

## Singapore

**ADD** (no change)

Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.52
Target price:	S\$0.61
Previous target:	S\$0.61
Up/downside:	17.3%
CGS-CIMB / Consensus:	0.0%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$169.0m
	S\$228.1m
Average daily turnover:	US\$0.93m
	S\$1.24m
Current shares o/s:	435.3m
Free float:	54.2%

\*Source: Bloomberg

**Key changes in this note**

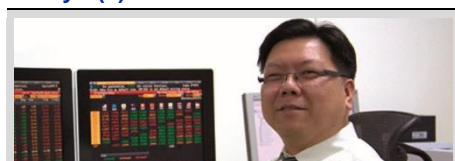
- FY23-24F EPS forecasts unchanged despite lower FY23-24F revenue forecasts as we think ISDN will manage its operating costs diligently.
- FY25F forecasts introduced.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-8.8	26.8	-20
Relative (%)	-4.9	26.2	-19

Major shareholders	% held
Teo Cher Koon	32.2
NTCP SPV VI	8.6

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# ISDN Holdings Ltd

## FY22 hurt by FX

- FY22 revenue was broadly in line with expectations at 97% of our full-year forecast, but net profit missed expectations at 74% of our full-year forecast.
- A lower final dividend of 0.80 Scts (FY21: 1.45 Scts) was announced.
- Reiterate Add. Attaining commercial operation dates (COD) for its remaining hydropower plants, Anggoci and Sisira, could be re-rating catalyst in FY23F.

**FY22 revenue in line, but net profit missed expectations**

ISDN's FY22 revenue fell 15.8% yoy to S\$370.8m, in line at 97% of our full-year forecast. FY22 net profit fell 42.6% yoy to S\$14.6m, from S\$25.5m in FY21. Excluding foreign exchange loss of S\$4.9m, net profit would have been in line at 98% of our full-year forecast. The Fx loss was due to the Rmb depreciation against US\$/S\$ and the Indonesian Rupiah against the US\$. Finance costs were also higher by S\$2.0m (+136% yoy) in FY22 due to project financing costs for its mini hydropower plants in Indonesia and the higher interest rate. A lower final dividend of 0.80 Scts (FY21: 1.45 Scts) was declared.

**Remaining hydropower plants to achieve COD in FY23F**

ISDN currently has two other mini hydropower plants in North Sumatra, Indonesia, namely Anggoci (10MW capacity) and Sisira (4.6MW capacity), which were successfully commissioned in Sep 2021. In its FY22 results statement, ISDN guided for these two plants to also achieve COD in FY23F. For its core industrial automation business, ISDN believes long-term prospects remain strong as it believes industrial automation is a key strategy in China's economic planning.

**Reiterate Add; TP unchanged at S\$0.61**

We lower FY23-24F revenue forecasts by 4.1-5.1% to account for the weaker economic outlook but net profit forecasts are unchanged as we think ISDN will manage its costs diligently in light of the difficult macro environment. ISDN remains confident that industrial automation will still see strong demand given labour shortages. Our TP of S\$0.61 is based on an unchanged 8.9x P/E multiple (5-year average). Potential rerating catalyst is higher-than-expected net profit contribution to ISDN from its hydropower business segment. Maintain Add. Downside risks are the emergence of new Covid-19 strains which could bring back lockdowns, weak customer demand as the global economy slows, the possibility of bad debts as economic conditions worsen, and failure to achieve COD for Anggoci.

**Financial Summary**

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	440.1	370.8	396.8	426.7	445.1
Net Profit (S\$m)	25.49	14.62	26.01	30.26	33.11
Core EPS (S\$)	0.058	0.033	0.059	0.069	0.075
Core EPS Growth	19.0%	(42.6%)	77.9%	16.3%	9.4%
FD Core P/E (x)	8.92	15.60	8.77	7.54	6.89
Price To Sales (x)	0.52	0.62	0.57	0.53	0.51
DPS (S\$)	0.015	0.008	0.015	0.017	0.019
Dividend Yield	2.79%	1.54%	2.85%	3.32%	3.63%
EV/EBITDA (x)	5.16	6.82	4.49	3.75	3.07
P/FCFE (x)	16.53	7.59	7.21	7.30	5.75
Net Gearing	(8.7%)	(9.3%)	(18.4%)	(24.9%)	(31.2%)
P/BV (x)	1.16	1.15	1.05	0.95	0.86
ROE	13.9%	7.4%	12.5%	13.2%	13.1%
% Change In Core EPS Estimates			0.000%	0.000%	
CGS-CIMB/Consensus EPS (x)			1.01	1.00	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS





