of the industrial park, investors will also enjoy a 15-year corporate tax holiday.
- Positive initial momentum.** Prior to ISDN's involvement, about ten companies have already expressed interest in the Bantaeng Industrial Park, of which two companies have already started construction and should send their first shipments of produce by the end of 2015. Both companies – an Indonesian and a PRC party – are nickel smelters.
- Valuation maintained.** We adjusted FY15 forecasts mainly to reflect higher than expected revenue in 2Q; albeit offset by lower margin. FY15 net profit is now estimated to be about S\$9.6m versus S\$7.5m in FY14. We do not factor the Bantaeng Industrial Park project into our forecasts and valuation, pending more information about future investments. The net impact is an unchanged valuation of S\$0.30, still based on 1.2x P/FY15 NTA.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	173.7	230.5	253.6	278.9	306.7
Gross Profit	51.7	61.5	67.8	74.5	81.3
Net Profit	4.8	7.5	9.6	11.0	12.3
EPS (cents)	1.3	2.1	2.7	3.1	3.5
EPS growth (%)	(27.0)	59.2	28.5	14.5	12.4
PER (x)	15.5	9.8	7.6	6.6	5.9
NTA/share (cents)	23.2	23.3	24.7	26.4	28.4
DPS (cents)	0.4	0.4	0.4	0.4	0.4
Div Yield (%)	2.0	2.0	2.0	2.0	2.0

Source: Company, NRA Capital forecasts

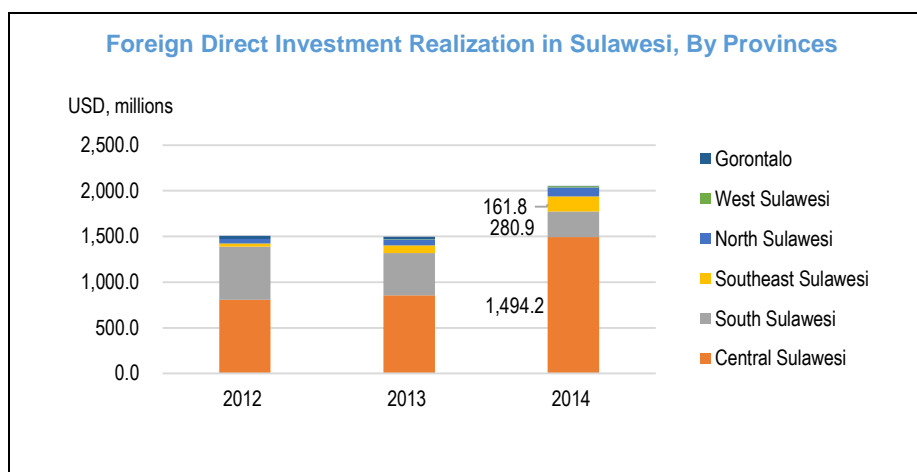
## Planting Roots for Future Growth

**Income disparity highlights scope for rural development.** Income levels in Indonesia, in terms of GDP per capita, vary widely across provinces, from IDR174,8m (USD 14,782) in Jakarta to only IDR13.6m (USD 1,152) in Nusa Tenggara Timur in 2014. South Sulawesi, where the Bantaeng Industrial Park is located, can be considered relatively middle income in Indonesia. It has a GDP per capita of IDR35.6m (USD 3,009) in 2014, ranking 15<sup>th</sup> nationally, and contributes about 2.8% of national GDP.



Source: Badan Pusat Statistik (Statistics Indonesia)

**FDI to Sulawesi Grew 37.2% in 2014.** While foreign direct investment realized in Indonesia fell by 0.3% during 2014 to USD 28.5 billion, investment into Sulawesi grew by 37.2% from USD 1.5 billion in 2013 to USD 2.05 billion in 2014. Much of the investments (USD1.5 billion or 72.7%) went to Central Sulawesi, while South Sulawesi ranked second on the island and attracted USD 280.9m of investments. As such, the Bantaeng Industrial Park will be able to tap onto the overall flow of investments into Sulawesi and help South Sulawesi catch up to Central Sulawesi, which has benefited from, for instance, earlier Chinese investment into the local mining and smelting industry.



Source: Badan Pusat Statistik (Statistics Indonesia)

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**Incentives to help Bantaeng succeed.** Some of the incentives that will help Bantaeng stand out as an investment destination include a) 15-year corporate tax holiday, b) one stop investment service provided by ISDN and c) access to electricity, where the local electricity authority has agreed to supply 200MW to the industrial park. While large companies can afford to build their own power plants, smaller investors are often steered away by inadequate electricity supply infrastructure in rural areas.

