



ISDN Holdings

(ISDN SP/ISDN.SI)

Unfrazzled by Covid-19 and emerging stronger in 2021

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- **2020 – Strong results despite Covid-19 woes.** ISDN reported top line growth of 24.4% YoY while the bottom line more than doubled from FY19, mainly due to a significant increase in gross profit, coupled with prudent cost controls and increase in other income.
- **1Q21 – Latest financials remain strong.** 1Q21 sales rose 23.4% YoY and PATMI almost doubled YoY, mainly contributed by the strong rebound in PRC's sales.
- **Sales momentum to continue.** Sales to PRC is expected to grow in light of Sino-US tensions. Coupled with the growing trend in industrial automation, we expect a continued boost to ISDN's top line.
- **Super Wifi.** ISDN embarked on a strategic partnership with Whizpace in 2021 to penetrate into wide-area industries and offer automated industrial solutions.
- **Maintain OUTPERFORM with new TP of S\$0.85, a 15.1% upside from Friday's close.** We update cost estimates and our hydropower business forecast and raise revenue growth forecasts for ISDN's side businesses.

Financials & Key Operating Statistics					
YE Dec (\$\$ m)	2019	2020	2021F	2022F	2023F
Revenue	290,985	361,864	400,285	446,861	481,988
PATMI	7,047	15,139	21,349	26,218	29,325
EPS (cents)	1.68	3.51	4.95	6.08	6.79
EPS growth (%)	(39.3%)	108.5%	41.0%	22.8%	11.8%
DPS (Sing cents)	0.40	0.80	1.24	1.52	1.70
Div Yield (%)	0.5%	1.1%	1.6%	2.0%	2.3%
Net Profit Margin (%)	4.9%	6.2%	8.0%	8.8%	9.1%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Price P/B (x)	2.06	1.90	1.74	1.57	1.42
RDE (%)	4.8%	9.4%	12.0%	13.4%	13.5%

Source: Company data, KGI Research

FY2020 financial review. ISDN reported an increase in revenue from S\$291.0mn in FY19 to S\$361.9mn in FY20, representing a 24.4% jump. PATMI increased by 115% YoY, from S\$7.0mn in FY19 to S\$15.1mn in FY20, mainly due to the growth in gross profit of 23.4%. Comparing YoY, basic and diluted EPS grew from 1.68 Sing cents to 3.51 Sing cents, and dividends increased from 0.4 Sing cents to 0.8 Sing cents. Overall, FY20 results are fairly in line with our estimates and would have beaten our estimates if not for the one-off impairments.

1Q2021 financials update. Comparing YoY, revenue increased by 23.4%, from S\$79.8mn in 1Q20 to S\$98.4mn in 1Q21. Gross profit grew by an outstanding 52.7%, due to improved margins from 21.8% to 27.0%, contributed by accelerated sales growth in the Motion Control segment. Bottom line remained strong with a 95.4% increase YoY, from S\$3.1mn in 1Q20 to S\$6.0mn in 1Q21, which was achieved not only by solid gross profit results in 1Q21, but also by substantially decreasing distribution costs and administrative expenses.

Outperform - Maintain		Performance (Absolute)	
Price as of 2 Jul 21 (SGD)	0.74	1 Month (%)	16.8
12M TP (\$)	0.85	3 Month (%)	21.0
Previous TP (\$)	0.60	12 Month (%)	245.9
Upside, incl div (%)	15.1		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	318		
Issued Shares (mn)	435		
Vol - 3M Daily avg (mn)	5.8		
Val - 3M Daily avg (\$mn)	3.8		
Free Float (%)	54%		
Major Shareholders		Previous Recommendations	
Teo Cher Koon	31.7%	20-Nov-20	OP S\$0.60
Novo Tellus	8.9%	20-Aug-20	OP S\$0.47
		6-Aug-20	OP S\$0.42

Geographical revenue spread - PRC spearheading growth.

The group's Motion Control segment remains as the main revenue driver for FY20, accounting for over 70.2% of revenue, whereas geographically, PRC remains as the predominant revenue contributor at 67.6%. In contrast to other businesses, the Covid-19 pandemic proved to be a stimulus for ISDN, as the increasing demands from factories created opportunities for the group, through delivering effective industrial automation solutions and reconfiguration of the global industrial supply chain.

