

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.37
Target price:	S\$0.648 ▲
Previous target:	S\$0.501
Up/downside:	75.1%
CGS-CIMB / Consensus:	33.5%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$118.7m
	S\$161.1m
Average daily turnover:	US\$3.50m
	S\$4.79m
Current shares o/s:	429.6m
Free float:	54.2%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	23.3	72.1
Relative (%)	-0.8	23.3	94.4

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

Analyst(s)

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ISDN Holdings Ltd

Growth to continue into FY21F

- 9M20 net profit (at 80% of our FY20F estimate) was in line with our forecast.
- 9M20 performance was driven by strong orders in its core industrial automation business.
- Reiterate Add with a higher S\$0.65 TP as we raise our P/E target to 12x given its strong results and after rolling over to CY22F.

9M20 net profit in line

9M20 revenue at 80% of our full-year expectation was better than expected. 9M20 revenue grew 24.7% yoy, driven by strong demand for industrial automation in China and construction revenue for its mini hydropower plants in Indonesia. 3Q20 revenue rose 10.8% qoq. 9M net profit was in line with our expectation at 80% of our full-year forecast. 9M net profit benefitted from higher sales in its core industrial automation business and prudent cost management. Quarter-on-quarter, 3Q20 net profit fell 15.4% due to unrealised foreign exchange losses. Excluding foreign exchange losses, we think net profit expanded qoq. Gross profit margin for 9M20 fell slightly to 25.8% from 26.4% in 9M19 due to the recognition of lower-margin construction revenue for its mini hydropower plants. Excluding construction revenue, the core business generated a gross profit margin of 27.5% in 9M20, which was higher than 9M19's gross profit margin of 26.6%. Other operating expenses climbed 5.3% yoy in 9M20 to S\$42.0m due to an increase in sales commission and bonus provisions. As at end-Sep 2020, ISDN's cash balance was S\$50.8m vs. S\$31.6m as at end-Sep 2019.

Positive outlook

US-China trade tensions and the Covid-19 pandemic are driving a reconfiguration of global supply chains to the benefit of Southeast Asia. Given its presence in Singapore and Vietnam, ISDN has gained from such supply chain diversions. At the same time, ISDN's established presence in industrial automation in China has given the company an edge given the demand recovery there and China's continued commitment to increase industrial automation. In Indonesia, ISDN's construction partners are still waiting for the country's lockdown to be lifted before they fully resume work.

Reiterate Add; higher TP on rollover

We reiterate our Add rating with a higher target price of S\$0.65 (previously: S\$0.50). We roll over valuations to CY22F and raise our P/E multiple peg to 12.0x given ISDN's continued strong performance. This is still a 40% discount to ISDN's peers' 19.9x CY22 P/E. Previously, we valued ISDN at CY21F P/E of 10x (c.58% discount to its global peers then). Potential re-rating catalysts for the stock could come from stronger-than-expected sales orders for its mainstay industrial automation business and profit contribution from its hydropower segment. Downside risks are order delays, cost overruns in its hydropower business and a prolonged 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)	13.34	21.68	8.48	7.39	6.85
Price To Sales (x)	0.48	0.55	0.48	0.46	0.44
DPS (S\$)	0.007	0.004	0.011	0.013	0.014
Dividend Yield	1.89%	1.08%	3.06%	3.52%	3.79%
EV/EBITDA (x)	6.50	6.63	5.62	4.62	3.96
P/FCFE (x)	13.18	9.32	20.19	6.57	6.16
Net Gearing	(7.5%)	(16.4%)	(6.9%)	(14.4%)	(20.8%)
P/BV (x)	1.02	1.04	0.95	0.87	0.80
ROE	7.8%	4.7%	11.7%	12.3%	12.1%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			1.12	1.19	1.20

