

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.395
Target price:	S\$0.501
Previous target:	S\$0.279
Up/downside:	26.8%
CGS-CIMB / Consensus:	43.3%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$123.8m
	S\$169.7m
Average daily turnover:	US\$0.82m
	S\$1.14m
Current shares o/s:	429.6m
Free float:	54.2%

*Source: Bloomberg

Key changes in this note

- FY20F EPS increased by 50.7%.
- FY21F EPS increased by 79.6%.
- FY22F EPS increased by 78.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	83.7	98.5	83.7
Relative (%)	88.1	100.3	103.8

Major shareholders	% held
Teo Cher Koon	31.7
NTCP SPV VI	8.9
Braun Karl Walter	4.7

Analyst(s)

William TNG, CFA

T (65) 6210 8676

E william.tng@cgs-cimb.com

ISDN Holdings Ltd

Covid-19 brings opportunities

- ISDN's 1H20 revenue/net profit accounted for 56%/77% of our full-year forecasts, above our expectations.
- Better-than-expected profit was due to margin expansion in its core IA business, higher recognition of construction revenue and cost reductions.
- Reiterate Add with TP of S\$0.501. We believe ISDN is on track for yoy net profit growth in FY20F.

Better-than-expected 1H20

ISDN's 1H20F revenue at 56%/55% of our and Bloomberg consensus full-year forecasts was better-than-expected. There was a S\$20.1m uplift in revenue due to the progress of the construction of its mini hydropower plant in Indonesia (we were assuming work stoppage due to Covid-19). The core industrial automation (IA) business also registered 1.9% yoy revenue growth in 1H20. A 1.3% pts gross profit margin expansion (1H20: 27.1%; 1H19: 25.8%) in the IA business (96% of 1H20 gross profit) and cost reductions helped 1H20 net profit outperform our and consensus expectations. 1H20 net profit formed 77%/79% of our and consensus full-year estimates. No interim dividend was declared. Net cash position as at end Jun-2020 was S\$16.2m.

Growth is back

ISDN noted that although Covid-19 has greatly disrupted the global economy, it has also proven a clear catalyst for accelerating digitalisation and the transition to Industry 4.0 automation. The group expects to benefit from this as it delivers a broad and deep set of high-tech precision control systems and remote automation technologies for its customers. ISDN is also benefitting from increased demand for its core IA solutions in Singapore, Malaysia, and Vietnam as the region is currently benefitting from the reconfiguring of global industrial supply chains. The hydropower business continues to progress towards commercialisation though risks of delays remain. ISDN also entered into a joint venture with ERST Project GmbH in May 2020 to offer environmentally-friendly disinfectant solutions to aid in the fight against Covid-19. ISDN has since secured Centurion Corporation and The Science Park as customers. Given that ISDN reported a net profit of S\$1.5m for 2H19, we believe the group is on track for both hoh and yoy profit growth in 2HFY20F and FY20F respectively.

Reiterate Add

Given the better demand outlook and cost reduction efforts, we raise our revenue assumptions and lower cost estimates, leading to 51-80% EPS increase over FY20-22F. We also assume higher construction revenue but note that this is subject to recognition risk if there are work stoppages. At an unchanged CY21F P/E of 10x (c.60% discount to its global peers), our target price rises to S\$0.501 (S\$0.279 previously). Potential re-rating catalysts for the stock could come from stronger-than-expected sales orders for its mainstay IA and profit contribution from its hydropower segment. Downside risks are order delays, cost overruns in its hydropower business and the Covid-19 outbreak.

Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (S\$m)	302.0	291.0	334.6	346.1	359.5
Net Profit (S\$m)	10.95	7.03	18.73	21.52	23.19
Core EPS (S\$)	0.028	0.016	0.044	0.050	0.054
Core EPS Growth	(2%)	(41%)	166%	15%	8%
FD Core P/E (x)	14.24	23.15	9.06	7.89	7.32
Price To Sales (x)	0.52	0.58	0.51	0.49	0.47
DPS (S\$)	0.007	0.004	0.011	0.013	0.014
Dividend Yield	1.77%	1.01%	2.87%	3.30%	3.55%
EV/EBITDA (x)	6.87	7.04	5.94	4.90	4.23
P/FCFE (x)	14.07	9.95	21.56	7.02	6.58
Net Gearing	(7.5%)	(16.4%)	(6.9%)	(14.4%)	(20.8%)
P/BV (x)	1.08	1.11	1.02	0.93	0.85
ROE	7.8%	4.7%	11.7%	12.3%	12.1%
% Change In Core EPS Estimates			50.7%	79.6%	78.2%
CGS-CIMB/Consensus EPS (x)			1.50	1.73	1.74

