

ISDN Holdings

1Q12 results update

Overweight

Current Price **S\$0.114**
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Fair Value **S\$0.23**

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$34m
52-HI	S\$0.205
52-LOW	S\$0.111
Avg Vol (1 yr)	246,554
Shares Outstanding	298.7m
Free Float	118.5m

Key Indicators

ROE 12F	10.6%
ROA 12F	6.9%
P/BK	0.43x
Net cash/sh	Net cash

Major Shareholders

Teo Cher Koon	51.5%
Karl Walter Braun	8.8%

A brightening outlook

- 1Q12 earnings in line with expectation.** 1Q12 net profit of S\$2.0m (-32% yoy) was in line with our S\$2.1m expectation. The key variance were lower-than-expected revenue and slightly higher-than-expected operating cost, however, this was offset by higher gain from associates and lower-than-expected taxation. After adjusting our sale and cost factors, our FY12-14 estimates are relatively unchanged as we still expect a stronger second half this year. Fair value has been lifted by a cent to S\$0.23, still pegged at 1x FY12 P/NTA or only an implied 3.3x FY12 PER. Given the undemanding valuation, maintain **Overweight**.
- A clear signal of recovery for the semiconductor equipment industry.** Semiconductor equipment orders continued to increase in February and March, the improvement was backed by its highest reported value since July 2011. SEMI has reported that worldwide semiconductor manufacturing equipment billings reached US\$1.32bn in February and March, a book-to-bill ratio of 1.01 and 1.13 respectively. Market researchers also believe the growth will be largely driving from Southeast Asia this year, which is expected to grow 11%, more than double that of the global capacity growth rate of 5%.
- Hydroponics business' maiden contribution in 1Q12.** On its other businesses, Hydroponics made small contribution of \$14,000 to group revenue. However, we believe the Hydroponics sales will only be powered up in the second half the year. Following the recent JV with the Ho Lee Group, new land has been secured and set up in Malaysia. The group expects to start operations within 3-4 months. The first farm in China has also begun supplying to local wholesalers. On the Energy side, the group is awaiting the production licence to commence production work in its coal mining venture at the associate company level.
- Sales dropped 26% yoy to S\$32.8m** due mainly to no further contributions from a subsidiary's investment project which was divested in 4Q11 as well as slowdown in demand from semicon equipment. Despite this, its gross profit margins remained relatively stable at 30.6% in 1Q12.
- Balance sheet remains healthy.** ISDN generated S\$2m of positive free cash flow in 1Q after reducing its cash conversion cycles by 9 days to 65 days. Including S\$1.4m dividend payout, net cash increased by S\$0.5m from previous quarter to S\$7m as at March quarter.

