

ISDN Holdings Ltd

Gearing up for a fruitful year

Update: ISDN Holdings Ltd (ISDN) announced its 1Q10 results earlier this month. As a result of the surge in sales from its primary motion control segment, revenue grew by 58.7% YoY. Net income increased by 545% over the same period, to S\$2.1m. We forecast ISDN's FY10F revenue growth rate at 17.8% and value ISDN at S\$0.200 per share, representing an upside of 33.6%. Recommendation: **Invest**.

Key Developments:

- ISDN netted RMB3m in sales from supplying motion control modules for the Hai Bao robot, the mascot for the Shanghai World Expo 2010. The deal marked the second time that ISDN supplied parts to a high profile international event.
- ISDN also consolidated its China operations in the newly completed industrial park in Wujiang in March this year. This new plant is expected to yield more than S\$0.95m in annual rental savings.
- Management has indicated that it will reduce CAPEX from S\$11m in FY09 to approximately S\$5m in FY10F to focus on future investment. With guidance from management forecasts, we conservatively project CAPEX for FY10F to decrease by 43% following the completion of the industrial park.
- The company expects to expand its motion control business in Europe, following the company's JV in W2Energy, which targets Europe's renewable energy market.

Outlook: We remain optimistic about ISDN's outlook, and in particular, its motion control segment, which grew by 68.2% YoY. We forecast FY10F net profit to increase by 62.2%, driven by both top-line growth and cost savings from ISDN's industrial park.

Invest

- Intrinsic Value S\$0.200
- Prev Closing S\$0.150

Main Activities

ISDN Holdings Ltd. provides engineering and industrial computing solutions. It primarily engages in motion control operations, which involve the design and production of systemic assembly, as well as the provision of technical support through after sales services.

Financial Highlights

(Y/E Dec) S\$'mn	FY08	FY09	FY10F
Revenue	116.4	106.7	122.2
Gross Profit	35.0	31.6	37.9
Earnings	8.2	2.4	5.3
EPS (cts)	3.4	0.52	1.9

Source: Company, Bloomberg, SIAS Research Estimate

Key ratios (FY10F)

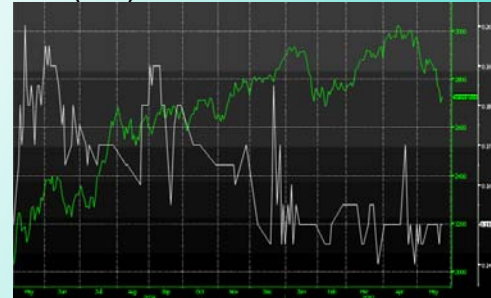
PER	9.4
P/BV	0.6
ROE	6.5%
Debt/Equity	27.5%
Current ratio	1.7

Source: Company, Bloomberg, SIAS Research Estimate

Indexed Price Chart

Orange (FSSTI)

White (ISDN)



Source: Bloomberg

52wks High-Low S\$0.210/ S\$0.120
 Number of Shares 201.8 m
 Market Capitalization S\$30.3 m

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Promising outlook for operations in China

China is an important market to ISDN, accounting for 51.2% of its total sales. Its China segment saw a revenue growth of 24.7% YoY in 1Q10. ISDN won contracts to supply motion control parts for the robot mascot in the Shanghai World Expo 2010, and to supply projection equipments for the Beijing Olympics in 2008. These deals have reaffirmed its position as a leading supplier of engineering solutions and equipments in China. We believe that ISDN is capable of maintaining a high revenue growth rate of 21.5% in this region.

Consolidating operations to improve efficiency

Earlier this year, ISDN unveiled its newly completed industrial park in Wujiang, China. This move consolidated their various operations and subsidiaries located across China onto a single site to increase synergy and operating efficiency. Also, the site is strategically located; straddling Shanghai, Jiangsu, and Zhejiang, giving ISDN greater access to its main market of operations. The management expects annual rental expense to be reduced by at least S\$0.95m. As such, we forecast operating margin to increase from 5.2% in FY09 to 7.3% in FY10F.