## Selected Media Headlines in Relation to Investments in Sulawesi

Date	Description
25-Aug-15	Sulawesi Mining invests USD 1.04 billion for second phase of smelter plant
01-Jun-15	PT Sulawesi Mining Investment - PRC Indonesian JV - to invest USD 2.49 billion on nickel smelter project
11-May-15	Malaysia explores investment opportunities in S. Sulawesi
12-Jan-15	PRC ferronickel producer Virtue Dragon to invest USD 5 billion in nickel smelter
25-Sep-14	Indonesia subsidiary of PRC New Hope Group to invest in South Sulawesi

Source: Jakarta Post, dealstreetasia.com, Indonesia-investments.com

As of March 2015, Indonesia has attracted investments to 11 nickel smelters, most of which will be located in Sulawesi. Accordingly, Indonesia will process about 30m tonnes of nickel ore by 2018 or equivalent to about half of its nickel exports in 2013. Officials have been cited saying that the restriction of ore exports is not only aimed at promoting the processing industry, but to also spur the development of other downstream industries.

**Increasing involvement in Indonesia.** Other than the Bantaeng Industrial Park, ISDN has announced a number of activities in Indonesia in 2015, from the acquisition of 49% of PT Izmi Power Mandiri in January to the receipt of in-principle approval to develop the 20MW Rawa River hydropower facility in Central Sulawesi in August. Prior to PT Izmi Power Mandiri, ISDN has amassed a portfolio of mini-hydropower plants in Sumatra and Sulawesi with combined installed capacity of 52.6MW.

## 2015 Announcements and Hydropower Plant Projects by ISDN

Ann. Date	Description
08-Oct-15	Incorporation of PT ISDN Bantaeng Corporation JV to co-develop and manage industrial complex in South Sulawesi. Project is 85% owned by ISDN
11-Aug-15	Acquired 100% of ISDN Bantaeng Pte Ltd for S\$10, in relation to 8 Oct 2015 announcement
15-Jul-15	Received in-principle approval to develop 20MW Rawa River hydropower facility in Central Sulawesi. (90% owned project by ISDN)
03-Jul-15	Ground breaking of 9.7MW Datara mini-hydropower plant in South Sulawesi – 49% owned JV
21-Jan-15	Acquired 49% of PT Izmi Power Mandiri which has secured a power purchase agreement to build, own and operate an 8MW mini-hydropower plant at North Sumatra

Ann. Date	Hydropower Plant	Capacity	Construction Period	Est. Completion	Invest Cost	Est. Revenue
15-Jul-15	Rawa River, Central Sulawesi	20MW	40 mths	2018	USD 40m	USD 10m/yr
03-Jul-15	Datara, South Sulawesi	9.7MW	18-24 mths	2017	USD 20m	USD 5.3m/yr
21-Jan-15	PT Izmi, North Sumatra	8MW	NA	NA	USD 12m	USD 4.7m/yr