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (\$\$ m)	1HFY20	1HFY19	yoy % chg	Prev FY20F	Comments
Revenue	167.2	147.0	13.8	296.8	1H20 revenue above ours/consensus expectations at 56/55% of full-year forecast. Better-than-expected 1H20 revenue performance was due to S\$20.0m revenue from mini-hydropower plant construction in Indonesia.
Operating costs	(148.4)	(134.6)	10.2	(266.2)	
EBITDA	18.8	12.3	52.6	30.6	
EBITDA margin (%)	11.3	8.4	34.1	10.3	Benefitted from demand from medical device customers and not renewing certain lower margin accounts.
Depn & amort.	(1.9)	(1.1)	81.3	(4.0)	
EBIT	16.9	11.3	49.9	26.5	
Interest income	0.2	0.2	18.6	0.3	
Interest expense	(1.0)	(0.8)	17.5	(2.1)	Higher interest cost due to bank borrowings.
Associate	0.5	0.3	73.2	(0.1)	
Exceptionals	0.0	0.0	na	0.0	
Pretax profit	16.6	10.9	52.3	24.6	
Tax	(3.8)	(2.6)	44.4	(6.1)	
Tax rate (%)	22.6	23.8	(5.2)	24.8	
Minority interests	3.3	2.8	19.2	6.1	
Net profit	9.6	5.5	72.5	12.4	1H20 net profit above ours/consensus at 77%/79% of full-year forecast due to better margin and construction revenue contribution.
Core net profit	9.6	5.5	72.5	12.4	
EPS (cts)	2.2	1.4	65.2	2.9	
Core EPS (cts)	2.2	1.4	65.2	2.9	
WAIC (m)	429.6	410.3	4.7		Increased due to scrip dividend

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

(\$\$ m)	Old			New			% chg		
	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F
Revenue	296.8	311.6	329.7	334.6	346.1	359.5	12.7	11.1	9.0
Gross profit	83.1	84.9	89.0	83.6	88.9	94.2	0.7	4.8	5.8
Operating expenses	(62.4)	(63.8)	(66.7)	(58.0)	(59.4)	(62.5)	-7.0	-6.9	-6.3
Operating profit	24.8	25.3	26.8	29.7	33.8	36.1	19.8	33.3	35.0
Net profit	12.4	12.0	13.0	18.7	21.5	23.2	50.7	79.6	78.2
							percentage points		
Gross profit margin (%)	28.0	27.3	27.0	25.0	25.7	26.2	(3.0)	(1.6)	(0.8)
Net profit margin (%)	4.2	3.8	3.9	5.6	6.2	6.5	1.4	2.4	2.5

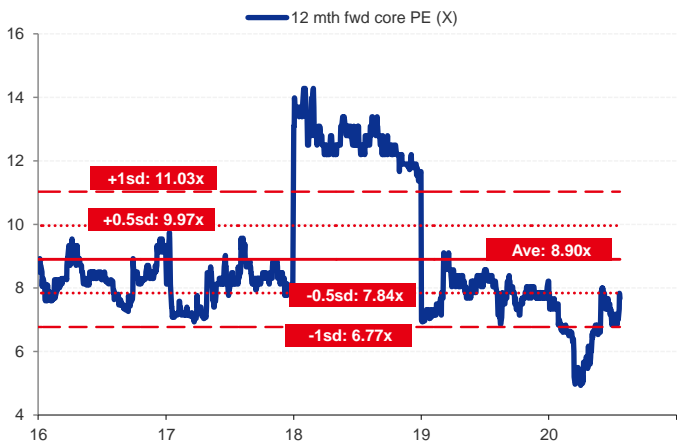
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Peer Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY20F	CY21F	CY22F		CY20F	CY21F		
ISDN Holdings Ltd	ISDN SP	Add	0.40	0.50	124	9.1	7.9	7.3	46.6%	1.02	0.93	11.8%	2.9%
Motion Control peers													
Allied Motion Technologies Inc	AMOT US	NR	42.75	na	417	34.8	24.8	na	na	na	na	na	na
Altra Industrial Motion Corp	AIMC US	NR	37.39	na	2,417	18.3	15.1	12.5	23.1%	1.30	1.19	7.0%	1.1%
Hiwin Technologies Corp	2049 TT	NR	306.5	na	3,265	47.7	26.4	20.7	56.8%	3.85	3.39	7.6%	0.7%
Omron Corp	6645 JP	NR	7,400	na	14,428	20.3	34.6	27.6	-11.0%	2.73	2.61	8.7%	1.1%
Teco Electric and Machinery Co	1504 TT	NR	28.50	na	1,908	na	na	na	na	na	na	na	na
Simple average						30.3	25.2	20.2	23.0%	2.62	2.40	7.8%	1.0%

