

Singapore

ADD (previously HOLD)

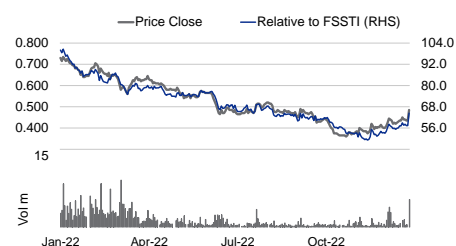
Consensus ratings*: Buy 0 Hold 1 Sell 0

Current price:	S\$0.485
Target price:	S\$0.55
Previous target:	S\$0.42
Up/downside:	13.4%
CGS-CIMB / Consensus:	31.0%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$158.9m
	S\$212.7m
Average daily turnover:	US\$0.24m
	S\$0.33m
Current shares o/s:	435.3m
Free float:	54.2%

*Source: Bloomberg

Key changes in this note

- FY23-24F revenue increased by 1.2%.
- FY23-24F EPS increased by 11.1%.
- Rollover to FY24F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	19.8	12.8	-32.6
Relative (%)	20.2	8.3	-36.2

Major shareholders

	% held
Teo Cher Koon	32.2
NTCP SPV VI	8.6

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ISDN Holdings Ltd

First 10MW hydropower plant obtains COD

- ISDN announced that its first mini hydropower plant has achieved COD and expects meaningful contributions from this plant in FY23F.
- As China reopens, we think business activities should also pick up for ISDN from 2Q23F onwards as China rides out the Covid-19 wave in 1Q23F.
- With its hydropower business contributing over FY23-24F and resumption of activities in China, we upgrade ISDN to an Add as we also rollover to FY24F.

Lau Biang 1 (LB1) receives COD

ISDN announced that its first mini hydropower plant, LB1 (10MW capacity), has received the commercial operation date (COD) as of 31 Dec 2022. In its public filing, ISDN also commented that it expects meaningful contributions from this plant for FY23F. The company has also revealed that more details will be disclosed through an investor briefing in due course. To recap, ISDN currently has a portfolio of three mini hydropower plants in North Sumatra, Indonesia. Anggoci (10MW capacity) and Sisira (4.6MW capacity) were successfully commissioned in Sep 2021. Anggoci and Sisira faced delays in obtaining CODs due to regulatory changes. We are hopeful that these two plants could finally achieve COD within 1H23F.

Covid-19 disruptions tailing off

In China, there are two positive developments for ISDN. First, China is now shifting its focus to the economy after three years of prioritising the management of the Covid-19 pandemic. Second, starting 8 Jan 2023, China will also downgrade Covid-19 to a Class B infection and largely eliminate quarantine and movement control measures. This will allow further resumption of business activities in China though there will be an impact from the initial wave of infections as restrictions are dismantled which could affect activities. Hence, operationally we expect sequential improvement for ISDN starting from 2Q23F.

Rolling over to FY24F

Pending updates from ISDN through a planned investor briefing (date has not been fixed) as publicly announced by the company, we interpret meaningful contribution to mean 5-10% of net profit and assume that Lau Biang 1 could add an incremental 10% to our FY23-24F net profit forecasts. Hence, our FY23-24F EPS forecasts are raised by 11.1%. Rolling over to FY24F (previously FY23F), our TP increases to S\$0.55 based on 8.9x (5-year average P/E multiple). Previously the 5-year average P/E multiple was 8.6x. We upgrade ISDN to an Add as its hydropower earnings commence contribution to its bottomline and business prospects improve from 2Q23F. Re-rating catalyst is higher-than-expected net profit contribution to ISDN from its hydropower business segment. Downside risks are the emergence of new Covid-19 strains which could bring back lockdowns, weak customer demand as the global economy slows and the possibility of bad debts as economic conditions worsens.

