

ISDN Holdings Limited

Overweight

Current Price	S\$0.200
Fair Value	S\$0.300
Up / (downside)	50%

Stock Statistics

Market cap	S\$70.9m
52-low	S\$0.171
52-high	S\$0.235
Avg daily vol	521,669
No of share	354.7m
Free float	49%

Key Indicators

ROE 17F	5.5%
ROA 17F	4.7%
P/NAV	0.6x
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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Dual Primary Listing Now Pending Shareholders Approval

- HKSE listing plans progressively unfolding.** ISDN has received clearance from SGX for the proposed listing of up to 40m new shares in Hong Kong. The listing is now pending shareholders' approval at an EGM on 16 December and also approval by the Hong Kong Stock Exchange. Barring unforeseen circumstance, we would expect the dual listing to take place within the next few months or so. The key variable factor now is the issue price which will serve as a catalyst for the share price in Singapore.
- 3Q16 results were in line with expectations.** ISDN reported PATMI of S\$0.7m in 3Q16 against our forecast of S\$0.5m. While the variance of S\$0.2m is not material, a number of other indicators such as revenue, gross profit, net other operating income and expenses and share of profit of associates exceeded our forecasts. PATMI would have been higher if not for higher corporate costs such as foreign exchange loss of S\$0.6m in 3Q16 and higher administrative costs due to professional fees incurred for the proposed listing in Hong Kong.
- Key financial metrics suggests a business recovery.** Revenue of S\$71.0m and consequently gross profit of S\$17.1m exceeded our forecasts by about 11%, driven by sequential growth in China and Singapore, where their revenue jointly grew by 22% from S\$49m in 2Q to S\$60m in 3Q. Profit before tax actually grew from S\$2.2m in 2Q to S\$3.4m in 3Q. However, higher minority interests led PATMI to be slightly lower. Hence, subsidiaries that were approximately 50% owned by ISDN such as those dealing in Maxon Motor products did well, demonstrating strong underlying demand. As mentioned, PATMI would have been higher if not for FX and admin costs.
- Likely to enjoy some FX gains in 4Q16.** The good news is that the stronger RMB and USD against the SGD will likely be beneficial towards ISDN. The RMB has appreciated by about 1% against the SGD from 30 September to-date, while the USD has appreciated by about 4.5% against the SGD. As of end 2015, ISDN had about S\$8.5m of foreign currency exposure. Assuming a 4.5% positive variance in FX rates, we are looking at gains of approximately S\$0.4m. Had these gains occurred in 3Q, 3Q PATMI would have been about S\$1.7m.
- Management commentary also indicate more positive outlook.** In its 2Q results, ISDN remarked that it expects the "lacklustre climate to continue well into the latter half" of 2016. In its 3Q results, ISDN did not mention about the "lacklustre" climate, but expressed that it is "cautiously optimistic on the outlook for the upcoming quarter". On balance, we maintain Overweight (high-average return / moderate risk) on ISDN and retain our forecasts and fair value at S\$0.300 per share.

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	6.8	8.0
EPS (cents)	2.1	2.5	1.0	1.9	2.3
EPS growth (%)	59.2	17.0	(58.5)	88.3	17.8
PER (x)	9.5	8.1	19.6	10.4	8.8
NTA/share (cents)	23.3	25.0	23.7	24.2	24.9
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: NRA Capital forecasts

