



# ISDN HOLDINGS | NOT RATED

MARKET CAP: USD 296.8M

AVG DAILY TURNOVER: USD 2M

3 Jun 2013  
Company Report

## POWERING AHEAD

- Buys 80% of Indonesia hydropower firm
- Exclusive concession to build 20MW plant
- JV to develop Myanmar coal power plant

### Enters hydropower energy business in Central Sulawesi

ISDN Holdings has agreed to invest IDR8b (~\$1.04m) to acquire an 80% stake in PT Potensia Tomini Energi (PTE), an Indonesian company in the business of constructing, operating and maintaining hydropower plants and the production of electric power in Central Sulawesi. PTE has an exclusive concession to develop a hydropower plant with a capacity of up to 20MW. The acquisition takes ISDN a step further into the hydropower energy business in Indonesia, where it sees significant potential for future expansion. Management believes that it has established a strong network of local contacts to support its foray into the hydropower energy business in Central Sulawesi and other parts of Indonesia.

### Seeking coal mining and power plant projects in Myanmar

As part of its strategy to expand into the energy business, ISDN is also working on entering the power generating business in Myanmar. It recently signed an agreement with local coal mining firm Tun Thwin Mining Co (TTMC) to set up a joint venture to acquire TTMC's concession rights to a 4,500-acre coal mine in the Kalewa Township, Sagaing Region and to develop the mine for coal production. ISDN will own 46% of the JV, which will acquire the concession rights to the mine for up to US\$38.5m, while TTMC will hold the rest. ISDN's initial capital contribution to the JV would be as much as US\$17.7m. ISDN has also signed a separate agreement with TTMC to develop and manage a 4 x 135MW coal-fired power plant at the mouth of the coal mine. ISDN's planned initial capital contribution to the power plant JV will be as much as US\$5m. It will own 85% of the JV, while TTMC will hold the rest.

### Share price has moved up sharply

ISDN's share price has risen significantly in recent weeks on the news of its latest ventures into the energy business. New project announcements in the coming weeks could provide a catalyst for further growth. However, its various projects are vulnerable to execution risk, which may limit the upside to its share price until there are clearer signs of progress. We **DO NOT** have a rating on ISDN.

#### Key financial highlights

Year Ended Dec 31 (\$m)	FY09	FY10	FY11	FY12
Revenue	106.7	163.6	165.9	153.5
Cost of sales	-75.1	-115.6	-117.4	-106.1
Gross profit	31.6	48.0	48.5	47.4
PATMI	1.0	8.3	8.4	5.4
EPS (S-cents)	0.4	3.3	2.8	1.8
Net gearing (%)	6.6	Net cash	Net cash	Net cash
PER (x)	245.2	31.2	36.5	56.9
P/NAV (x)	4.5	3.8	4.0	3.8
ROE (%)	1.8	11.2	10.0	6.2
Net profit margin (%)	1.0	5.1	5.1	3.5

## NOT RATED

Fair value	NA
add: 12m dividend forecast	NA
versus: Current price	\$1.03
<b>12m total return forecast</b>	<b>NA</b>

#### Analysts

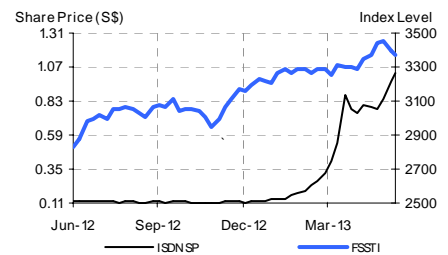
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#### Key information

Market cap. (m)	S\$373.5 / USD296.8
Avg daily turnover (m)	S\$2 / USD2
Avg daily vol. (m)	3.6
52-wk range (S\$)	0.108 - 1.08
Free float (%)	56.5
Shares o/s. (m)	362.6
Exchange	SGX
BBRG ticker	ISDN SP
Reuters ticker	ISDN.SI
ISIN code	I07
GICS Sector	Industrials Electrical Equipment
GICS Industry	Electrical Equipment
Top shareholder	C.K. Teo - 35.3%

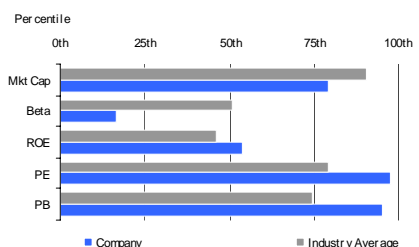
Relative total return	1m	3m	12m
Company (%)	30	348	758
STI-adjusted (%)	29	343	734

#### Price performance chart



Sources: Bloomberg, OIR estimates

#### Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.  
Sources: Bloomberg, OIR estimates

### Company profile

ISDN Holdings is an engineering solutions firm specialising in integrated precision engineering and industrial computing solutions. The company offers a wide range of motion control systems, industrial computing solutions and other engineering services, mainly to manufacturers of products and equipment that have specialised requirements in precision controls. Its customer base spans various industries including defence, semiconductor, medical, aerospace and oil & gas.