Key Financial Data

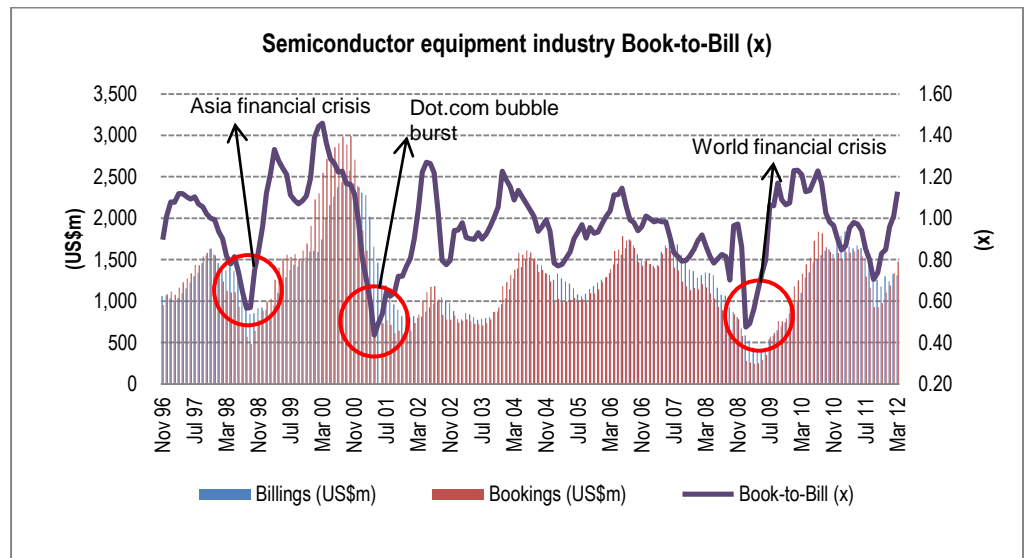
(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	163.6	165.9	169.8	186.8	205.5
Gross Profit	48.0	48.5	50.9	52.3	57.5
Net Profit	8.3	8.4	10.3	10.7	12.0
EPS (cents)	3.3	2.8	3.4	3.6	4.0
EPS growth (%)	692.4	(14.6)	22.2	3.6	12.4
PER (x)	3.5	4.0	3.3	3.2	2.8
NTA/share (cents)	20.4	20.1	22.9	26.1	29.6
DPS (cents)	0.5	0.5	0.6	0.6	0.7
Div Yield (%)	4.4	4.4	5.0	5.1	5.7

Source: Company, NRA Capital estimates

Results comparison

FYE Dec (\$ m)	1Q12	1Q11	yoy % chg	4Q11	qoq % chg	Prev. 1Q12F	Comments
Revenue	32.8	44.5	(26)	36.1	(9)	39.2	16% below expectation
Operating costs	(29.7)	(36.9)	(20)	(34.3)	(14)	(35.0)	Below, lower-than-expected sales
EBITDA	3.2	7.6	(58)	1.8	76	4.1	Below, lower-than-expected sales
EBITDA margin (%)	9.7	17.1		5.0		10.5	0.6% pt below expectation
Depn&amort.	(0.5)	(1.2)	(62)	(0.7)	(31)	(0.6)	In line
EBIT	2.7	6.4	(57)	1.1	142	3.6	Below, lower-than-expected sales
Interest expense	(0.3)	(0.3)	(23)	(0.3)	(23)	(0.2)	In line
Interest & invtinc	0.1	(0.3)	121	0.8	(92)	0.3	Below, higher-than-expected forex loss
Associates' contrib	0.4	0.1	284	(0.1)	464	0.2	Above
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	2.9	5.8	(51)	1.5	89	3.8	25% below expectation
Tax	(0.5)	(1.5)	(67)	(0.6)	(15)	(1.1)	Below, lower-than-expected taxation
Tax rate (%)	16.9	25.1		37.6		28.0	Below
Minority interests	(0.4)	(1.4)	(73)	0.1	(436)	(0.7)	
Net profit	2.0	3.0	(32)	1.1	89	2.1	In line
EPS (cts)	0.7	1.0	(32)	0.4	89	0.7	