ISDN Holdings Limited

Results Comparison

FYE Dec (\$\$ m)	3Q16	3Q15	yoy % chg	2Q16	3Q16F	qoq % chg	Comments
Revenue	71.0	64.4	10	59.8	63.6	19	Due to high growth in China and Singapore markets
Gross profit	17.1	16.9	1	15.3	15.4	11	
Gross margin (%)	24.1	26.2		25.6	24.2		In line with expectations, but higher gross profit due to revenue.
Operating expenses	(13.9)	(12.3)	13	(12.2)	(12.2)	13	Due to FX losses of S\$0.6m and higher admin costs
EBITDA	3.2	4.6	-30	3.1	3.2	4	
EBITDA margin (%)	4.5	7.1		5.2	5.1		
Depn & amort.	(0.5)	(0.5)	-4	(0.5)	(0.7)	6	
EBIT	2.7	4.1	-33	2.6	2.5	4	
Interest expense	(0.1)	(0.2)	-30	(0.2)	(0.2)	-19	
Interest & invt inc	0.3	1.2	-77	0.1	(0.6)	430	
Associates' contrib	0.5	(0.0)	nm	(0.3)	0.2	-295	
Exceptionals	0.0	0.0	na	0.0	0.0	na	
Pretax profit	3.4	5.1	-33	2.2	2.0	54	
Tax	(1.5)	(1.7)	-13	(0.7)	(0.8)	106	
Tax rate (%)	(45.1)	(34.6)		(33.7)	(37.6)	34	
Minority interests	(1.2)	(1.3)	-12	(0.6)	(0.8)	98	
Net profit	0.7	2.0	-65	0.9	0.5	-21	
EPS (cts)	0.20	0.56	-65	0.25	0.13	-21	

Source: NRA Capital

3Q16 results strike more positive tone. The higher revenue recorded in 3Q16 is a positive. Earlier, we were somewhat concerned about declining gross margin which fell from 27.7% in 1H15 to 25.8% in 1H16. While gross margin continued to fall to 24.1% in 3Q16, gross profit still grew by about 11% quarter-on-quarter due to revenue growth. The strong performance is also reflected by positive net operating cash flow of S\$3.6m in 3Q16, as opposed to S\$3.05m in 1H16.

Net cash position rose to 5.92 cents per share up from 5.51 cents at the end of 2Q. While ISDN's share price has risen from S\$0.183 as of 26 September to S\$0.200 as of 24 November, the company still trades at a conservative P/E multiple of 7.32x FY17 earnings after deducting the net cash from its share price. Previously, ISDN was trading at 6.65x ex-cash P/E based on 5.51 cents of net cash and a share price of S\$0.183. In this update, we did not revise our forecasts. We still expect full year PATMI of S\$3.6m in spite of 9M16 PATMI of S\$2.2m, implying a forecast of S\$1.3m PATMI for 4Q16. As suggested earlier, 3Q16 PATMI would have been S\$1.7m had foreign exchange movements been more favourable to the company.

Case for higher issue price remains intact. We also updated the list of 14 companies that we have previously filtered for benchmarking purpose. Within our peer comparison set, the median peer trades at 14.3x P/E, 1.0x P/B and 6.94x EV/EBITDA. We added in EV/EBITDA as a measure to adjust for differences in cash and debt levels. In contrast, ISDN trades at 10.4x FY17 EPS, 0.54x book value and merely 4.5x estimated FY16 EBITDA.

Based on the respective metrics, we estimate that the potential issue price may range from S\$0.248 to S\$0.330 after adjusting for the 40m new shares to be issued. On balance, we maintain our fair value at S\$0.300.