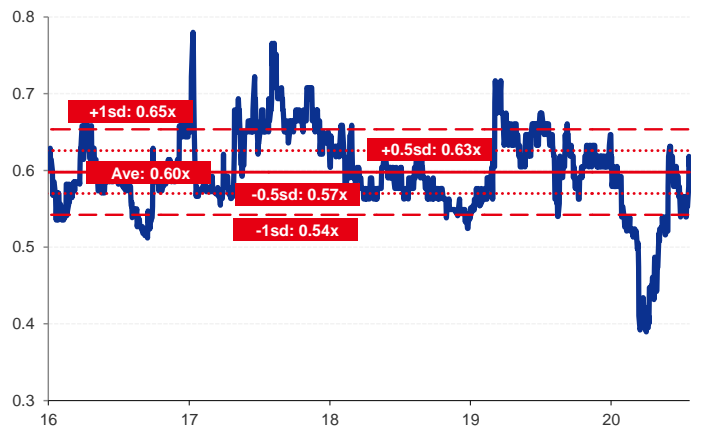
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG 9AS AT 28 MAR 2019)

Figure 4: ISDN 12 mth fwd PE

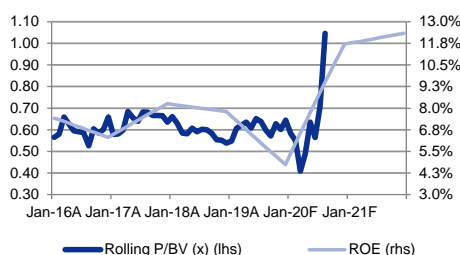
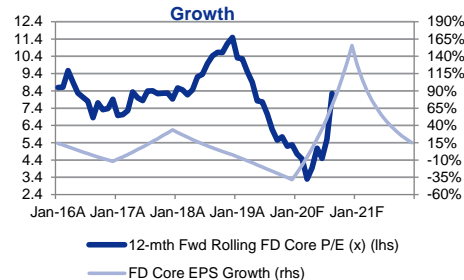


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 5: ISDN P/BV



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Net Revenues	302.0	291.0	334.6	346.1	359.5
Gross Profit	80.5	77.4	87.7	93.2	98.6
Operating EBITDA	26.3	25.9	33.7	38.0	40.6
Depreciation And Amortisation	(2.2)	(3.8)	(4.0)	(4.2)	(4.4)
Operating EBIT	24.1	22.1	29.7	33.8	36.1
Financial Income/(Expense)	(0.8)	(1.8)	(1.6)	(1.6)	(1.6)
Pretax Income/(Loss) from Assoc.	0.4	(0.1)	0.7	0.7	0.7
Non-Operating Income/(Expense)	0.0	0.0	3.2	3.2	3.0
Profit Before Tax (pre-EI)	23.7	20.2	32.0	36.1	38.2
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	23.7	20.2	32.0	36.1	38.2
Taxation	(7.1)	(6.0)	(7.2)	(8.2)	(8.6)
Exceptional Income - post-tax					
Profit After Tax	16.6	14.2	24.7	27.9	29.6
Minority Interests	(5.6)	(7.1)	(6.0)	(6.4)	(6.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10.9	7.0	18.7	21.5	23.2
Recurring Net Profit	10.9	7.0	18.7	21.5	23.2
Fully Diluted Recurring Net Profit	10.9	7.0	18.7	21.5	23.2

Cash Flow

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
EBITDA	26.31	25.95	33.69	38.00	40.57
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(17.51)	(1.40)	(15.86)	(3.22)	(3.99)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2.56	0.00	1.44	1.75	2.05
Net Interest (Paid)/Received	(0.78)	(1.80)	(1.60)	(1.60)	(1.60)
Tax Paid	(5.71)	(6.00)	(7.22)	(8.15)	(8.64)
Cashflow From Operations	4.87	16.75	10.45	26.78	28.39
Capex	(2.60)	(2.62)	(3.00)	(3.00)	(3.00)
Disposals Of FAs/subsidiaries	0.88	4.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4.39)	(1.77)	0.40	0.40	0.40
Cash Flow From Investing	(6.11)	(0.39)	(2.60)	(2.60)	(2.60)
Debt Raised/(repaid)	12.32	0.00	0.02	0.00	0.00
Proceeds From Issue Of Shares	0.00	5.40	0.00	0.00	0.00
Shares Repurchased			0.00	0.00	0.00
Dividends Paid	(2.29)	(2.76)	(4.87)	(5.59)	(6.03)
Preferred Dividends			0.00	0.00	0.00
Other Financing Cashflow	(8.03)	0.00	0.00	0.00	0.00
Cash Flow From Financing	2.01	2.63	(4.85)	(5.59)	(6.03)
Total Cash Generated	0.77	19.00	3.00	18.59	19.76
Free Cashflow To Equity	11.08	16.37	7.87	24.18	25.79
Free Cashflow To Firm	(0.21)	18.48	9.85	26.18	27.79

