

## ISDN Holdings Limited

## Overweight

Current Price	S\$0.215
Fair Value	S\$0.300
Up / (downside)	39.5%

## Stock Statistics

Market cap	S\$76.4m
52-low	S\$0.168
52-high	S\$0.295
Avg daily vol	1,588,155
No of share	354.7m
Free float	32.97%

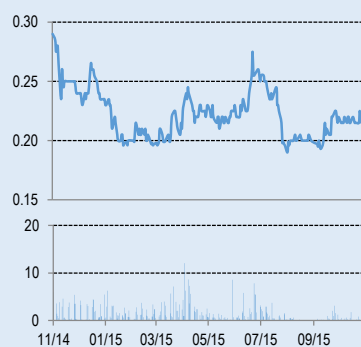
## Key Indicators

ROE 15F	7.5%
ROA 15F	4.2%
P/BK	0.54x
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

## Liu Jinshu

(+65) 6236-6887  
jinshu.liu@nracapital.com  
[www.nracapital.com](http://www.nracapital.com)

## Core Motion Control Business Continues to Grow

- Motion control segment revenue grew 5.1%.** ISDN Holdings Limited's (ISDN) 3Q15 revenue grew by 0.2% year-on-year to S\$64.8m. However, the core motion control business demonstrated stronger growth of 5.1% year-on-year, with the bulk of growth coming from higher demand by customers in Other Regions, including Vietnam and Thailand. Demand from China held steady as revenue from China fell by only S\$0.2m or 0.4% year-on-year.
- Demand from medical industry supported revenue.** According to the management's commentary, demand from the more resilient medical industry helped to support revenue. Products include, for instance, mini motors used in dental tools. As medical devices and products require a high level of safety and reliability, ISDN's reach in this sector is a testament to the quality of its products and its core competency in motion control.
- Revenue trend shows breadth of business.** The fact that growth in Other Regions was able to offset slower business in Singapore, Malaysia and China is worthy of mention, as it shows ISDN's ability to continue to grow even as manufacturers shift locations or expand into new markets. At the same time, the trend also demonstrates customers' stickiness to or preference for ISDN's products.
- Indonesia businesses gaining traction.** The transportation service business in Indonesia generated revenue of S\$0.33m in 3Q15, versus S\$16k a year ago due to higher demand from customers. In addition, ground work has commenced for ISDN's maiden mini-hydropower plant in Sumatra. As for the Bantaeng Industrial park project, the company is in the midst of organizing roadshows to promote this business to prospective investors.
- 30% of share price backed by hard cash.** We also highlight that ISDN is currently in a net cash position of S\$22.8m, which is equivalent to about S\$0.064 per share or 30% of its share price of S\$0.215. This means that the non-cash portion of ISDN's share price trades at only 6.3x trailing 12-month EPS of 2.3 cents, rather than 9.0x PER based on S\$0.215 per share.
- Valuation maintained.** We adjusted our forecasts to factor in the 3Q15 results, expecting the company to deliver net profit growth of 20% for the full year – in line with growth of 22.4% year-on-year in 9M15 net profit attributable to shareholders. Given the company's strong core business and healthy balance sheet, we decided to maintain our valuation at S\$0.300 even though 1.2x forecasted NTA now gives a slightly lower value of S\$0.293. We will review our valuation when the company releases its 4Q15 results. Moreover, we have a positive outlook on ISDN given the trend of rising industrial automation and smart manufacturing in China.