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

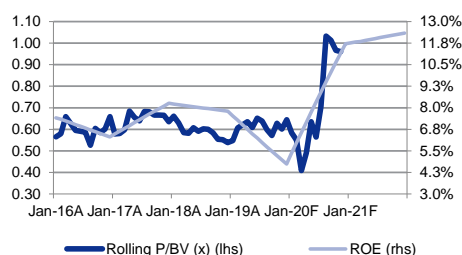
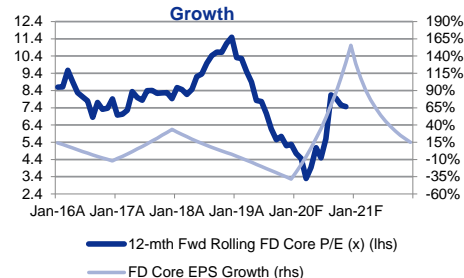
FYE Dec (S\$ m)	3QFY20	3QFY19	yoy % chg	2QFY20	qoq % chg	9MFY20 Cum	9MFY19 Cum	yoy % chg	Prev FY20F	Comments
Revenue	96.8	64.7	49.6	87.4	10.8	264.0	211.7	24.7	334.6	Slightly above our expectations driven by strong demand for industrial automation in China.
Net profit	5.5	1.8	208.6	6.5	(15.4)	15.1	7.3	105.4	18.7	In line at 80% of our forecast. Net profit growth driven by margin expansion and cost management.
Net profit margin (%)	5.7	2.8		7.4		5.7	3.5		5.6	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY20F	P/E (x) CY21F	P/E (x) CY22F	3-year EPS CAGR (%)	P/BV (x) CY20F	P/BV (x) CY21F	Recurring ROE (%) CY20F	Dividend Yield (%) CY20F
ISDN Holdings Ltd	ISDN SP	Add	0.37	0.65	119	8.5	7.4	6.9	47.1%	0.95	0.87	11.8%	3.1%
Motion Control peers													
Allied Motion Technologies Inc	AMOT US	NR	40.94	na	399	33.0	23.7	na	na	na	na	na	na
Altra Industrial Motion Corp	AIMC US	NR	45.25	na	2,928	16.7	14.5	13.5	30.0%	1.51	1.37	7.7%	0.7%
Hiwin Technologies Corp	2049 TT	NR	263.0	na	2,966	42.7	25.1	20.1	50.0%	3.39	3.05	8.0%	0.8%
Omron Corp	6645 JP	NR	7,650	na	15,162	20.9	34.6	28.3	-10.7%	2.83	2.71	8.9%	1.1%
Teco Electric and Machinery Co	1504 TT	NR	29.95	na	2,070	16.4	16.0	17.6	1.5%	1.02	0.98	5.6%	3.4%
Simple average						26.0	22.8	19.9	17.7%	2.19	2.03	7.5%	1.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, 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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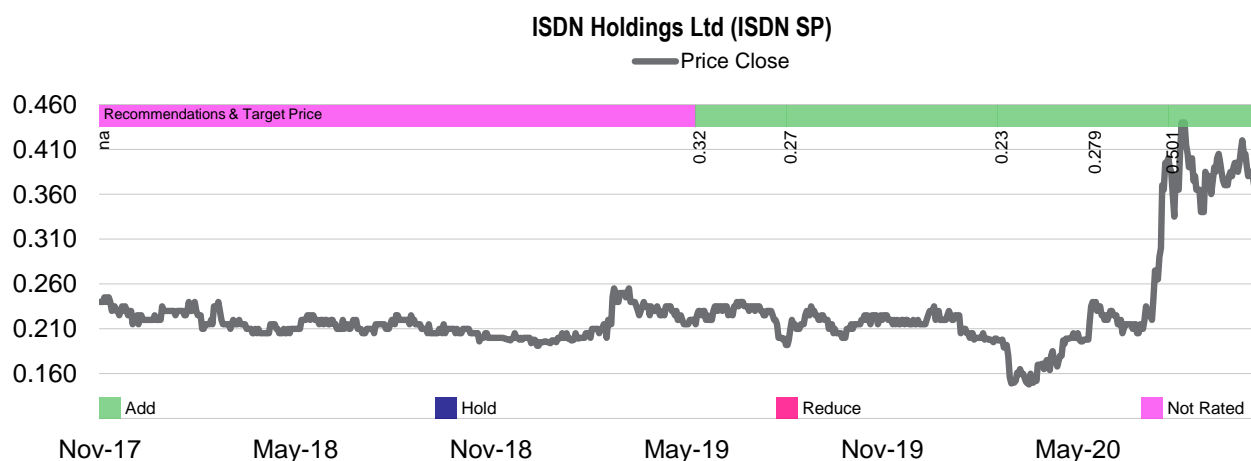
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795 companies under coverage for quarter ended on 30 September 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

Spitzer Chart for stock being researched (2 year data)



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

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

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)

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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.

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Definition:

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- 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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