

ISDN Holdings

Overweight

Current Price S\$0.113

Fair Value S\$0.24
Up / (downside) +115%

Stock Statistics

Market cap	S\$33.7m
52-low	S\$0.108
52-high	S\$0.15
Avg daily vol	102,643
No of share	298.7m
Free float	40%

Key Indicators

ROE 12F	11%
ROA 12F	7%
P/BK	0.42x
Net gearing	Net cash

Major Shareholders

Teo Cher Koon	51.5%
Karl Walter Braun	8.8%

Historical Chart



Source: Bloomberg

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The haves and the have nots

- **Maintain forecast and Overweight rating.** 2Q12 net profit of S\$2.4m (-7% yoy) was slightly below our S\$2.9m expectation due mainly to higher-than-expected effective tax rate. The other key variances were lower-than-expected revenue but offset by lower SG&A expenses and higher associates' profits. As such, we have kept FY12-14 estimates relatively unchanged as we still expect a slightly stronger second half this year. Our fair value has been lifted by a cent to S\$0.24, after we roll forward our base from 1x FY12 P/NTA to FY13. This implies 7x FY12 PER. Given the undemanding valuation, maintain **Overweight**.
- **The strongest host the game.** The semiconductor sector is cooling down after a recent surge in demand, however we consider the cyclical nature of the business is not the real problem for equipment makers. According to IC Insights recent report, only six of the top 35 chip-making companies are planning to increase capital expenditure in 2012 compared with 2011 (*refer to the table next page*). However, the six companies (Samsung, Intel, Hynix, UMC, TSMC and Rohm) are responsible for about two-thirds of fab spending in 2012. In other words, only those chip manufacturers with strong financial resources can afford to spend on their capacity, while most of the remaining companies are running for the doors and reducing their capital spending in 2012. The semiconductor industry's capex is now estimated to decrease by 3% this year as compared to the previous expectation of an 8% decline.
- **Major test and assembly packagers step up 2012 capex too.** It should be noted that a few of the major outsourced semiconductor assembly and test companies also plan to significantly increase their capital spending this year, including ASE which has budgeted US\$800m in capex for 2012 (US\$780m in 2011). Amkor has guided a capex of US\$500m in 2012 (+10% yoy), SPIL estimated capex at NT\$17.5bn, a more than 50% jump from NT\$11bn in 2011 while Stats ChipPAC has boosted its 3Q capex alone to approximately US\$170m to US\$190m, this includes US\$20m for the new factory building in Singapore (total US\$195m capex spent in 1H2012).
- **Sales dropped 18% yoy to S\$40m** due mainly to the cessation of contribution from a subsidiary's investment project which was divested to associate level in 4Q11. Despite this, gross profit margins remained relatively stable at 30.3% in 2Q112.
- **Balance sheet remains healthy.** ISDN generated S\$1.1m of negative free cash flow in 2Q after increasing its working capital requirement. As such, net cash reduced from S\$7m previous quarter to S\$5.3m as at June quarter.

Key Financial Data

(S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Sales	163.6	165.9	150.9	160.2	176.2
Gross Profit	48.0	48.5	45.7	46.5	51.1
Net Profit	8.3	8.4	10.5	11.0	12.4
EPS (cents)	3.3	2.8	3.5	3.7	4.1
EPS growth (%)	692.4	(14.6)	25.2	4.4	12.3
PER (x)	3.4	4.0	3.2	3.1	2.7
NTA/share (cents)	20.4	20.1	22.0	24.3	27.0
DPS (cents)	0.5	0.5	0.6	0.6	0.7
Div Yield (%)	4.4	4.4	5.3	5.3	6.0

Source: Company, NRA Capital estimates

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Results comparison

FYE Dec (\$\$ m)	2Q12	2Q11	yoy % chg	1Q12	qoq % chg	Prev. 2Q12F	Comments
Revenue	40.0	48.5	(18)	32.8	22	45.1	12% below expectation
Operating costs	(35.5)	(42.6)	(17)	(29.7)	20	(40.5)	Below, lower-than-expected sales
EBITDA	4.4	5.9	(25)	3.2	39	4.6	In line, slight offset by lower-than-expected OPEX
EBITDA margin (%)	11.1	12.2		9.7		10.1	0.9% pt below expectation
Depn & amort.	(0.4)	(1.3)	(67)	(0.5)	(7)	(0.5)	In line
EBIT	4.0	4.6	(13)	2.7	47	4.1	In line
Interest expense	(0.2)	(0.2)	2	(0.3)	(30)	(0.3)	Below
Interest & invt inc	(0.1)	0.3	(128)	0.1	(216)	0.3	Below, higher-than-expected forex loss
Associates' contrib	0.7	0.5	32	0.4	96	0.4	Above
Exceptionals	0.0	0.0	0	0.0	0	0.0	
Pretax profit	4.4	5.2	(15)	2.9	54	4.5	In line
Tax	(1.5)	(1.8)	(15)	(0.5)	215	(1.2)	Above, higher-than-expected taxation
Tax rate (%)	34.4	34.4		16.9		27.0	
Minority interests	(0.5)	(0.9)	(38)	(0.4)	39	(0.4)	
Net profit	2.4	2.6	(7)	2.0	19	2.9	17% below due higher-than-expected taxation
EPS (cts)	0.8	0.9	(7)	0.7	19	1.0	