Expansion into renewable energy

In February 2009, ISDN set up a JV with two private individuals, Mr. Steffan Kaiser and Dr. Christian Koch, to setup W2Energy Pte Ltd. W2Energy will design and build waste-to-energy conversion plants for clients who will then own and operate them.

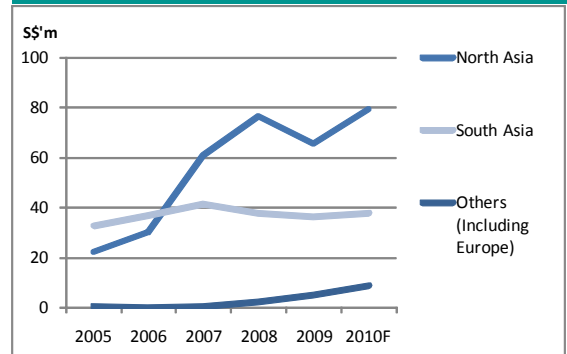
W2Energy targets the European green energy market, where demand for renewable energy grew at a CAGR of 6.4% between 2005 and 2009. In addition, the European Union introduced US\$60bn in stimulus packages for green measures in December 2008, which includes more than US\$17bn for energy efficiency ventures.

We see the JV as a good move, as ISDN will gain access to this lucrative market by riding on its partners' expertise, thus reducing hefty research and development costs.

Expanding the motion control segment

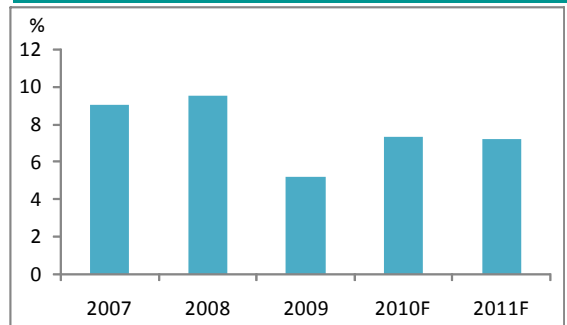
ISDN's motion control operations offer combined solutions for products and systems that are tailored to the

Figure 1: Revenue by Geographical Segment



Source: Company, SIAS Research Estimates

Figure 2: Operating Margin



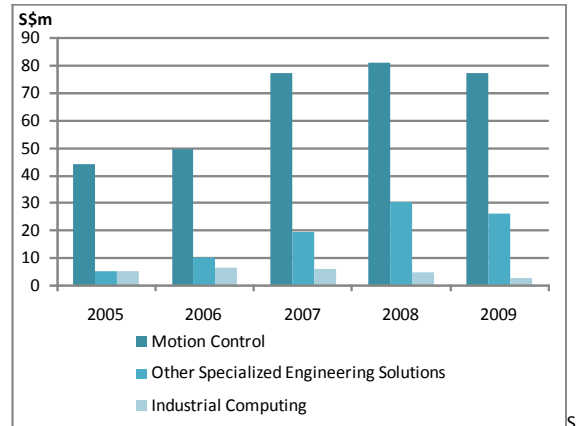
Source: Company, SIAS Research Estimates

needs of their customers. The segment generated sales of S\$22.7m in 1Q10, equivalent to 73% of total revenue. This was largely made up of recurring sales from established firms like Maxon Motor AG and Yaskawa, which have a strong partnership with ISDN. The segment's strong YoY growth of 43.2% in 4Q09 reflects an uptrend in demand for motion control parts. Taking this into consideration, we forecast YoY revenue growth for this segment at 13.7% in FY10F.

ISDN also intends to expand its motion control business into Europe. The company plans to start by establishing product distribution channels in Europe this year. This move comes hand in hand with their W2Energy venture in Europe, which will generate demand for motion-control and engineering services.