## ESG in a nutshell

ISDN focuses on the motion control industry and provides the full spectrum of integrated precision engineering services from conceptualisation, design and development to prototyping, production, sales and marketing and after-sales engineering support. The group is also involved in mini-hydropower projects in Indonesia. Through its role in industrial automation, ISDN aims to help drive efficiency to save energy and reduce the environmental impact of a multitude of industries.

### Keep your eye on

The group's mini-hydropower plant project in Indonesia helps offset carbon emissions and mitigate climate change. The mini-hydropower plants target remote and rural areas in Indonesia, generating clean energy and job opportunities.

### Implications

ISDN's mini-hydropower plants have faced delays due to the Covid-19 pandemic. Two of these plants have been operational since end-3Q21, while another plant is scheduled to be completed by FY22F. Mini-hydropower earnings represent an upside earnings risk as we have not factored them into our projections.

### ESG highlights

At end-FY21, ISDN employed more than 1,050 employees in over 50 locations throughout Asia Pacific. ISDN has an established whistle-blowing policy which allows the whistle-blower direct access to their superiors, any of the group's managing director and president, or the chairman of the audit committee.

### Implications

The large number of subsidiaries in various geographies could pose an operational risk. In 2018, ISDN's Beijing subsidiary was served a writ of summons alleging that its ex-employee had borrowed monies for which the Beijing subsidiary has acted as a guarantor. Ineffective risk control could pose financial and reputational risks to ISDN.

### Trends

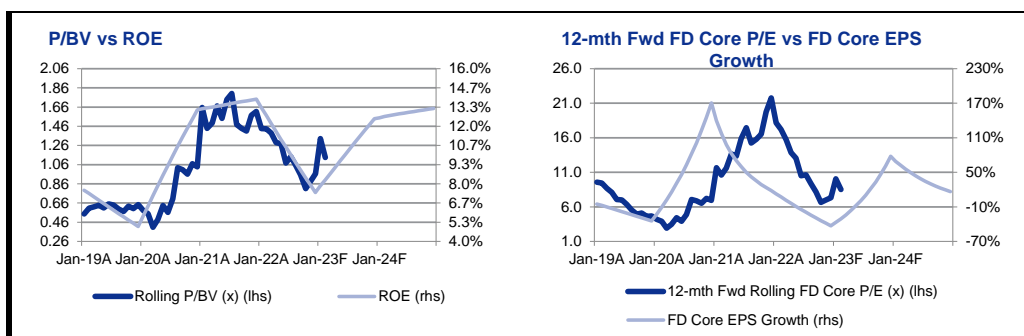
Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