**Exhibit 1: Equipment with specialised precision-control requirements**



Source: Company

Since 2009, ISDN has sought to diversify into new lines of business – high-tech farming and energy. Through its indirect, wholly owned subsidiary, Agri-Source Pte Ltd, the group operates high-tech hydroponics farms in Malaysia and China.

**Exhibit 2: Featured hydroponics products**



Source: Company

More recently, ISDN entered the energy market, starting with the supply of solar panel parts to industrial customers in China. Since the start of this year, ISDN has signed several agreements signaling its intent to engage in the hydropower business in Indonesia and the coal mining and coal power generating business in Myanmar. The firm has also incorporated a Hong Kong subsidiary, Aenergy Holdings Company, to hold its investments in the hydropower business in Indonesia.

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**Company financial highlights**

Income statement

Year Ended Dec 31 (\$m)	FY09	FY10	FY11	FY12
Revenue	106.7	163.6	165.9	153.5
Cost of sales	-75.1	-115.6	-117.4	-106.1
Gross profit	31.6	48.0	48.5	47.4
Other operating income	0.8	2.2	4.2	2.5
Distribution costs	-10.7	-13.3	-14.7	-15.2
Administrative expenses	-13.4	-18.0	-20.3	-20.9
Other operating expenses	-2.8	-3.7	-2.2	-2.4
Finance costs	-0.9	-1.0	-1.2	-1.0
Pretax profit	4.4	14.7	15.1	11.4
PATMI	1.0	8.3	8.4	5.4

Balance sheet

As at Dec 31 (\$m)	FY09	FY10	FY11	FY12
Cash and cash equivalents	19.0	29.0	28.4	25.1
Trade and other receivables	34.1	42.5	36.7	49.1
Inventories	19.9	25.8	29.2	25.5
Property, plant and equipment	23.5	24.9	27.9	26.5
Goodwill	11.8	11.7	11.7	11.7
Trade and other payables	32.0	37.2	31.3	33.1
Bank borrowings	22.7	24.9	21.7	21.2
Total liabilities	55.4	64.4	54.9	56.6
Total equity	57.1	74.5	83.8	86.9
Total liabilities and equity	112.6	138.8	138.7	143.5

Cash flow statement

Year Ended Dec 31 (\$m)	FY09	FY10	FY11	FY12
Operating cash flow before working capital changes	8.6	18.9	16.5	14.7
Change in inventories	0.6	-7.6	-4.4	2.8
Change in trade and other receivables	-7.9	-6.0	3.0	-13.0
Net cash from operations	7.5	11.4	3.5	3.6
Purchase of PP&E	-10.3	-4.6	-3.5	-1.5
Net cash from investing	-11.8	-8.8	2.2	-1.3
Net cash from financing	7.4	8.0	-6.3	-5.3
Net change in cash	3.1	10.7	-0.6	-3.1
Cash at beginning of year	15.3	19.0	29.0	28.4
Cash at end of year	19.0	29.0	28.4	25.1

Key rates & ratios

	FY09	FY10	FY11	FY12
EPS (S-cents)	0.4	3.3	2.8	1.8
NAV per share (S-cents)	22.9	27.4	26.1	26.9
PER (x)	245.2	31.2	36.5	56.9
P/NAV (x)	4.5	3.8	4.0	3.8
Gross profit margin (%)	29.6	29.3	29.2	30.9
Net profit margin (%)	1.0	5.1	5.1	3.5
Net gearing (%)	6.6	Net cash	Net cash	Net cash
Dividend yield (%)	0.0	0.5	0.5	0.5
ROE (%)	1.8	11.2	10.0	6.2
ROA (%)	0.9	6.0	6.1	3.8

Source: Company

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds/hold **NIL** shares in the above security.

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