



ISDN Holdings Limited

Overweight

Current Price	S\$0.215
Fair Value	S\$0.320
Up / (downside)	48.8%

Stock Statistics

Market cap	S\$84.9m
52-low	S\$0.200
52-high	S\$0.260
Avg daily vol	948,303
No of share	394.7m
Free float	62%

Key Indicators

ROE 18F	11.5%
ROA 18F	8.8%
P/NAV	0.52x
Net gearing	Net cash

Major Shareholders

Teo Cher Koon	33.2%
Karl Walter Braun	5.1%

Historical Chart



Source: Bloomberg

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1H18 Performance Smashes Expectations

- 1H18 PATMI grew by 113%.** ISDN reported a strong set of results for 1H18 with PATMI growing by 113% from S\$4.7m in 1H17 to S\$10.1m in 1H18. The results far exceeded our expectations of S\$12.7m for the full year. The positive performance was mainly driven by revenue growth of 17% year-on-year and a 0.9%-point improvement in gross margin. The former added S\$4.2m to gross profit while the latter explained for S\$1.4m of incremental gross profit. These gains led 1H18 PATMI to expand by S\$5.3m year-on-year. Foreign exchange gain and other non-recurring gains of approximately S\$1m helped to offset against higher operating expenses.
- Raising forecasts to factor in strong 1H results.** Due to the strong performance in 1H18, we revised our forecasts to expect full year PATMI of S\$17.3m for FY18F. This translates to EPS of 4.4 Singapore cents. Hence, ISDN currently trades at a very conservative forward P/E of 5.1 times. Downside is further limited by the group's net cash position of S\$17.2m or 4.4 Singapore cents per share.
- Targeting emerging industries for growth.** During 1H18, the group saw strong demand for precision control systems by medical device manufacturers. Growing adoption of robotic surgery systems have led to positive demand for ISDN's products. The group is targeting industries such as medical devices, environmental protection, artificial intelligence and electric vehicles for growth opportunities. Capex growth in these industries should provide opportunities for ISDN.
- Key risks.** The group has flagged that the business climate is starting to show signs of caution and that the semiconductor and electronic sectors appear to be facing some headwinds following 18 months of growth. Hence, we expect 2H18 PATMI to come in at S\$6.8m – somewhat lower than that of 1H18, but still higher than the S\$4.8m reported for 2H17. The group's performance in 3Q18 will give us more visibility to fine tune forecasts. We highlight that the semiconductor and electronic sectors only account for a portion of the group's business and that it has built strong presences in other industries such as infrastructure and medical devices in recent years.
- Share price has lagged strong financial performance.** In this update, we maintain our valuation at S\$0.32 per share, which already translates to 48.8% upside from the current share price of S\$0.215. At S\$0.32, we value ISDN at 13.2x FY17 EPS and 7.3x FY18F EPS. At S\$0.215, we remain bullish on ISDN and see limited downside even if earnings growth were to slow in subsequent quarters. Hence, we maintain our overweight rating with a high-average return and low risk view. If the group meets or outperform our forecasts in subsequent quarters, we may revise our valuation higher.

Key Financial Data (S\$ m, FYE Dec)	2016	2017	2018F	2019F	2019F
Sales	258.5	292.2	306.8	326.8	348.2
Gross Profit	65.0	73.8	81.3	85.8	90.5
Net Profit	5.2	9.5	17.3	17.4	18.3
EPS (cents)	1.45	2.43	4.4	4.4	4.6
EPS growth (%)	(40.9)	67.0	81.1	0.5	5.2
PER (x)	15.5	9.3	5.1	5.1	4.8
NTA/share (cents)	26.7	27.9	30.2	32.5	35.0
DPS (cents)	0.3	0.6	0.9	0.9	0.9
Div Yield (%)	1.3	2.7	3.9	3.9	4.1

Source: Tayrona Financial

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Results Overview

FYE Dec (S\$ m)	2Q18	2Q17	yoy % chg	1Q18	qoq % chg	Comments
Revenue	85.9	77.4	11.0	76.2	12.8	Driven by growing demand for high-tech precision control systems from medical device manufacturers, coupled with growing customer base and orders, especially in PRC and HK.
Gross profit	22.4	18.7	19.6	19.4	15.5	
Gross margin (%)	26.0	24.1	1.9	25.4	0.6	
Operating expenses	(14.2)	(12.7)	11.7	(12.1)	17.9	
EBITDA	8.1	5.9	36.7	7.3	11.4	
EBITDA margin (%)	9.5	7.7	1.8	9.6	-0.1	
Depn & amort.	(0.6)	(0.5)	13.6	(0.5)	6.1	
EBIT	7.6	5.5	38.7	6.8	11.8	
Interest expense	(0.2)	(0.1)	92.6	(0.2)	-21.5	
Interest & invt inc	1.7	0.2	NM	1.8	-8.3	The strengthening of the Singapore Dollar against the United States Dollar during 2Q18 led to higher other operating income.
Associates' contrib	0.2	0.3	-34.0	0.4	-55.6	
Exceptionals	0.0	0.0		0.0		
Pretax profit	9.2	5.9	58.0	8.8	5.2	
Tax	(2.6)	(1.8)	40.9	(1.9)	32.5	
Tax rate (%)	27.8	31.2	-3.4	22.1	5.7	Effective tax rate fell in 2018 due to the utilisation of tax losses in prior years and tax credits to offset chargeable income.
Minority interests	(1.8)	(1.0)	76.5	(1.7)	8.8	
Net profit	4.9	3.0	62.1	5.2	-6.2	
EPS (cts)	1.24	0.76	63.2	1.31	-5.3	