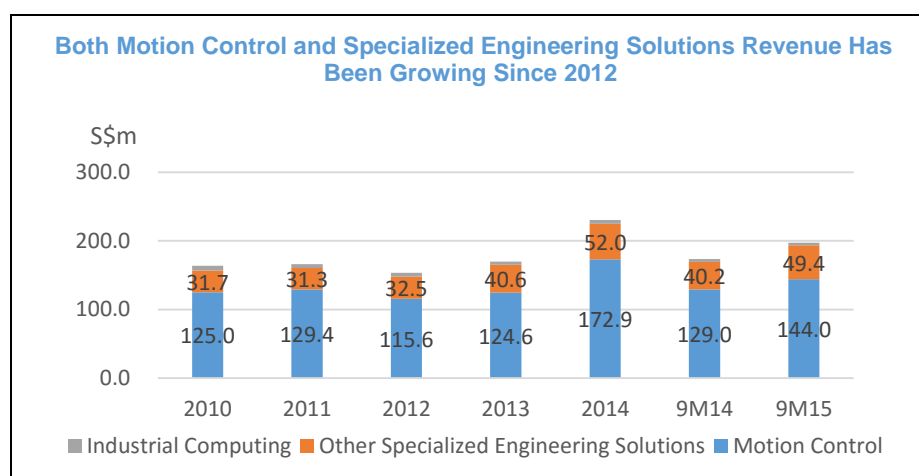
Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	173.7	230.5	253.6	278.9	306.7
Gross Profit	51.7	61.5	67.8	74.5	81.3
Net Profit	4.8	7.5	9.0	10.3	11.6
EPS (cents)	1.3	2.1	2.5	2.9	3.3
EPS growth (%)	(27.0)	59.2	20.0	14.8	12.5
PER (x)	15.9	10.0	8.1	7.1	6.3
NTA/share (cents)	23.2	23.3	24.4	25.7	27.3
DPS (cents)	0.4	0.4	0.4	0.4	0.4
Div Yield (%)	1.9	1.9	2.0	2.0	2.0

Source: Company, NRA Capital forecasts

# ISDN Holdings Limited

## Leveraging on Core Competency as Platform for Growth

**Providing unique solutions.** Other than the medical industry, the company also shared that they routinely work with clients in new projects outside of its traditional industries. These projects include the design and manufacture of testing software and equipment for the mobile devices industry, motion sensors for subway transportation systems and automation systems for the food & beverage industry. These examples highlight the company's competency and experience in motion control and specialized engineering solutions.



Source: Company, NRA Capital

**Acquisition of exploration company to develop resources business.** Nonetheless, ISDN seems to be still actively developing other business for long term growth. Subsequent to our last update, the company announced on 12 October that it had acquired 51% of Jin Zhao Yu Pte. Ltd. Jin Zhao Yu is principally engaged in engineering, construction, exploration, mining and trading of mineral resources, and the provision of general geological consultancy services. Hence, Jin Zhao Yu will likely be able to assist ISDN in the evaluation and assessment of resources and mining projects, particularly in Indonesia where the company has been embarking on new initiatives recently.

**One-off loss at associates/JVs dragged profits.** Although revenue remained stable, gross profit fell by 3.4% year-on-year in 3Q15 as gross margin fell by about 1% point to 26.1%. Operating expenses generally rose minimally by 0.4% to 2.1%. Profit for 3Q15 would have been higher if not for share of results of associates and joint ventures swinging from a net profit of S\$0.58m in 3Q14 to a loss of S\$30k in 3Q15. We understand that the loss was mainly due to one-off restructuring related expenses at an associated company to optimize its headcount to achieve higher productivity, rather than being caused by weak demand. This entity produces niche vision-related and industrial automation products and that demand remains positive. That said, share of results of associates and joint ventures are expected to recover only in 2016.

**Key risks.** While demand for motion control products remain well supported by the trend of industrial automation in China, the key risk against ISDN and our outlook is that the company's results in the short term may still be affected if the slowdown in the Chinese economy were to outweigh the growth in demand for automation and computerised manufacturing products. China still accounts for about 77% and 75% of ISDN's revenue in 3Q15 and 9M15.