### Implications

ISDN provides equal opportunities for employees in respect of recruitment, training and development, job advancement, and remuneration and benefits as per management. According to management, the group does not discriminate on the basis of gender, ethnicity, religion, colour, age, marital status, family status, pregnancy or any other discrimination prohibited by applicable laws. In addition to the basic wage package, ISDN also provides benefits and welfare such as severance pay, mandatory/central provident fund, employment compensation insurance, medical insurance, unlimited reimbursements for doctor visits, annual leave, sick leave, additional remuneration and benefits to reward and recognise performing employees such as performance-based bonus, commissions and variable annual bonuses. Based on the different job duties of employees, local travelling (parking and petrol inclusive) allowance, mobile phone allowance, overseas travelling and meals allowance, and overtime taxi claim are included in the total remuneration and benefits package for employees.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>440.1</b>	<b>370.8</b>	<b>396.8</b>	<b>426.7</b>	<b>445.1</b>
<b>Gross Profit</b>	<b>125.2</b>	<b>110.7</b>	<b>121.4</b>	<b>130.5</b>	<b>139.4</b>
<b>Operating EBITDA</b>	<b>48.7</b>	<b>35.8</b>	<b>50.2</b>	<b>55.7</b>	<b>60.7</b>
Depreciation And Amortisation	(4.8)	(4.9)	(5.2)	(5.5)	(5.9)
<b>Operating EBIT</b>	<b>43.9</b>	<b>30.9</b>	<b>45.0</b>	<b>50.2</b>	<b>54.9</b>
Financial Income/(Expense)	(1.1)	(3.1)	(3.2)	(2.1)	(1.8)
Pretax Income/(Loss) from Assoc.	1.1	1.2	0.5	0.5	0.5
Non-Operating Income/(Expense)	8.6	3.0	5.0	5.0	1.0
<b>Profit Before Tax (pre-EI)</b>	<b>52.5</b>	<b>32.0</b>	<b>47.3</b>	<b>53.6</b>	<b>54.6</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>52.5</b>	<b>32.0</b>	<b>47.3</b>	<b>53.6</b>	<b>54.6</b>
Taxation	(13.4)	(8.9)	(12.1)	(13.7)	(14.0)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>39.1</b>	<b>23.1</b>	<b>35.2</b>	<b>39.9</b>	<b>40.6</b>
Minority Interests	(13.6)	(8.5)	(9.2)	(9.6)	(7.5)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>25.5</b>	<b>14.6</b>	<b>26.0</b>	<b>30.3</b>	<b>33.1</b>
Recurring Net Profit	25.5	14.6	26.0	30.3	33.1
<b>Fully Diluted Recurring Net Profit</b>	<b>25.5</b>	<b>14.6</b>	<b>26.0</b>	<b>30.3</b>	<b>33.1</b>

### Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>48.65</b>	<b>35.76</b>	<b>50.22</b>	<b>55.71</b>	<b>60.73</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(28.76)	13.67	(0.93)	(6.37)	(3.02)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2.80	2.60	2.70	2.70	2.70
Net Interest (Paid)/Received	(1.08)	(3.08)	(3.23)	(2.06)	(1.80)
Tax Paid	(12.85)	(9.53)	(12.11)	(13.73)	(13.97)
<b>Cashflow From Operations</b>	<b>8.77</b>	<b>39.41</b>	<b>36.65</b>	<b>36.25</b>	<b>44.64</b>
Capex	(6.84)	(2.28)	(5.00)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	0.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	5.35	0.28	0.00	0.00	0.00
<b>Cash Flow From Investing</b>	<b>(1.49)</b>	<b>(2.01)</b>	<b>(5.00)</b>	<b>(5.00)</b>	<b>(5.00)</b>
Debt Raised/(repaid)	6.47	(7.36)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(10.33)	(17.40)	(6.50)	(7.57)	(8.28)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	4.83	(0.19)	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>0.97</b>	<b>(24.95)</b>	<b>(6.50)</b>	<b>(7.57)</b>	<b>(8.28)</b>
Total Cash Generated	8.24	12.45	25.14	23.68	31.36
<b>Free Cashflow To Equity</b>	<b>13.75</b>	<b>30.04</b>	<b>31.65</b>	<b>31.25</b>	<b>39.64</b>
<b>Free Cashflow To Firm</b>	<b>8.75</b>	<b>40.89</b>	<b>35.28</b>	<b>33.61</b>	<b>41.74</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