ISDN Holdings Limited

Figure 1: Peer Comparison

Company Name	Mkt Cap (\$m)*	Sales (\$m)*	3-yr Avg EPS Growth	Ret. On Com. Equity	Net debt to com. Equity	Current P/E	Current P/B	EV/EBITDA
China Metal International Holdings Inc	489.3	53.0	10.2%	13.3%	7.4%	7.76	1.07	4.63
Shanghai Prime Machinery Co Ltd	385.0	1,289.5	40.7%	6.3%	66.2%	9.32	0.58	7.02
CHTC Fong's Industries Co Ltd	364.5	525.1	13.4%	14.0%	47.3%	14.82	1.46	13.46
Tiangong International Co Ltd	385.3	549.9	-30.5%	1.0%	60.5%	48.62	0.48	11.72
EVA Precision Industrial Holdings Ltd	298.4	587.2	116.1%	4.2%	9.6%	14.45	0.61	4.47
IPE Group Ltd	332.2	145.3	NM	6.1%	net cash	17.97	1.18	5.48
CW Group Holdings Ltd	208.4	420.0	75.0%	15.4%	40.5%	5.07	0.68	6.12
Zhejiang Tengy Environmental Technology Co Ltd	184.4	161.1	67.5%	22.6%	9.8%	7.04	1.40	NA
Yusei Holdings Ltd	149.5	197.3	NM	16.0%	49.7%	11.95	1.78	6.52
Good Friend International Holdings Inc	114.6	177.1	37.3%	5.2%	41.3%	14.06	0.76	6.86
Austar Lifesciences Ltd	130.6	109.9	NA	1.2%	net cash	123.16	1.15	NA
LK Technology Holdings Ltd	123.4	494.4	19.1%	0.0%	69.9%	851.37	0.38	8.89
Asia Tele-Net & Technology Corp Ltd	85.8	95.3	NA	2.2%	net cash	67.17	1.54	28.02
Leepport Holdings Ltd	63.2	127.8	61.6%	6.5%	15.2%	14.31	0.91	26.85
Median	196.4	187.2	39.0%	6.2%	41.3%	14.38	0.99	6.94
ISDN Holdings Limited	70.9	243.7	16.4%	5.5%**	net cash	10.4*	0.60	4.53

*Mkt Cap as of 23 Nov, Sales is on a trailing 12-month basis as of 30 June 2016. ** Based on FY17 EPS and ROE Source: Bloomberg, NRA Capital

Figure 2: Prospective Issue Price

	P/E	P/B	EV/EBITDA	Average
Median (As per Figure 1)	14.38	0.99	6.94	
FY17 EPS - Adjusted for 40.95m new shares	1.72 cents			
Current NAV – Add 40.95m new shares x 33.4		33.4 cents		
FY17 EBITDA of S\$16.4m				
Potential price	0.248	0.330	0.268*	0.282

*Enterprise value = 6.94x S\$16.4m = S\$113.8m. Less debt, minority interests etc, equity value = S\$105.9m or 26.8 cents per share. Based on 395.6m shares.

Source: See Figure 1, NRA Capital

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)	(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)	0.8	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	15.0	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	6.8	8.0
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	34.2	32.9	40.2
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	166.3	187.0
Trade creditors	45.1	51.9	56.6	62.3	68.5
Short-term borrowings	13.1	14.1	12.4	10.9	12.0
Other current liabilities	1.5	1.5	3.0	4.5	5.2
Total current liabilities	59.7	67.5	72.0	77.6	85.6
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	123.9	130.6
Minority interests	17.7	19.5	22.9	26.5	30.5
NTA/share (S\$)	0.23	0.25	0.24	0.24	0.25
Total Assets	190.0	207.5	213.9	228.6	247.2
Total Liabilities + S'holders' funds	190.0	207.5	213.9	228.6	247.2
Cash Flow (S\$ m, FYE Dec)	2014	2015	2016F	2017F	2018F
Pretax profit	15.2	17.2	9.9	15.0	17.2
Depreciation & non-cash adjustments	3.4	4.7	(1.8)	1.5	6.9
Working capital changes	(15.7)	(10.0)	(3.2)	(6.9)	(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	6.7	12.8
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	(4.9)	(1.3)	7.4
Change in net cash/(debt)	(4.1)	0.5	(3.0)	0.2	6.3
Ending net cash/(debt)	23.8	24.3	21.3	21.5	27.8
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	5.5	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	20.8	17.7
ROE (%)	6.7	7.3	3.1	5.5	6.1
Free cash flow yield (%)	(7.0)	0.9	(3.6)	0.9	9.5

Source: NRA Capital forecasts

ISDN Holdings Limited

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