Source: Company, Tayrona Financial

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Profit & Loss (S\$ m, FYE Dec)	2016	2017	2018F	2019F	2020F
Revenue	258.5	292.2	306.8	326.8	348.2
Operating expenses	(243.5)	(271.6)	(280.0)	(299.2)	(319.8)
EBITDA	15.0	20.6	26.8	27.6	28.4
Depreciation & amortisation	(2.1)	(2.3)	(2.3)	(2.3)	(2.3)
EBIT	12.9	18.3	24.5	25.3	26.1
Net interest & invt income	1.1	(0.1)	4.0	1.8	0.6
Associates' contribution	0.4	0.6	1.2	3.2	5.2
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	14.3	18.8	29.8	30.3	32.0
Tax	(4.3)	(5.1)	(8.0)	(8.2)	(8.6)
Minority interests	(4.9)	(4.2)	(4.4)	(4.7)	(5.0)
Net profit	5.2	9.5	17.3	17.4	18.3
Shares at year-end (m)	354.7	394.7	394.7	394.7	394.7
Balance Sheet (S\$ m, as at Dec)	2016	2017	2018F	2019F	2020F
Fixed assets	27.7	27.3	25.1	22.8	23.5
Intangible assets	11.7	11.7	11.7	11.7	11.7
Other long-term assets	13.6	20.5	21.1	21.7	22.4
Total non-current assets	53.0	59.5	57.9	56.2	57.6
Cash and equivalents	38.7	38.3	47.9	71.6	93.0
Stocks	38.9	50.0	54.3	58.1	62.1
Trade debtors	86.3	89.2	95.4	101.6	108.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	163.9	177.5	197.5	231.3	263.3
Trade creditors	65.5	68.7	69.0	73.8	78.9
Short-term borrowings	13.2	14.5	7.7	8.2	8.7
Other current liabilities	1.6	1.4	8.0	16.2	24.3
Total current liabilities	80.3	84.6	84.7	98.2	111.9
Long-term borrowings	0.4	0.2	0.4	0.4	0.4
Other long-term liabilities	0.0	0.3	0.3	0.3	0.3
Total long-term liabilities	0.4	0.5	0.6	0.6	0.7
Shareholders' funds	121.2	136.7	150.4	164.4	179.0
Minority interests	14.9	15.2	19.6	24.3	29.3
NTA/share (S\$)	0.27	0.28	0.30	0.33	0.35
Total Assets	216.8	237.0	255.4	287.5	320.9
Total Liabilities + S'holders' funds	216.8	237.0	255.4	287.5	320.9
Cash Flow (S\$ m, FYE Dec)	2016	2017	2018F	2019F	2020F
Pretax profit	14.3	18.8	29.8	30.3	32.0
Depreciation & non-cash adjustments	3.2	(1.1)	1.5	11.2	15.7
Working capital changes	(0.9)	(11.3)	(10.3)	(5.4)	(5.8)
Cash tax paid	(4.3)	(1.6)	(1.4)	(8.0)	(16.2)
Cash flow from operations	12.4	4.8	19.5	28.1	25.7
Capex	(2.5)	(2.1)	(2.1)	(2.1)	(2.1)
Net investments & sale of FA	(4.0)	(0.1)	0.0	0.0	0.0
Others	0.4	(10.4)	0.0	0.0	0.0
Cash flow from investing	(6.1)	(12.6)	(2.1)	(2.1)	(2.1)
Debt raised/(repaid)	(1.1)	1.1	(6.7)	0.5	0.5
Equity raised/(repaid)	0.0	8.6	0.0	0.0	0.0
Dividends paid	(1.4)	(1.3)	(1.9)	(3.5)	(3.5)
Cash interest & others	(4.1)	(1.1)	0.7	0.7	0.7
Cash flow from financing	(6.6)	7.3	(7.8)	(2.2)	(2.2)
Change in cash	(0.4)	(0.4)	9.6	23.8	21.4
Change in net cash/(debt)	0.7	(1.5)	16.2	23.3	20.9
Ending net cash/(debt)	25.0	23.5	39.8	63.0	83.9
KEY RATIOS (FYE Dec)	2016	2017	2018F	2019F	2020F
Revenue growth (%)	9.9	13.0	5.0	6.5	6.5
EBITDA growth (%)	(17.5)	37.4	30.4	2.9	2.8
Pretax margins (%)	5.5	6.4	9.7	9.3	9.2
Net profit margins (%)	2.0	3.3	5.7	5.3	5.3
Effective tax rates (%)	29.9	26.9	27.0	27.0	27.0
Net dividend payout (%)	20.6	20.0	20.0	20.0	20.0
ROE (%)	4.3	7.0	11.5	10.6	10.2
Free cash flow yield (%)	11.6	3.2	20.5	30.6	27.8

Source: Company, Tayrona Financial

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