Delivery of Industry 4.0 to wide-area industries. The group announced in June 2021 that it will be embarking on a global strategic partnership with Whizpace Pte Ltd to deliver wide-area Industry 4.0 and internet of things (IoT) solutions to industries such as agriculture, utilities, oil & gas, and transportation via Super-Wifi.

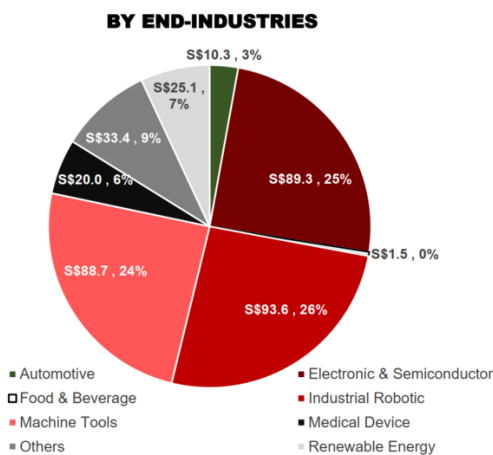
Forecasts: Major forecast adjustments pertain to hydropower plants, where we estimate 4Q21 tariff revenue for Sisira and Anggoci upon expected completion. For FY22, we estimate tariff revenue from Lau Biang plant in 2H22 assuming completion in 1H22, as well as full year tariffs from Sisira and Anggoci. Upon completion of all 3 plants by end FY22, full tariff revenue is expected to be recognised in FY23.

Valuation & Action: At 14x P/E, our updated 12M TP is now S\$0.85, a 15.1% upside from Friday's close price. We maintain our OUTPERFORM recommendation. Further upside catalysts to come from the growth in Motion Control sales which is spearheaded by semiconductor growth in PRC, as well as from the collaboration with Whizspace for Super-Wifi.

Risks: Further delays on hydropower projects, order book delays, trade receivable write-downs, FX losses.

PRC spearheading revenue growth through semiconductor segment. The group’s revenue breakdown by end industries is mainly dominated by the Industrial Robotic and Electronic & Semiconductor industry. In light of the continuing Sino-US tensions, PRC saw a boom in the semiconductor industry. According to South China Morning Post, the number of new company registrations in the semiconductor industry from January to May 2021 tripled, bolstered by generous national subsidies as the country pursues a policy of self-sufficiency. As ISDN’s solutions offer automation and streamlining of operations, we might see a boost in revenue coming from this industry. ISDN should benefit from China’s rise in semiconductors and the ongoing shift to advanced IC manufacturing and packaging.

Figure 1: Segmental contribution



Source: Company data, KGI Research

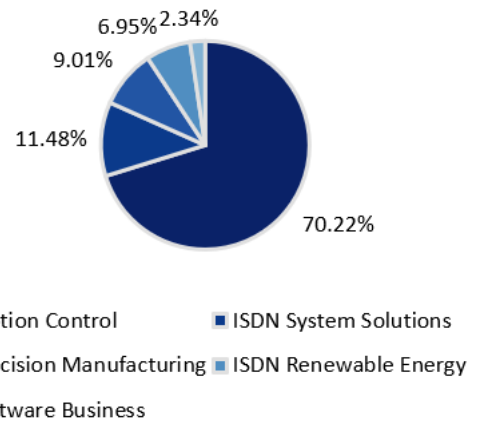
Potential growth in factory automation and industrial controls market. The factory automation and industrial controls market was valued at US\$202.19 bn in 2020 and is expected to reach US\$337.02bn by 2026. The market is expected to grow at a CAGR of 9% over the forecast period 2021 to 2026. Digitisation and Industry 4.0 revolution have significantly stimulated the growth of automation among various industries, by necessitating the use of smarter and automated solutions, such as robotics and control systems, to improve production processes. As ISDN’s main revenue contributor is from Motion Control, we expect greater top line growth in future years.

Figure 2: Growth forecast for factory automation and industrial controls



Source: Mordor Intelligence

Figure 3: Revenue breakdown by segment – FY2020



Source: Company data, KGI Research

Super-Wifi. Through partnership with Whizpace, ISDN is able to extend the reach of its leading Industrial Automation solutions into exciting frontiers where intelligent devices are connected over wide spaces such as farms, oil fields, ships, forests and mines through the usage of Super-Wifi. Data highways can now be efficiently established at a lower cost compared to traditional Wifi and yet is more reliable and effective.