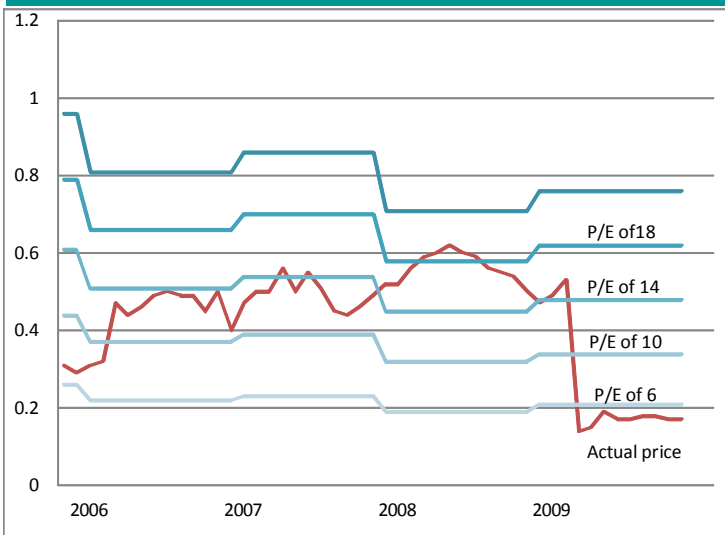
Valuation: Taking into account the positive industry outlook, we value ISDN using its historical mid-cycle PER of 10.6x. We derive an intrinsic value of S\$0.200, representing an upside of 33.6% over its last closing price of S\$0.150. *Invest.*

Figure 3: Segment Revenue



Source: Company

Figure 4: P/E band chart



Source: Bloomberg, SIAS Research Estimates

Figure 5: Financial Forecast and Estimate

	FY07	FY08	FY09	FY10F	FY11F	FY12F
S\$m						
Revenue	102.9	116.4	106.7	122.2	141.5	163.5
Gross Profit	26.8	35.0	31.6	37.9	43.9	50.7
Operating Profit	9.3	11.1	5.5	8.8	10.3	11.7
Net Profit Attributable to Shareholders	7.0	8.2	2.3	5.3	7.2	8.6
Total Current Assets	56.6	64.1	72.7	73.4	75.2	83.6
Assets	10.4	30.2	39.8	42.0	42.7	47.2
Total Current Liabilities	26.8	35.6	45.0	43.9	38.2	42.4
Total Non-Current Liabilities	1.4	1.2	10.5	7.6	6.0	3.4
Total Equity	38.8	57.5	57.1	64.7	75.5	87.4
Cash from Operating Activities	3.5	4.6	7.5	7.3	2.8	5.4
Cash from Investing Activities	-2.1	-7.0	-11.8	-4.9	-2.6	-5.9
Cash from Financing Activities	6.2	0.3	7.4	0.1	0.5	0.5
Net Change in Cash	7.6	-2.1	3.1	2.5	0.8	0.0
Receivable Days	78.7	81.5	115.8	91.7	73.0	73.0
Payable Days	95.3	101.2	155.4	142.5	109.5	109.5
Inventory Days	81.6	101.1	96.8	95.2	95.2	95.2
ROE (%)	17.7	14.2	1.8	6.5	8.5	9.0
ROA (%)	9.8	8.5	1.0	3.5	5.1	5.9
Debt / Equity	18.1	20.9	39.8	27.5	18.7	12.8
Current Ratio	2.1	1.8	1.6	1.7	2.0	2.0
EPS (S cents)	3.2	3.4	0.5	1.9	2.8	3.5
BV/Share (S cents)	22.1	22.6	22.1	24.2	28.9	34.2
PER	4.7	4.4	28.8	9.4	5.3	4.3
P/BV	0.7	0.7	0.7	0.6	0.5	0.4

Source: SIAS Research Estimates

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE

As of the date of the report, the analyst and his immediate family do not hold positions in the securities recommended in this report.

SIAS Research Pte Ltd received compensation for conducting this valuation research. The estimated fair value of the stock is statement of opinion, and not statement of fact or recommendation on the stock.

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