

ISDN Holdings Limited

Overweight

Current Price	S\$0.225
Fair Value	S\$0.320
Up / (downside)	42.2%

Stock Statistics

Market cap	S\$88.8m
52-low	S\$0.175
52-high	S\$0.275
Avg daily vol	1,136,313
No of share	394.7m
Free float	62%

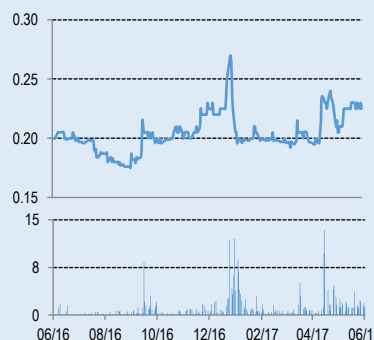
Key Indicators

ROE 17F	6.4%
ROA 17F	6.3%
P/NAV	0.61x
Net gearing	Net cash

Major Shareholders

Teo Cher Koon	33.2%
Karl Walter Braun	5.1%

Historical Chart



Source: Bloomberg

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2Q17 Outlook Remains Positive

- Clocked strong growth in 2Q17.** ISDN's 1Q17 revenue grew by 11.6% or S\$7m year-on-year to S\$67.7m. What's interesting is that net profit attributable to shareholders grew from S\$0.65m a year ago to S\$1.72m in 1Q17 as higher economies of scale led to more of gross profit gains to flow to the bottom line. Profitability would have been higher if not for S\$0.4m of professional expenses incurred in connection with its listing in Hong Kong.
- Key themes remain intact.** We continue to see ISDN as a beneficiary of strong growth in the semiconductor equipment industry, higher investment in industrial automation and higher infrastructure spending. For FY17, we are maintaining our forecasts of S\$281.6m revenue and S\$8.6m PATMI, translating to growth of 9% and 65% respectively. We expect profitability to further improve in 2Q17 due to the absence of listing costs. 1Q17 is a typical seasonal low due to fewer working days and new year holidays.
- Collaboration with leading solar manufacturer.** In May, ISDN announced that it has entered into a strategic cooperation framework agreement with Comtec Solar Systems Group Limited for the development, design, construction and operation of solar power generation station projects. ISDN has traditionally been investing in the China and Indonesian markets. In Indonesia, ISDN's associated company is building hydropower plants, of which the first plant will be completed by mid-2018. This collaboration will allow ISDN to extend its renewable energy business to include solar power projects in Indonesia or China.
- Strong balance sheet supportive of higher dividends and M&A.** Net cash per share remained at 26.0% of ISDN's market capitalisation as higher working capital requirements negated cash obtained from its HKSE listing. However, we reckon that ISDN may either commit to or raise dividends with the improved profitability in 2017. We expect dividends of 0.4 to 0.5 cents in 2017 if we assume a minimum pay-out ratio of 20%. At the same time, ISDN may also become more active in M&A and investment activity following its recent venture into corporate finance with Emmett Capital.
- Valuation maintained at 32 cents per share.** In this update, we keep our forecasts and valuation of ISDN unchanged from our last report on 29 March, except for dividends. Assuming a 20% pay-out ratio, dividend per share is expected to rise to 0.44 cents in 2017. At S\$0.225, ISDN trades at 10.3x FY17 earnings and about 0.9x net tangible assets, probably lagging that of some of its peers. Our valuation of 32 cents translates to about 14.7x FY17 earnings. On balance, we maintain our Overweight rating with a high-average return and low risk classification.

Key Financial Data (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Sales	235.3	258.5	281.6	295.6	310.4
Gross Profit	65.7	65.0	70.4	73.9	77.6
Net Profit	8.7	5.2	8.6	9.2	10.9
EPS (cents)	2.5	1.45	2.18	2.3	2.8
EPS growth (%)	17.0	(40.9)	49.8	6.6	19.4
PER (x)	9.2	15.5	10.3	9.7	8.1
NTA/share (cents)	25.0	26.7	25.9	26.3	26.9
DPS (cents)	0.4	0.3	0.4	0.5	0.6
Div Yield (%)	1.8	1.3	1.9	2.1	2.5

