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ISDN Holdings Limited

Company note
23 March 2016

Overweight

Current Price	**S$0.199**
Fair Value	S$0.300
Up / (downside)	50.8%

Stock Statistics

Market cap	S$70.6m
52-low	S$0.168
52-high	S$0.280
Avg daily vol	1,018,006
No of share	354.7m
Free float	33%

Key Indicators

ROE 16F	7.9%
ROA 16F	4.4%
P/NTA	0.80x
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

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Proposed Move to Potentially Unlock Value

- **Proposed dual primary listing on the HKSE.** ISDN Holdings Limited (ISDN) announced on 22 March 2016 the proposed dual primary listing of its ordinary shares on the main board of the Stock Exchange of Hong Kong by way of introduction. A sponsor Shenwan Hongyuan Capital (HK) Limited has been appointed. However, no application has yet been made to the Stock Exchange of Hong Kong.

- **Move to potentially unlock value.** According to the company, the proposed listing will enhance its profile in Hong Kong and in the PRC, given that ISDN's main revenue source by geographical location is the PRC. We see the move as a general positive that will allow ISDN to reach out to different investors who may value ISDN at higher P/E multiples, thus unlocking value.

- **However… the process may take time.** ISDN is the second company we are monitoring that is proposing a listing in Hong Kong. Other Hong Kong listing prospects include the subsidiary of a PRC food and beverage company listed on the SGX – which kick started preparations at least two to three years ago. A third company we have previously spoken to has also mentioned that they are eyeing Hong Kong for the listing of one of their subsidiaries, but has yet make any formal decision. We remind that ISDN's application will take time to prepare and that there is no guarantee of approval or success at this juncture.

- **Focus on fundamentals.** In the interim, we would return our attention to ISDN's fundamentals and core business. To some extent, the proposed dual listing will help to retain investor interest, as 1Q16 results may be potentially subdued due to slower activity and longer holidays in factories in China. However, we reiterate that the medium term prospects of ISDN remains positive, with stable demand from pharmaceutical and medical devices industries and new clients from growing markets like Vietnam supporting revenue growth. Longer term, we expect demand for motion control products to be well supported by the drive to automate and upgrade China's industries.

- **Forecasts unchanged, valuation maintained at S$0.30.** In this update, we do not revise our forecasts and valuation, pending further developments, if any. ISDN closed at S$0.199 on 22 March, equivalent to a P/E multiple of 8.1x and P/BV of 0.8x. As of 9.16 am, its share price has risen to S$0.215 - 8.7x P/E or P/BV of 0.86x. Generally, we do not see valuation as stretched, with the company still trading below book value, when it has net cash of S$24.3m (35% of market cap or 6.9 cents per share). We also see our valuation of S$0.300 as reasonable, at 8.4x FY16 P/E excluding cash.

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	66.1	72.2	79.4
Net Profit	7.5	8.7	9.8	11.0	12.6
EPS (cents)	2.1	2.5	2.8	3.1	3.6
EPS growth (%)	59.2	17.0	12.3	12.6	14.3
PER (x)	9.5	8.1	7.2	6.4	5.6
NTA/share (cents)	23.3	25.0	25.4	27.1	5.7
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

ISDN Holdings Limited

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)	(229.1)	(251.9)	(277.1)
EBITDA	16.3	18.0	18.6	20.5	22.5
Depreciation & amortisation	(2.2)	(2.2)	(2.3)	(2.3)	(2.3)
EBIT	14.1	15.8	16.4	18.2	20.2
Net interest & invt income	0.1	0.6	1.5	1.8	2.4
Associates' contribution	1.1	0.8	0.9	1.0	1.1
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	**15.2**	**17.2**	**18.7**	**21.0**	**23.7**
Tax	(4.6)	(5.3)	(5.6)	(6.3)	(7.1)
Minority interests	(3.1)	(3.2)	(3.3)	(3.7)	(4.0)
Net profit	**7.5**	**8.7**	**9.8**	**11.0**	**12.6**
Shares at year-end (m)	354.7	354.7	354.7	354.7	354.7

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	42.7	44.8	(20.0)
Stocks	34.6	40.9	43.5	48.0	52.8
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**	**163.1**	**177.2**	**125.7**
Trade creditors	45.1	51.9	55.3	61.0	67.1
Short-term borrowings	13.1	14.1	12.4	10.9	12.0
Other current liabilities	1.5	1.5	5.6	6.3	13.4
Total current liabilities	**59.7**	**67.5**	**73.3**	**78.2**	**92.5**
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**	**124.7**	**134.3**	**62.4**
Minority interests	17.7	19.5	22.9	26.5	30.5
NTA/share (S$)	0.23	0.25	0.25	0.27	0.06
Total Assets	**190.0**	**207.5**	**221.4**	**239.5**	**185.9**
Total Liabilities + S'holders' funds	**190.0**	**207.5**	**221.4**	**239.5**	**185.9**

Cash Flow (S$ m, FYE Dec)	**2014**	**2015**	**2016F**	**2017F**	**2018F**
Pretax profit	15.2	17.2	18.7	21.0	23.7
Depreciation & non-cash adjustments	3.4	4.7	(1.8)	1.5	(70.0)
Working capital changes	(15.7)	(10.0)	(3.4)	(6.8)	(6.8)
Cash tax paid	(3.8)	(5.3)	(1.5)	(5.6)	(6.3)
Cash flow from operations	**(0.9)**	**6.6**	**12.0**	**10.0**	**(59.3)**
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)	(1.5)	1.1
Equity raised/(repaid)	(1.4)	0.0	0.0	0.0	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)**	**(2.0)**	**0.6**
Change in cash	**(4.1)**	**2.0**	**3.6**	**2.0**	**(64.7)**
Change in net cash/(debt)	**(4.1)**	**0.5**	**5.5**	**3.6**	**(65.8)**
Ending net cash/(debt)	**23.8**	**24.3**	**29.8**	**33.4**	**(32.4)**

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	3.6	10.0	10.0
Pretax margins (%)	6.6	7.3	7.6	7.7	7.9
Net profit margins (%)	3.2	3.7	4.0	4.0	4.2
Effective tax rates (%)	30.4	31.0	30.0	30.0	30.0
Net dividend payout (%)	19.0	16.3	14.5	12.9	11.3
ROE (%)	6.7	7.3	7.9	8.2	20.2
Free cash flow yield (%)	(7.1)	0.9	8.5	5.7	(92.6)

Source: Company, NRA Capital forecasts

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