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(S\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	41.9	60.9	42.3	62.0	82.3
Total Debtors	96.2	92.5	128.3	132.7	137.9
Inventories	55.2	53.2	62.6	64.1	66.1
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	193.3	206.6	233.2	258.8	286.3
Fixed Assets	39.3	38.1	42.9	41.7	40.3
Total Investments	0.0	0.0	6.3	7.0	7.7
Intangible Assets	13.5	13.5	12.2	12.2	12.2
Total Other Non-Current Assets	37.0	38.6	37.1	37.1	37.1
Total Non-current Assets	89.8	90.2	98.6	98.0	97.3
Short-term Debt	16.4	16.4	20.2	20.2	20.2
Current Portion of Long-Term Debt					
Total Creditors	69.4	66.3	79.7	82.5	85.7
Other Current Liabilities	2.4	2.4	4.3	4.3	4.3
Total Current Liabilities	88.2	85.1	104.2	107.0	110.2
Total Long-term Debt	11.8	11.8	7.1	7.1	7.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.2	0.2	2.0	2.0	2.0
Total Non-current Liabilities	12.1	12.1	9.1	9.1	9.1
Total Provisions	0.7	0.7	0.0	0.0	0.0
Total Liabilities	100.9	97.8	113.3	116.1	119.3
Shareholders' Equity	143.8	153.4	166.6	182.5	199.7
Minority Interests	38.5	45.6	51.8	58.2	64.6
Total Equity	182.2	199.0	218.4	240.8	264.3

Key Ratios

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	3.4%	(3.6%)	15.0%	3.4%	3.9%
Operating EBITDA Growth	16.0%	(1.4%)	29.8%	12.8%	6.8%
Operating EBITDA Margin	8.7%	8.9%	10.1%	11.0%	11.3%
Net Cash Per Share (S\$)	0.03	0.08	0.03	0.08	0.13
BVPS (S\$)	0.36	0.36	0.39	0.42	0.46
Gross Interest Cover	23.30	10.49	14.83	16.88	18.07
Effective Tax Rate	30.0%	29.7%	22.6%	22.6%	22.6%
Net Dividend Payout Ratio	25.2%	24.4%	11.5%	12.0%	13.0%
Accounts Receivables Days	112.0	118.4	120.8	137.7	137.4
Inventory Days	86.69	92.66	85.83	91.41	91.12
Accounts Payables Days	113.8	115.9	108.2	117.1	117.7
ROIC (%)	18.8%	13.0%	17.7%	17.0%	18.0%
ROCE (%)	12.9%	10.2%	12.7%	13.3%	13.1%
Return On Average Assets	6.68%	5.51%	8.38%	8.57%	8.43%

Key Drivers

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP Change (% , Main Product)	N/A	N/A	N/A	N/A	N/A
Unit sales growth (% , main prod)	5.6%	-4.8%	2.4%	6.2%	5.9%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	19.6%	19.3%	19.4%	19.6%	19.7%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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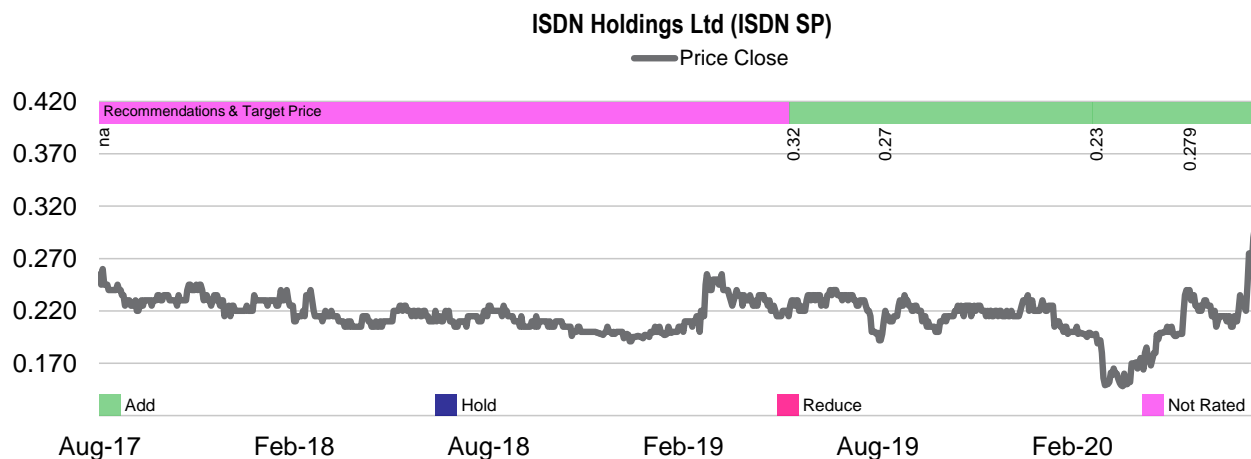
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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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