Whizpace’s patented TV band connectivity fills an important gap in ISDN’s portfolio of industrial connectivity technology, by providing reliable, low-energy connectivity in the 2km to 10km+ range. Whizpace provides a channel for ISDN to deliver important automation solutions to farming, transportation, utilities, pipelines, and other wide-area industrial operations. The group is currently in talks with a few countries and we might see some top line contribution in 2H21.

Figure 4: Super-Wifi map for automation of wide-area industries



Source: Company data, KGI Research

Figure 5: Results comparison of FY20 forecast and actual figures

Values in SGD '000	FY20F	FY20A	% of estimate	Variance
Revenue	352,363	361,864	102.7%	
Cost of sales	-260,970	-266,291	102.0%	
Gross Profit	91,393	95,573	104.6%	
Operating expenses	-56,730	-58,202	102.6%	
Profit from Operations	34,663	37,371	107.8%	
Finance income/(expenses)	-2,144	-1,735	80.9%	
Profit before Tax	32,519	31,992	98.4%	
Net profit	22,764	22,496	98.8%	
PATMI	15,934	15,139	95.0%	
<i>Gross Margin</i>	25.9%	26.4%		0.5%
<i>PBT Margin</i>	9.2%	8.8%		-0.4%
<i>Net Profit Margin</i>	6.5%	6.2%		-0.2%
<i>PATMI Margin</i>	4.5%	4.2%		-0.3%
EPS (in Scents)	3.71	3.52	95.0%	

Source: Company data, KGI Research

Figure 6: New FY21 and FY22 forecasts

Values in SGD '000	New FY21F	Old FY21F	Variance
Revenue	400,285	361,680	10.7%
Cost of sales	-288,816	-261,896	10.3%
Gross Profit	111,469	99,783	11.7%
Operating expenses	-64,046	-60,039	6.7%
Profit from Operations	47,423	39,745	19.3%
Finance income/(expenses)	-1,902	-2,144	-11.2%
Profit before Tax	45,521	37,601	21.1%
Net profit	31,865	26,321	21.1%
PATMI	21,349	18,425	15.9%
<i>Gross Margin</i>	27.8%	27.6%	0.9%
<i>PBT Margin</i>	11.4%	10.4%	9.4%
<i>Net Profit Margin</i>	8.0%	7.3%	9.4%
<i>PATMI Margin</i>	4.8%	5.1%	-6.2%
EPS (in Scents)	4.95	4.29	15.3%

Values in SGD '000	New FY22F	Old FY22F	Variance
Revenue	446,861	387,185	15.4%
Cost of sales	-317,560	-275,294	15.4%
Gross Profit	129,302	111,891	15.6%
Operating expenses	-71,498	-64,273	11.2%
Profit from Operations	57,804	47,618	21.4%
Finance income/(expenses)	-1,902	-2,144	-11.2%
Profit before Tax	55,902	45,474	22.9%
Net profit	39,131	31,832	22.9%
PATMI	26,218	22,282	17.7%
<i>Gross Margin</i>	28.9%	28.9%	0.0%
<i>PBT Margin</i>	12.5%	11.7%	0.8%
<i>Net Profit Margin</i>	8.8%	8.2%	0.5%
<i>PATMI Margin</i>	5.9%	5.8%	0.1%
EPS (in Scents)	6.08	5.19	17.1%