Source: NRA Capital forecasts

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Results Comparison

FYE Dec (S\$ m)	4Q16	4Q15	yoy % chg	3Q16	qoq % chg	Prev. 4Q16F	Comments
Revenue	67.7	60.7	12	67.1	1	70.4	3.9% variance, consider in line with expectations
Gross profit	17.4	15.8	10	16.8	3	17.6	
Gross margin (%)	25.7	26.0		25.1		25.0	In line
Operating expenses	(12.6)	(11.4)	11	(11.7)	7	(12.4)	
EBITDA	4.8	4.4	9	5.1	-6	5.2	In line
EBITDA margin (%)	7.0	7.2		7.6		7.4	
Depn & amort.	(0.6)	(0.5)	19	(0.6)	-4	(0.6)	
EBIT	4.2	3.9	8	4.5	-7	4.7	S\$0.5m variance, mainly due to variance from revenue
Interest expense	(0.2)	(0.2)	4	(0.2)	43	(0.2)	
Interest & invt inc	(0.6)	(0.7)	nm	1.4	-141	0.4	Due to S\$1.0m of foreign exchange loss
Associates' contrib	0.3	(0.2)	-260	0.3	12	0.2	
Exceptionals	0.0	0.0	na	0.0	na	0.0	
Pretax profit	3.7	2.7	35	6.0	-39	5.1	
Tax	(1.0)	(1.0)	9	(1.1)	-2	(1.5)	
Tax rate (%)	28.1	35.0		17.7	59	30.0	
Minority interests	(0.9)	(1.1)	-17	(2.0)	-54	(1.4)	
Net profit	1.7	0.7	164	2.9	-41	2.2	S\$0.5m variance. Reasonable given that the first quarter is a typical seasonal low for ISDN.
EPS (cts)	0.44	0.18	144	0.8	-46	0.61	

Source: Company, NRA Capital

Figure 1: Financial Estimates for the First Hydropower Plant

Description		Remarks
Plant Capacity	4.6MW	As per page 226 of HKSE listing document
Maximum Output	40.3GWh	4.6MW x 365 days x 24 hours
Efficiency	75%	Assumed
Expected Output	30.2GWh	Max. output x efficiency
Tariff (US\$ per kWh)	0.132	Based on national average production cost in Indonesia ¹
Expected revenue (US\$ m)	3.6	Tariff x expected output
Capex (US\$m)	12.6	As per page 226 of HKSE listing document
Opex/year (US\$m)	-1.26	10% of capex
Tax (US\$m)	-0.6	@25%
Profit (US\$m)	1.8	Revenue, less opex and tax
Attributable to ISDN (US\$m)	0.66	x 37.5%
in S\$m	0.93	USD SGD = 1.4

Source: NRA Capital

Construction of the first hydropower plant is expected to be completed by mid-2018. The next two hydropower plant is expected to be completed by mid-2019.

¹ <http://www.lexology.com/library/detail.aspx?g=3aeb2405-a78a-46f9-9d4f-a49808cd8b09>

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Figure 2: Peer Comparison (Unchanged from 29 March 2017 report)

Company Name	Mkt Cap (\$m)	Sales (\$m)	3-yr Avg EPS Growth	Ret. On Com. Equity	Net debt to com. Equity	P/E	P/BV	EV/EBITDA
China Metal International Holdings Inc	476.09	420.7	10.2%	13.3%	7.4%	7.81	1.08	4.67
Shanghai Prime Machinery Co Ltd	428.45	1589.5	54.8%	6.3%	66.2%	10.21	0.66	7.41
CHTC Fong's Industries Co Ltd	412.64	556.0	14.1%	14.0%	47.3%	25.02	1.69	15.14
IPE Group Ltd	396.54	151.6	NA	6.1%	NA	19.64	1.45	7.05
EVA Precision Industrial Holdings Ltd	369.83	570.9	97.9%	4.2%	9.6%	39.09	0.82	5.49
Tiangong International Co Ltd	358.56	677.7	-30.5%	1.0%	60.5%	45.74	0.46	11.42
CW Group Holdings Ltd	196.12	429.6	75.0%	15.4%	40.5%	4.97	0.67	6.05
Zhejiang Tengy Environmental Technology Co Ltd	189.21	201.3	67.5%	22.6%	9.8%	7.69	1.53	NA
Yusei Holdings Ltd	145.29	243.1	216.3%	16.0%	49.7%	11.87	1.77	6.49
Austar Lifesciences Ltd	132.46	134.7	NA	-2.9%	NA	NA	1.20	NA
LK Technology Holdings Ltd	130.16	514.0	19.1%	4.6%	69.9%	8.80	0.41	6.24
Good Friend International Holdings Inc	117.94	218.2	37.3%	5.2%	41.3%	14.78	0.79	7.12
Asia Tele-Net & Technology Corp Ltd	80.36	97.5	NA	2.2%	NA	64.71	1.49	26.76
Leepport Holdings Ltd	63.17	127.2	83.9%	6.5%	15.2%	14.66	0.93	27.57
Median	192.66	331.9	54.8%	6.2%	41.3%	14.66	1.00	7.08
ISDN	77.80	258.5	11.7%	6.4%	NA	9.10	0.61	3.40

Source: Bloomberg, NRA Capital. Extracted on 27 March 2017

Figure 3: Valuation Matrix (Unchanged from 29 March 2017 report)

