

ISDN Holdings

Overweight

Current Price	S\$0.24
Fair Value	S\$0.30
Up / (downside)	23%

Stock Statistics

Market cap	S\$166m
52-low	S\$0.192
52-high	S\$0.46
Avg daily vol	1,803,485
No of share	354.2m
Free float	50%

Key Indicators

ROE 15F	8%
ROA 15F	5%
P/BK	0.74x
Net gearing	50%

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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Set in motion

- **Earnings above expectation.** Excluding the S\$0.6m forex gain, ISDN delivered a good set of core earnings results for its 1Q15, which was in line with our expectation of S\$2.2m. Including forex gain, net profit was 30% above our expectation.
- **Maintain forecasts.** After adjusting our other income, our FY15-17 earnings are relatively unchanged, however, our fair value inched up by 1 ct to S\$0.30, still based on 1.2x FY15 P/NTA. The mini hydropower business is still on track to start contributing by second half of 2016. However, we have not yet factored this in our earnings estimates. Given its potential 23% upside, core engineering business remains strong and still put in motion, maintain **Overweight**.
- **China demand for industrial automation remains strong.** According to the International Federation of Robotics, China bought approximately 56,000 (+54% yoy in 2014) of the 227,000 industrial robots purchased worldwide in 2014. In addition, late March, the government of Guangdong Province announced plans to spend Rmb943bn as subsidies on replacing human labour with robots within the next three years. In the plan, the provincial government said that by 2017, robots will be used in almost 2,000 industrial enterprises. Manufacturer of automobiles, motorcycles, electronics, clothing and building materials will be targeted by the program.
- **1Q15 sales increased by 21% yoy to S\$52m** due mainly to the core motion control business holding firm. China contributed 77% of total group sales with 1Q15 sales jumping 18.7% yoy as it benefitted from stronger customer demand. Singapore and Malaysia, both also registered higher sales increases of 42.9% and 65.9% yoy, respectively.
- **Gross margins improved by 0.4% pt yoy to 30.2% in 1Q15** as a result of higher sales generated from trading activities that yielded higher margins. Including better control over operating expenses and higher other income, pre-tax profit increased by 396% yoy.
- **Balance sheet remains sound.** ISDN generated a negative free cash flow of S\$3.4m in 1Q15 after increasing its working capital requirement. As a result, net cash reduced from S\$23.8m in previous quarter to S\$20.9m as at end March quarter.

Key Financial Data (S\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Sales	173.7	230.5	249.2	274.2	301.6
Gross Profit	51.7	61.5	67.3	73.2	79.9
Net Profit	4.8	7.5	9.7	10.7	12.0
EPS (cents)	1.3	2.1	2.7	3.0	3.4
EPS growth (%)	(27.0)	59.2	30.7	9.4	12.5
PER (x)	18.2	11.4	8.7	8.0	7.1
NTA/share (cents)	23.2	23.3	24.8	26.4	28.2
DPS (cents)	0.4	0.4	0.4	0.4	0.4
Div Yield (%)	1.7	1.7	1.7	1.7	1.7

Source: Company, NRA Capital forecasts

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Results comparison

FYE Dec (S\$ m)	1Q15	1Q14	yoy % chg	4Q14	qoq % chg	Prev. 1Q15F	Comments
Revenue	52.2	43.2	21	68.6	(24)	52.3	In line
Operating costs	(47.7)	(40.9)	17	(63.6)	(25)	(48.1)	In line
EBITDA	4.5	2.4	88	4.9	(9)	4.3	In line
EBITDA margin (%)	8.6	5.5		7.2		8.2	0.4% pts above expectation
Deprn & amort.	(0.6)	(0.5)	7	(0.8)	(33)	(0.6)	In line
EBIT	3.9	1.9	110	4.1	(5)	3.7	In line
Interest expense	(0.2)	(0.2)	8	(0.3)	(23)	(0.2)	In line
Interest & invt inc	1.1	(0.5)	304	0.8	34	0.3	Above, due to S\$0.6m forex gain
Associates' contrib	0.6	(0.1)	777	(0.3)	299	0.3	Above
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	5.4	1.1	396	4.3	23	4.1	Above, higher-than-expected other income
Tax	(1.5)	(0.6)	139	(0.7)	121	(1.2)	Above, higher-than-expected pretax profit
Tax rate (%)	28.7	59.6		16.0		30.0	Below, lower-than-expected taxation
Minority interests	(1.0)	(0.3)	185	(0.0)	19,040	(0.7)	
Net profit	2.9	0.1	2,761	3.6	(21)	2.2	30% above expectation
EPS (cts)	0.8	0.0	2,803	1.0	(20)	0.6	