Source: Company data, KGI Research

Figure 8: Peer comparison table

BB ticker	Company Name	Last Price (Local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		(YTD) Price Performance	(1YR) Price Performance	(1YR) Total Returns (%)	
				FY19	FY20F		12M	Forward	Historical	Forward				
ISDN SP	ISDN HOLDINGS LTD	SGD 0.75	242	2.0	2.0	-11.1	21.3	13.4	1.0	1.7	79.0	248.8	255.3	
Japan automation-related companies														
6861 JP	KEYENCE CORP	JPY 56230.00	122,596	0.4	0.4	-48.6	69.1	55.3	6.7	6.5	-3.1	26.8	27.3	
6954 JP	FANUC CORP	JPY 26830.00	48,563	1.1	1.7	-40.7	54.7	35.0	3.5	3.5	5.8	40.6	42.3	
6645 JP	OMRON CORP	JPY 8850.00	16,363	1.0	1.0	-34.8	41.2	33.1	2.9	2.8	-3.8	25.0	26.2	
6506 JP	YASKAWA ELECTRIC CORP	JPY 5430.00	12,982	0.5	0.8	10.3	75.0	41.5	5.6	5.3	5.8	47.2	47.9	
6324 JP	HARMONIC DRIVE SYSTEMS INC	JPY 6290.00	5,431	0.3	0.3	-10.6	914.8	98.2	7.0	5.7	-31.8	8.4	8.8	
6845 JP	AZBIL CORP	JPY 4565.00	5,942	1.2	1.3	-45.8	32.0	30.5	3.4	3.1	-19.1	41.1	42.9	
6841 JP	YOKOGAWA ELECTRIC CORP	JPY 1640.00	3,949	1.7	2.1	-15.3	22.8	23.4	1.8	1.4	-20.2	-0.8	1.0	
6481 JP	THK CO LTD	JPY 3310.00	3,972	0.5	1.6	-16.5	N/A	17.5	1.6	1.5	-0.6	24.5	24.8	
6407 JP	CKD CORP	JPY 2333.00	1,420	1.1	1.6	-16.4	29.2	16.4	1.6	1.5	5.7	23.9	25.4	
Average				24,580	0.8	1.2	(24.3)	154.9	39.0	3.8	3.5	(6.8)	26.3	27.4
Median				5,942	1.0	1.3	(16.5)	48.0	33.1	3.4	3.1	(3.1)	25.0	26.2
Europe automation-related companies														
ABBN SW	ABB LTD-REG	CHF 31.33	69,518	2.9	2.6	10.9	135.4	24.1	3.6	5.2	26.8	43.2	47.2	
KUKAF US	KUKA AG	USD 65.42	2,489	-	0.4	-4.7	N/A	N/A	-	2.3	47.0	42.2	42.6	
ISR GR	ISRA VISION AG	EUR 47.25	1,227	0.4	-	3.9	147.4	N/A	4.9	-	-1.1	-2.5	N/A	
HMS SS	HMS NETWORKS AB	SEK 377.50	2,060	0.8	0.6	15.7	66.1	52.9	10.1	12.2	45.2	125.2	126.5	
OEMB SS	OEM INTERNATIONAL AB-B SHS	SEK 131.20	1,062	2.4	-	-20.0	26.7	N/A	5.2	-	31.4	64.0	72.1	
Average				15,271	1.6	1.2	1.2	93.9	38.5	6.0	6.6	29.9	54.4	72.1
Median				2,060	1.6	0.6	3.9	100.8	38.5	5.1	5.2	31.4	43.2	59.7
North American automation-related companies														
ROK US	ROCKWELL AUTOMATION INC	USD 285.85	33,181	1.8	1.5	123.2	34.3	30.9	24.9	16.3	14.0	35.8	38.1	
CGNX US	COGNEX CORP	USD 83.52	14,750	2.8	0.3	-27.4	65.0	53.2	11.2	9.8	4.0	41.4	45.6	
ATA CN	ATS AUTOMATION TOOLING SYS	CAD 35.58	2,640	0.0	-	34.8	53.1	22.9	2.7	-	59.2	86.1	86.1	
Average				16,857	1.5	0.9	43.5	50.8	35.7	13.0	13.1	25.7	54.4	56.6
Median				14,750	1.8	0.9	34.8	53.1	30.9	11.2	13.1	14.0	41.4	45.6