	P/E	P/BV	EV/EBITDA
Median (as per peer comparison table)	14.66	1.00	7.08
FY17 Est. PATMI (\$m)	8.59		
Current NAV + S\$7.0m of net proceeds		128.20	
FY17 Est. EBITDA (\$m)			20.95
Enterprise value			148.3
Adjustment to value of equity			7.17
Value of equity	125.95	128.51	155.50
Number of shares			394.69
Value per share	0.319	0.326	0.394
Mean value per share	0.346		

Source: NRA Capital

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Profit & Loss (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Revenue	235.3	258.5	281.6	295.6	310.4
Operating expenses	(217.2)	(243.5)	(260.6)	(273.7)	(287.4)
EBITDA	18.1	15.0	20.9	22.0	23.1
Depreciation & amortisation	(2.2)	(2.1)	(2.2)	(2.3)	(2.4)
EBIT	15.9	12.9	18.8	19.7	20.7
Net interest & invt income	0.5	1.1	0.8	0.5	0.5
Associates' contribution	0.8	0.4	0.8	1.3	3.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	17.2	14.3	20.3	21.5	24.5
Tax	(5.3)	(4.3)	(6.1)	(6.5)	(7.3)
Minority interests	(3.2)	(4.9)	(5.6)	(5.9)	(6.2)
Net profit	8.7	5.2	8.6	9.2	10.9
Shares at year-end (m)	354.7	354.7	394.7	394.7	394.7
Balance Sheet (S\$ m, as at Dec)	2015	2016	2017F	2018F	2019F
Fixed assets	35.6	27.7	36.3	34.0	31.6
Intangible assets	11.7	11.7	11.7	11.7	11.7
Other long-term assets	7.2	13.6	14.0	14.4	14.9
Total non-current assets	54.4	53.0	62.0	60.1	58.1
Cash and equivalents	39.1	38.7	33.0	45.1	65.8
Stocks	40.9	38.9	50.9	53.4	56.1
Trade debtors	73.1	86.3	87.5	91.9	96.5
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	153.1	163.9	171.4	190.4	218.4
Trade creditors	51.9	65.5	64.6	67.9	71.3
Short-term borrowings	14.1	13.2	7.0	7.4	7.8
Other current liabilities	1.5	1.6	6.1	6.5	13.8
Total current liabilities	67.5	80.3	77.8	81.7	92.8
Long-term borrowings	0.7	0.4	0.4	0.4	0.4
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	0.7	0.4	0.4	0.4	0.4
Shareholders' funds	119.7	121.2	134.6	141.9	150.6
Minority interests	19.5	14.9	20.6	26.5	32.7
NTA/share (S\$)	0.25	0.27	0.26	0.26	0.27
Total Assets	207.5	216.8	233.3	250.5	276.5
Total Liabilities + S'holders' funds	207.5	216.8	233.3	250.5	276.5
Cash Flow (S\$ m, FYE Dec)	2015	2016	2017F	2018F	2019F
Pretax profit	17.2	14.3	20.3	21.5	24.5
Depreciation & non-cash adjustments	4.7	3.2	0.7	12.9	19.2
Working capital changes	(8.2)	(0.9)	(14.3)	(3.9)	(4.1)
Cash tax paid	(5.3)	(4.3)	(1.6)	(6.1)	(6.5)
Cash flow from operations	8.4	12.4	5.2	24.4	33.1
Capex	(5.9)	(2.5)	(10.8)	(10.8)	(10.8)
Net investments & sale of FA	(2.3)	(4.0)	0.0	0.0	0.0
Others	0.3	0.4	0.0	0.0	0.0
Cash flow from investing	(8.0)	(6.1)	(10.8)	(10.8)	(10.8)
Debt raised/(repaid)	1.1	(1.1)	(6.2)	0.3	0.4
Equity raised/(repaid)	0.0	0.0	7.4	0.0	0.0
Dividends paid	(1.4)	(1.4)	(1.2)	(1.7)	(1.8)
Cash interest & others	1.5	(4.1)	(0.2)	(0.2)	(0.2)
Cash flow from financing	1.2	(6.6)	(0.1)	(1.5)	(1.6)
Change in cash	1.6	(0.4)	(5.7)	12.1	20.7
Change in net cash/(debt)	0.5	0.7	0.5	11.8	20.4
Ending net cash/(debt)	24.3	25.0	25.5	37.3	57.7
KEY RATIOS (FYE Dec)	2015	2016	2017F	2018F	2019F
Revenue growth (%)	2.1	9.9	8.9	5.0	5.0
EBITDA growth (%)	11.6	(17.5)	40.0	5.0	4.9
Pretax margins (%)	7.3	5.5	7.2	7.3	7.9
Net profit margins (%)	3.7	2.0	3.0	3.1	3.5
Effective tax rates (%)	31.0	29.9	30.0	30.0	30.0
Net dividend payout (%)	16.3	20.6	20.0	20.0	20.0
ROE (%)	7.3	4.3	6.4	6.4	7.3
Free cash flow yield (%)	2.8	11.1	(6.3)	15.4	25.2

Source: NRA Capital forecasts

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