Source: NRA Capital estimates

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Profit & Loss (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue	173.7	230.5	249.2	274.2	301.6
Operating expenses	(162.7)	(214.3)	(230.6)	(253.4)	(278.8)
EBITDA	11.1	16.3	18.6	20.7	22.8
Depreciation & amortisation	(1.9)	(2.2)	(2.2)	(2.2)	(2.3)
EBIT	9.2	14.1	16.4	18.5	20.5
Net interest & invt income	(0.0)	0.1	1.0	0.5	0.8
Associates' contribution	0.6	1.1	1.2	1.3	1.4
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.8	15.2	18.6	20.3	22.7
Tax	(3.0)	(4.6)	(5.6)	(6.1)	(6.8)
Minority interests	(2.0)	(3.1)	(3.2)	(3.6)	(3.9)
Net profit	4.8	7.5	9.7	10.7	12.0
Shares at year-end (m)	359.9	354.7	354.7	354.7	354.7
Balance Sheet (\$\$ m, as at Dec)	2013	2014	2015F	2016F	2017F
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
Total non-current assets	46.5	49.9	53.0	56.0	59.1
Cash and equivalents	41.6	37.5	47.2	50.0	53.7
Stocks	31.7	34.6	37.3	41.1	45.4
Trade debtors	52.2	68.0	73.6	80.9	89.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	125.5	140.1	158.0	172.1	188.1
Trade creditors	38.8	45.1	48.6	53.7	59.2
Short-term borrowings	12.7	13.1	15.0	13.7	12.1
Other current liabilities	0.6	1.5	5.6	6.1	6.8
Total current liabilities	52.1	59.7	69.1	73.5	78.1
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
Total long-term liabilities	1.0	0.6	0.6	0.5	0.5
Shareholders' funds	107.1	112.1	120.4	129.6	140.2
Minority interests	11.8	17.7	20.9	24.5	28.4
NTA/share (\$\$)	0.23	0.23	0.25	0.26	0.28
Total Assets	172.0	190.0	211.0	228.1	247.2
Total Liabilities + S'holders' funds	172.0	190.0	211.0	228.1	247.2
Cash Flow (\$\$ m, FYE Dec)	2013	2014	2015F	2016F	2017F
Pretax profit	9.8	15.2	18.6	20.3	22.7
Depreciation & non-cash adjustments	3.1	3.4	1.7	1.6	1.5
Working capital changes	(0.9)	(15.7)	(5.4)	(6.8)	(7.3)
Cash tax paid	(4.4)	(3.8)	(1.5)	(5.6)	(6.1)
Cash flow from operations	7.5	(0.9)	13.3	9.6	10.9
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
Cash flow from investing	(3.7)	(4.4)	(5.1)	(5.1)	(5.1)
Debt raised/(repaid)	(7.5)	0.0	1.9	(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
Cash flow from financing	12.0	1.2	1.5	(1.7)	(2.1)
Change in cash	15.7	(4.1)	9.7	2.8	3.7
Change in net cash/(debt)	23.3	(4.1)	7.8	4.1	5.4
Ending net cash/(debt)	27.9	23.8	31.7	35.8	41.2
KEY RATIOS (FYE Dec)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	13.2	32.7	8.1	10.0	10.0
EBITDA growth (%)	(15.9)	46.5	14.5	11.4	9.9
Pretax margins (%)	5.6	6.6	7.4	7.4	7.5
Net profit margins (%)	2.7	3.2	3.9	3.9	4.0
Effective tax rates (%)	30.6	30.4	30.0	30.0	30.0
Net dividend payout (%)	30.3	19.0	14.6	13.3	11.8
ROE (%)	6.7	4.4	6.7	8.1	8.2
Free cash flow yield (%)	5.3	(5.9)	9.7	5.3	6.8

Source: Company, NRA Capital forecasts

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