Source: Company

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<b>Profit &amp; Loss</b> (\$\$ m, FYE Dec)	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Revenue	173.7	230.5	253.6	278.9	306.7
Operating expenses	(162.7)	(214.3)	(235.3)	(257.8)	(283.5)
EBITDA	11.1	16.3	18.3	21.1	23.2
Depreciation & amortisation	(1.9)	(2.2)	(2.2)	(2.2)	(2.3)
EBIT	9.2	14.1	16.1	18.9	20.9
Net interest & invt income	(0.0)	0.1	1.0	0.5	0.7
Associates' contribution	0.6	1.1	1.2	1.3	1.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>9.8</b>	<b>15.2</b>	<b>18.2</b>	<b>20.7</b>	<b>23.1</b>
Tax	(3.0)	(4.6)	(5.5)	(6.2)	(6.9)
Minority interests	(2.0)	(3.1)	(3.2)	(3.5)	(3.8)
<b>Net profit</b>	<b>4.8</b>	<b>7.5</b>	<b>9.6</b>	<b>11.0</b>	<b>12.3</b>
Shares at year-end (m)	359.9	354.7	354.7	354.7	354.7
<b>Balance Sheet</b> (\$\$ m, as at Dec)	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Fixed assets	29.0	31.4	34.3	37.2	40.0
Intangible assets	11.7	11.7	11.7	11.7	11.7
Other long-term assets	5.8	6.8	7.0	7.2	7.4
<b>Total non-current assets</b>	<b>46.5</b>	<b>49.9</b>	<b>53.0</b>	<b>56.0</b>	<b>59.1</b>
Cash and equivalents	41.6	37.5	46.1	49.2	53.0
Stocks	31.7	34.6	38.0	41.9	46.2
Trade debtors	52.2	68.0	74.8	82.3	90.5
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>125.5</b>	<b>140.1</b>	<b>159.0</b>	<b>173.4</b>	<b>189.7</b>
Trade creditors	38.8	45.1	49.6	54.6	60.2
Short-term borrowings	12.7	13.1	15.2	13.9	12.3
Other current liabilities	0.6	1.5	5.5	6.2	6.9
<b>Total current liabilities</b>	<b>52.1</b>	<b>59.7</b>	<b>70.3</b>	<b>74.7</b>	<b>79.4</b>
Long-term borrowings	1.0	0.6	0.6	0.5	0.5
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total long-term liabilities</b>	<b>1.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
<b>Shareholders' funds</b>	<b>107.1</b>	<b>112.1</b>	<b>120.2</b>	<b>129.8</b>	<b>140.7</b>
Minority interests	11.8	17.7	20.8	24.3	28.1
NTA/share (\$\$)	0.23	0.23	0.25	0.26	0.28
<b>Total Assets</b>	<b>172.0</b>	<b>190.0</b>	<b>211.9</b>	<b>229.4</b>	<b>248.8</b>
<b>Total Liabilities + S'holders' funds</b>	<b>172.0</b>	<b>190.0</b>	<b>211.9</b>	<b>229.4</b>	<b>248.8</b>
<b>Cash Flow</b> (\$\$ m, FYE Dec)	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Pretax profit	9.8	15.2	18.2	20.7	23.1
Depreciation & non-cash adjustments	3.1	3.4	1.7	1.6	1.5
Working capital changes	(0.9)	(15.7)	(6.5)	(6.9)	(7.4)
Cash tax paid	(4.4)	(3.8)	(1.5)	(5.5)	(6.2)
<b>Cash flow from operations</b>	<b>7.5</b>	<b>(0.9)</b>	<b>11.9</b>	<b>9.9</b>	<b>11.0</b>
Capex	(3.0)	(4.1)	(5.1)	(5.1)	(5.1)
Net investments & sale of FA	(0.8)	(0.4)	0.0	0.0	0.0
Others	0.1	0.1	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(3.7)</b>	<b>(4.4)</b>	<b>(5.1)</b>	<b>(5.1)</b>	<b>(5.1)</b>
Debt raised/(repaid)	(7.5)	0.0	2.2	(1.3)	(1.7)
Equity raised/(repaid)	22.9	(1.4)	0.0	0.0	0.0
Dividends paid	(1.8)	(1.4)	(1.4)	(1.4)	(1.4)
Cash interest & others	(1.6)	4.0	1.0	1.0	1.0
<b>Cash flow from financing</b>	<b>12.0</b>	<b>1.2</b>	<b>1.7</b>	<b>(1.7)</b>	<b>(2.1)</b>
<b>Change in cash</b>	<b>15.7</b>	<b>(4.1)</b>	<b>8.6</b>	<b>3.1</b>	<b>3.8</b>
<b>Change in net cash/(debt)</b>	<b>23.3</b>	<b>(4.1)</b>	<b>6.5</b>	<b>4.4</b>	<b>5.5</b>
<b>Ending net cash/(debt)</b>	<b>27.9</b>	<b>23.8</b>	<b>30.3</b>	<b>34.7</b>	<b>40.3</b>
<b>KEY RATIOS</b> (FYE Dec)	<b>2013</b>	<b>2014</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Revenue growth (%)	13.2	32.7	10.0	10.0	10.0
EBITDA growth (%)	(15.9)	46.5	12.6	15.2	9.9
Pretax margins (%)	5.6	6.6	7.2	7.4	7.5
Net profit margins (%)	2.7	3.2	3.8	3.9	4.0
Effective tax rates (%)	30.6	30.4	30.0	30.0	30.0
Net dividend payout (%)	30.3	19.0	14.8	12.9	11.5
ROE (%)	6.7	4.4	6.7	8.0	8.5
Free cash flow yield (%)	6.2	(6.9)	9.4	6.6	8.2

Source: Company, NRA Capital forecasts

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