# ISDN Holdings Limited

## Made in China 2025

**Expect strong demand over next five to ten years.** The term “Made in China 2025” refers to the Ministry of Industry and Telecommunication Technology of China’s plan to upgrade the Chinese industry, following Germany’s “Industry 4.0” plan implemented in 2013. The challenge is that China now faces competition from both developing countries with lower costs and developed countries that have been consistently improving their advantage in industrial manufacturing.

The idea is to champion and implement smart manufacturing where machines are connected to a network to automatically adjust processes and speeds to minimize problems and costs. Inherent in this initiative is that a high level of industrial automation will be required for successful implementation, translating to a positive outlook for ISDN’s products. <sup>1, 2</sup>

Against this backdrop, we maintain our positive outlook on ISDN even though demand may be affected in the short term due to the slowdown in the Chinese economy. In addition, the push for smart manufacturing in China further justifies our forecast of 10% revenue growth and 12% to 15% net profit growth for FY16 and FY17.

## Results Comparison

FYE Dec (\$\$ m)	3Q15	3Q14	yoy % chg	2Q15	qoq % chg	Prev. 3Q15F	Comments
Revenue	64.8	64.6	0	67.6	-4	65.5	In line. -1.1% from expectation.
Operating costs	(60.2)	(59.3)	1	(62.7)	-4	(61.2)	
EBITDA	4.6	5.3	-13	4.8	-4	4.3	6.5% above expectation.
EBITDA margin (%)	7.1	8.2		7.1		6.6	
Depn & amort.	(0.6)	(0.5)	8	(0.5)	12	(0.5)	
EBIT	4.0	4.8	-16	4.3	-6	3.8	
Interest expense	(0.2)	(0.3)	-30	(0.2)	8	(0.2)	
Interest & invt inc	1.3	0.9	42	(0.2)	701	(0.2)	S\$1.0m of fx gain from the depreciation of the SGD against USD
Associates' contrib	(0.0)	0.6	-105	0.2	-119	0.2	Short term loss due to labour reduction to raise productivity
Exceptionals	0.0	0.0	0	0.0	0	0.0	
<b>Pretax profit</b>	<b>5.1</b>	<b>5.9</b>	<b>-15</b>	<b>4.1</b>	<b>25</b>	<b>3.6</b>	41.9% above expectation, due to fx gain.
Tax	(1.7)	(1.9)	-7	(1.2)	40	(1.1)	
Tax rate (%)	34.6	31.7		30.8		30.0	
Minority interests	(1.3)	(1.3)	2	(0.7)	77	(0.9)	
<b>Net profit</b>	<b>2.0</b>	<b>2.8</b>	<b>-28</b>	<b>2.1</b>	<b>-3</b>	<b>1.6</b>	
EPS (cts)	0.6	0.8	-27	0.6	-3	0.5	

Source: NRA Capital estimates

<sup>1</sup> <http://english.caixin.com/2015-05-20/100810876.html> “Gov’t Announces Plan to Upgrade Factories over Next Decade”.

<sup>2</sup> <http://english.caixin.com/2015-06-08/100817081.html> “With New Fund, China Aims to Raise the Manufacturing Bar”.

# ISDN Holdings Limited

<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)	(3.8)	(4.2)	(4.6)
<b>Net profit</b>	<b>4.8</b>	<b>7.5</b>	<b>9.0</b>	<b>10.3</b>	<b>11.6</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>119.6</b>	<b>128.5</b>	<b>138.6</b>
Minority interests	11.8	17.7	21.5	25.6	30.2
NTA/share (\$\$)	0.23	0.23	0.24	0.26	0.27
<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	3.5	3.7	3.8
Effective tax rates (%)	30.6	30.4	30.0	30.0	30.0
Net dividend payout (%)	30.3	19.0	15.9	13.8	12.3
ROE (%)	4.4	6.7	7.5	8.0	8.3
Free cash flow yield (%)	5.9	(6.5)	9.0	6.3	7.8

Source: Company, NRA Capital forecasts

# ISDN Holdings Limited

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.