Source: NRA Capital estimates

Major capital spenders planning in 2012 (US\$m)

2012F	Company	2011 (\$M)	2012F (\$M)	12/11 % Change	2012F/2011 (\$M)
1	Intel	10,764	12,500	16%	1,736
2	Samsung	11,755	13,100	11%	1,345
3	TSMC	7,333	8,250	13%	917
4	Hynix	3,165	3,680	16%	515
5	UMC	1,585	2,000	26%	415
6	Rohm	385	685	78%	300
—	Total	34,987	40,215	15%	5,228
—	Others	30,568	23,055	-25%	-7,513
—	WW Total	65,555	63,270	-3%	-2,285

Source: IC Insights, Company Reports

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Profit & Loss (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue	163.6	165.9	150.9	160.2	176.2
Operating expenses	(145.2)	(150.9)	(134.5)	(143.7)	(158.1)
EBITDA	18.4	15.1	16.4	16.5	18.1
Depreciation & amortisation	(2.7)	(2.2)	(1.8)	(1.8)	(1.9)
EBIT	15.6	12.8	14.6	14.6	16.2
Net interest & invt income	(1.4)	1.5	(0.2)	0.2	0.4
Associates' contribution	0.5	0.7	2.3	2.6	2.9
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	14.7	15.1	16.7	17.5	19.5
Tax	(4.0)	(4.0)	(4.2)	(4.4)	(4.9)
Minority interests	(2.4)	(2.7)	(2.0)	(2.1)	(2.3)
Net profit	8.3	8.4	10.5	11.0	12.4
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 (S\$ m, as at Dec)	2010	2011	2012F	2013F	2014F
Fixed assets	24.9	27.9	28.7	30.8	32.9
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	45.3	47.6	49.8
Cash and equivalents	29.0	28.4	40.4	47.3	54.8
Stocks	25.8	29.2	26.2	28.3	31.1
Trade debtors	42.5	36.7	33.4	35.4	39.0
Other current assets	0.6	0.0	0.0	0.0	0.0
Total current assets	97.8	94.3	100.0	111.0	124.9
Trade creditors	37.2	31.3	28.0	30.3	33.3
Short-term borrowings	16.8	11.1	12.1	11.2	10.6
Other current liabilities	2.1	1.6	4.1	4.3	4.9
Total current liabilities	56.1	43.9	44.2	45.8	48.8
Long-term borrowings	8.3	10.9	7.8	8.2	9.0
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	8.3	11.0	7.8	8.2	9.0
Shareholders' funds	68.9	77.8	85.3	94.5	104.6
Minority interests	5.6	6.0	8.0	10.1	12.4
NTA/share (S\$)	0.20	0.20	0.22	0.24	0.27
Total Assets	138.8	138.7	145.3	158.6	174.7
Total Liabilities + S'holders' funds	138.8	138.7	145.3	158.6	174.7
Cash Flow (S\$ m, FYE Dec)	2010	2011	2012F	2013F	2014F
Pretax profit	14.7	15.1	16.7	17.5	19.5
Depreciation & non-cash adjustments	4.2	3.6	1.0	2.5	2.2
Working capital changes	(5.0)	(9.7)	2.3	(2.7)	(4.1)
Cash tax paid	(2.5)	(4.5)	(1.6)	(4.2)	(4.4)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	11.4	4.5	18.4	13.1	13.2
Capex	(4.9)	(4.2)	(2.6)	(4.0)	(4.0)
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	(2.6)	(4.0)	(4.0)
Debt raised/(repaid)	2.6	(2.6)	(2.1)	(0.4)	0.1
Equity raised/(repaid)	5.4	0.0	0.0	0.0	0.0
Dividends paid	0.0	(1.5)	(1.5)	(1.8)	(1.8)
Cash interest & others	(0.3)	(2.5)	(0.1)	(0.1)	(0.1)
Cash flow from financing	7.6	(6.6)	(3.7)	(2.3)	(1.7)
Change in cash	10.3	(0.1)	12.0	6.8	7.5
Change in net cash/(debt)	7.8	2.5	14.2	7.3	7.4
Ending net cash/(debt)	3.9	6.4	20.6	27.9	35.2
KEY RATIOS (FYE Dec)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	53.4	1.4	(9.0)	6.1	10.0
EBITDA growth (%)	113.8	(18.0)	9.0	0.3	10.0
Pretax margins (%)	9.0	9.1	11.1	10.9	11.1
Net profit margins (%)	5.1	5.1	7.0	6.9	7.0
Interest cover (x)	16.0	14.1	17.8	19.0	21.0
Effective tax rates (%)	27.4	26.6	25.0	25.0	25.0
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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