Source: Bloomberg, NRA Capital Research



Source: SEMI April 2012

Profit & Loss (\$\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	163.6	165.9	169.8	186.8	205.5
Operating expenses	(145.2)	(150.9)	(152.6)	(169.7)	(186.7)
EBITDA	18.4	15.1	17.2	17.1	18.8
Depreciation & amortisation	(2.7)	(2.2)	(1.8)	(1.9)	(1.9)
EBIT	15.6	12.8	15.4	15.2	16.9
Net interest & invt income	(1.4)	1.5	0.3	0.4	0.6
Associates' contribution	0.5	0.7	1.5	1.6	1.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	14.7	15.1	17.1	17.3	19.3
Tax	(4.0)	(4.0)	(4.3)	(3.8)	(4.3)
Minority interests	(2.4)	(2.7)	(2.5)	(2.8)	(3.1)
Net profit	8.3	8.4	10.3	10.7	12.0
Wt. shares (m)	251.7	298.7	298.7	298.7	298.7
Shares at year-end (m)	251.7	298.7	298.7	298.7	298.7
Balance Sheet (\$\$ m, as at Dec)	2010	2011	2012F	2013F	2014F
Fixed assets	24.9	27.9	30.8	33.7	36.5
Intangible assets	11.9	11.7	11.7	11.7	11.7
Other long-term assets	4.2	4.8	4.9	5.1	5.2
Total non-current assets	41.0	44.4	47.4	50.5	53.4
Cash and equivalents	29.0	28.4	34.0	42.4	52.9
Stocks	25.8	29.2	29.6	33.4	36.8
Trade debtors	42.5	36.7	37.6	41.3	45.4
Other current assets	0.6	0.0	0.0	0.0	0.0
Total current assets	97.8	94.3	101.2	117.1	135.1
Trade creditors	37.2	31.3	31.7	35.8	39.4
Short-term borrowings	16.8	11.1	8.5	8.4	8.2
Other current liabilities	2.1	1.6	4.2	3.8	4.2
Total current liabilities	56.1	43.9	44.4	48.0	51.8
Long-term borrowings	8.3	10.9	7.0	7.3	7.5
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	8.3	11.0	7.1	7.3	7.6
Shareholders' funds	68.9	77.8	88.6	100.9	114.7
Minority interests	5.6	6.0	8.6	11.4	14.4
NTA/share (\$\$)	0.20	0.20	0.23	0.26	0.30
Total Assets	138.8	138.7	148.6	167.6	188.5
Total Liabilities + S'holders' funds	138.8	138.7	148.6	167.6	188.5
Cash Flow (\$\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	14.7	15.1	17.1	17.3	19.3
Depreciation & non-cash adjustments	4.2	3.6	4.4	5.8	5.9
Working capital changes	(5.0)	(9.7)	(1.5)	(4.1)	(4.5)
Cash tax paid	(2.5)	(4.5)	(1.6)	(4.3)	(3.8)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	11.4	4.5	18.4	14.7	17.0
Capex	(4.9)	(4.2)	(4.8)	(4.8)	(4.8)
Net investments & sale of FA	(0.3)	6.3	0.0	0.0	0.0
Others	(3.7)	(0.0)	0.0	0.0	0.0
Cash flow from investing	(8.8)	2.1	(4.8)	(4.8)	(4.8)
Debt raised/(repaid)	2.6	(2.6)	(6.5)	0.2	0.1
Equity raised/(repaid)	5.4	0.0	0.0	0.0	0.0
Dividends paid	0.0	(1.5)	(1.5)	(1.7)	(1.8)
Cash interest & others	(0.3)	(2.5)	(0.1)	(0.1)	(0.1)
Cash flow from financing	7.6	(6.6)	(8.0)	(1.6)	(1.7)
Change in cash	10.3	(0.1)	5.6	8.4	10.5
Change in net cash/(debt)	7.8	2.5	12.1	8.2	10.4
Ending net cash/(debt)	3.9	6.4	18.5	26.7	37.1
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	53.4	1.4	2.3	10.0	10.0
EBITDA growth (%)	113.8	(18.0)	14.3	(0.7)	10.1
Pretax margins (%)	9.0	9.1	10.1	9.2	9.4
Net profit margins (%)	5.1	5.1	6.1	5.7	5.8
Interest cover (x)	16.0	14.1	23.1	23.0	25.5
Effective tax rates (%)	27.4	26.6	25.0	22.0	22.0
Net dividend payout (%)	15.1	0.0	0.0	0.0	0.0
Debtors turnover (days)	94.7	80.7	80.7	80.7	80.7
Stock turnover (days)	81.5	90.8	90.8	90.8	90.8
Creditors turnover (days)	117.4	97.2	97.2	97.2	97.2

Source: Company, NRA Capital Estimates

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