*Negative Net Gearing = net cash position

Source: Bloomberg, KGI Research

Financials

SGD

FYE 31 December					
INCOME STATEMENT (SGD '000)	2019A	2020A	2021F	2022F	2023F
Revenues	290,985	361,864	400,285	446,861	481,988
Cost of sales	(213,560)	(266,291)	(288,816)	(317,560)	(340,441)
Gross profit	77,425	95,573	111,469	129,302	141,546
Distribution costs	(25,588)	(25,304)	(30,021)	(33,515)	(36,149)
Administrative expenses	(30,993)	(31,235)	(36,026)	(40,218)	(43,379)
Other operating income	3,356	4,344	6,004	6,703	7,230
Other operating expenses	(1,287)	(6,007)	(4,003)	(4,469)	(4,820)
Net impairment losses on financial assets	(446)	(4,623)	-	-	-
Finance costs	(2,107)	(1,735)	(1,902)	(1,902)	(1,902)
Share of (loss) / profit of associates, net	(138)	979	-	-	-
Profit before income tax	20,222	31,992	45,521	55,902	62,526
Income tax	(6,030)	(9,496)	(13,656)	(16,770)	(18,758)
Profit for the year	14,192	22,496	31,865	39,131	43,768
Non-controlling interests	7,145	7,357	10,515	12,913	14,443
PATMI	7,047	15,139	21,349	26,218	29,325
BALANCE SHEET (SGD '000)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	37,998	58,473	76,565	99,134	124,614
Other current assets	164,935	158,542	158,542	158,542	158,542
Total current assets	202,933	217,015	235,107	257,676	283,156
Property, plant and equipment	43,965	61,602	61,099	60,131	58,811
Intangible assets	12,227	12,227	12,227	12,227	12,227
Service concession receivables	34,261	58,541	58,541	58,541	58,541
Other non-current assets	42,637	67,141	67,141	67,141	67,141
Total non-current assets	98,829	140,970	140,467	139,499	138,179
Total assets	301,762	357,985	375,574	397,175	421,335
Trade and other payables	60,769	84,364	84,364	84,364	84,364
Loans and contract liabilities	29,099	39,181	39,181	39,181	39,181
Other current liabilities	4,264	5,523	5,523	5,523	5,523
Total current liabilities	94,132	129,068	129,068	129,068	129,068
Borrowings	7,096	9,580	9,580	9,580	9,580
Other non-current liabilities	1,964	1,713	1,713	1,713	1,713
Total non-current liabilities	9,060	11,293	11,293	11,293	11,293
Total liabilities	103,192	140,361	140,361	140,361	140,361
Unitholders' funds and reserves	198,570	217,624	235,213	256,814	280,974
Total liabilities and equity	301,762	357,985	375,574	397,175	421,335
CASH FLOW STATEMENT (SGD '000)	2019	2020F	2021F	2022F	2023F
Profit before tax	20,222	31,992	45,521	55,902	62,526
Adjustments	7,812	9,916	5,905	6,371	6,722
Operating cash flows before WC changes	28,034	41,908	51,426	62,273	69,248
Change in working capital	(5,358)	23,443	-	-	-
Income tax paid	(5,721)	(8,188)	(13,656)	(16,770)	(18,758)
Other adjustments	(6,475)	(26,580)	(1,902)	(1,902)	(1,902)
Cash flows from operations	10,480	30,583	35,868	43,600	48,588
Capital expenditure	(5,017)	(10,512)	(3,500)	(3,500)	(3,500)
Acquisition of subsidiaries	-	-	-	-	-
Others	(4,798)	4,423	-	-	-
Cash flows from investing	(9,815)	(6,089)	(3,500)	(3,500)	(3,500)
Lease payments	(1,718)	(1,920)	-	-	-
Dividends paid	(7,215)	(5,742)	(14,275)	(17,531)	(19,608)
Interest paid	(163)	(150)	-	-	-
Other financing cashflow	2,066	3,772	-	-	-
Cash flows from financing	(7,030)	(4,040)	(14,275)	(17,531)	(19,608)
FX Effects, Others	278	(182)	-	-	-
Net increase in cash	(6,365)	20,454	18,092	22,569	25,480
Beginning Cash	37,255	31,168	51,440	69,532	92,101
Ending cash	31,168	51,440	69,532	92,101	117,581
KEY RATIOS	2019	2020F	2021F	2022F	2023F
EPS (SGD cents)	1.68	3.51	4.95	6.08	6.79
DPS (SGD cents)	0.40	0.80	1.24	1.52	1.70
Dividend yield (%)	0.5%	1.1%	1.6%	2.0%	2.3%
NAV per share (SGD)	0.4	0.4	0.4	0.5	0.5
Price/NAV (x)	2.1	1.9	1.7	1.6	1.4
Profitability					
EBITDA Margin (%)	7.0%	10.9%	11.8%	12.9%	13.4%
Net Margin (%)	4.9%	6.2%	8.0%	8.8%	9.1%
ROE (ex. Property FV gain) (%)	4.8%	9.4%	12.0%	13.4%	13.5%
ROA (ex. Property FV gain) (%)	4.8%	6.8%	8.7%	10.1%	10.7%
Financial Structure					
Interest Coverage Ratio (x)	10.6	19.4	24.9	30.4	33.9
Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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