## BY THE NUMBERS... cont'd

### Balance Sheet

(S\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	61.7	56.6	83.7	109.4	138.7
Total Debtors	118.5	101.1	113.1	121.6	126.8
Inventories	77.5	81.2	69.9	75.2	77.7
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>257.7</b>	<b>238.9</b>	<b>266.7</b>	<b>306.2</b>	<b>343.3</b>
Fixed Assets	67.7	63.2	63.1	62.5	61.7
Total Investments	5.3	6.3	6.8	7.3	7.8
Intangible Assets	12.2	12.2	12.2	12.2	12.2
Total Other Non-Current Assets	72.3	79.8	79.8	79.8	79.8
<b>Total Non-current Assets</b>	<b>157.5</b>	<b>161.5</b>	<b>161.8</b>	<b>161.8</b>	<b>161.4</b>
Short-term Debt	27.4	23.8	23.8	23.8	23.8
Current Portion of Long-Term Debt					
Total Creditors	96.9	95.1	94.6	101.7	106.1
Other Current Liabilities	25.9	23.3	23.3	23.3	23.3
<b>Total Current Liabilities</b>	<b>150.2</b>	<b>142.2</b>	<b>141.6</b>	<b>148.8</b>	<b>153.2</b>
Total Long-term Debt	12.8	10.1	10.1	10.1	10.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5.3	5.5	5.5	5.5	5.5
<b>Total Non-current Liabilities</b>	<b>18.1</b>	<b>15.6</b>	<b>15.6</b>	<b>15.6</b>	<b>15.6</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>168.3</b>	<b>157.8</b>	<b>157.2</b>	<b>164.4</b>	<b>168.8</b>
Shareholders' Equity	197.1	197.8	217.3	240.0	264.9
Minority Interests	49.8	44.8	53.9	63.6	71.1
<b>Total Equity</b>	<b>247.0</b>	<b>242.6</b>	<b>271.3</b>	<b>303.6</b>	<b>336.0</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	21.6%	(15.8%)	7.0%	7.5%	4.3%
Operating EBITDA Growth	26.0%	(26.5%)	40.4%	10.9%	9.0%
Operating EBITDA Margin	11.1%	9.6%	12.7%	13.1%	13.6%
Net Cash Per Share (S\$)	0.05	0.05	0.11	0.17	0.24
BVPS (S\$)	0.45	0.45	0.50	0.55	0.60
Gross Interest Cover	29.72	8.87	12.39	21.27	26.13
Effective Tax Rate	25.6%	27.9%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	5.69%	5.47%	5.70%	5.70%	5.70%
Accounts Receivables Days	91.8	108.1	98.5	100.6	101.8
Inventory Days	77.1	111.4	100.2	89.7	91.3
Accounts Payables Days	105.0	134.7	125.7	121.3	124.0
ROIC (%)	23.5%	13.7%	20.5%	22.8%	24.2%
ROCE (%)	16.5%	11.1%	15.6%	15.7%	15.6%
Return On Average Assets	10.4%	6.4%	9.3%	9.4%	8.7%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Motion control rev growth (%)	28.3%	-18.0%	6.5%	10.0%	3.0%
Gross profit margin (%)	27.4%	28.6%	29.3%	29.3%	30.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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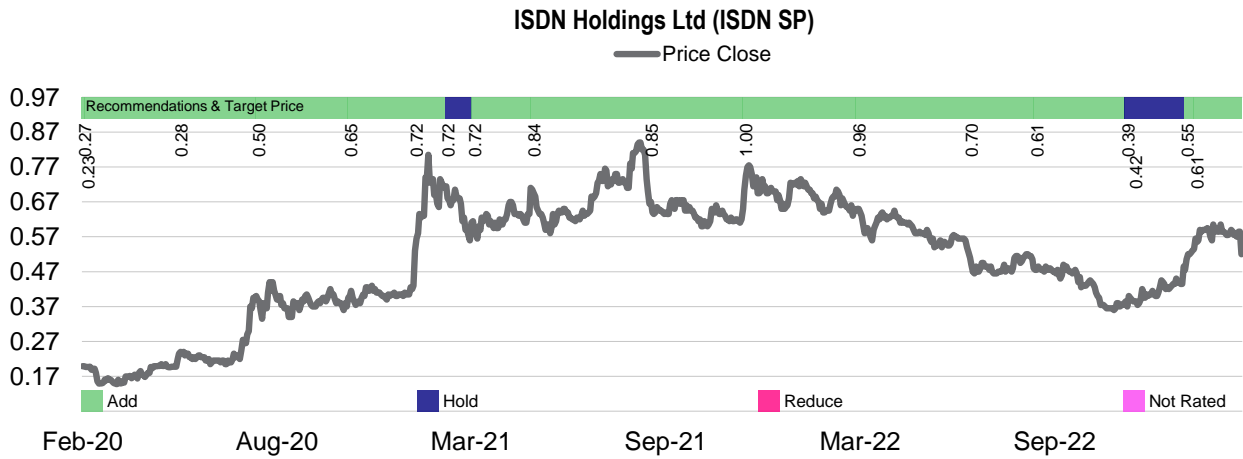
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2022		
645 companies under coverage for quarter ended on 31 December 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	64.8%	1.1%
Hold	27.0%	0.3%
Reduce	8.2%	0.0%

Spitzer Chart for stock being researched ( 2 year data )



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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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