Financial Summary

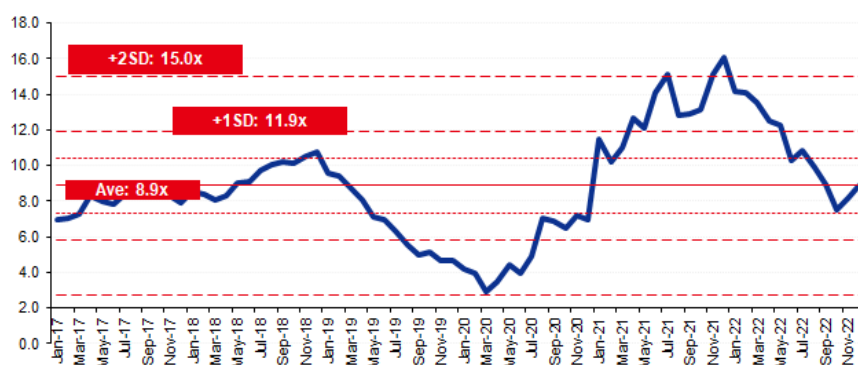
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	361.9	440.1	382.7	409.1	439.7
Net Profit (S\$m)	15.14	25.49	19.79	24.03	27.10
Core EPS (S\$)	0.049	0.058	0.045	0.055	0.062
Core EPS Growth	180%	19%	(22%)	21%	13%
FD Core P/E (x)	9.86	8.32	10.75	8.85	7.85
Price To Sales (x)	0.58	0.48	0.56	0.52	0.48
DPS (S\$)	0.008	0.015	0.011	0.014	0.015
Dividend Yield	1.65%	2.99%	2.33%	2.82%	3.18%
EV/EBITDA (x)	5.86	4.84	5.24	4.21	3.50
P/FCFE (x)	7.77	15.42	5.43	8.23	7.54
Net Gearing	(12.3%)	(8.7%)	(21.3%)	(26.7%)	(31.4%)
P/BV (x)	1.24	1.08	1.00	0.92	0.85
ROE	13.1%	13.9%	9.7%	10.9%	11.3%
% Change In Core EPS Estimates			0.0%	11.1%	11.1%
CGS-CIMB/Consensus EPS (x)			1.07	1.19	1.19

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revision

(\$m)	Old			New			Chg (%)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	382.7	404.1	434.7	382.7	409.1	439.7	0.0	1.2	1.2
Gross profit	108.7	115.2	124.3	108.7	118.6	127.5	0.0	3.0	2.6
Operating expenses	(74.2)	(77.9)	(81.8)	(74.2)	(77.9)	(81.8)	0.0	0.0	0.0
Net profit	19.8	21.6	24.4	19.8	24.0	27.1	0.0	11.1	11.1
								% pts	
Gross profit margin (%)	28.4	28.5	28.6	28.4	29.0	29.0	0.0	0.5	0.4
Net profit margin (%)	5.2	5.4	5.6	5.2	5.9	6.2	0.0	0.5	0.6

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: ISDN Holdings Ltd 12-month Forward Rolling P/E (x)


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 3: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (cl curr)	Target Price (cl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY22F	CY23F		CY22F	CY23F		
ISDN Holdings Ltd	ISDN SP	Add	0.49	0.55	159	10.8	8.9	2.1%	1.00	0.92	9.4%	2.3%
AEM Holdings Ltd	AEM SP	Add	3.46	3.76	798	8.2	8.9	7.2%	2.13	1.81	29.6%	3.1%
Aztech Global Ltd	AZTECH SP	Add	0.82	0.96	473	7.3	6.6	7.9%	1.88	1.65	28.4%	7.1%
Frencken Group Ltd	FRKN SP	Reduce	0.98	0.95	313	8.3	7.6	-1.1%	1.01	0.92	12.8%	3.6%
Grand Venture Technology Ltd	GVTL SP	Reduce	0.52	0.40	132	12.4	12.4	-8.5%	1.52	1.39	13.3%	1.6%
Nanofilm Technologies Int'l Ltd	NANO SP	Hold	1.38	1.37	678	16.5	12.7	10.1%	1.93	1.73	12.3%	1.5%
UMS Holdings Ltd	UMSH SP	Add	1.21	1.57	605	7.5	7.8	29.6%	2.30	1.92	35.0%	4.1%
Vicplas International Ltd	VPS SP	Add	0.19	0.27	73	9.6	7.7	11.5%	1.18	1.06	13.1%	2.7%
Venture Corporation	VMS SP	Add	17.07	19.62	3,711	13.7	13.3	5.2%	1.73	1.65	13.2%	4.4%
Simple average excluding ISDN						10.4	9.6	7.7%	1.71	1.52	19.7%	3.5%

 SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
 DATA AS AT 4 JAN 2023



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 the remote and rural areas in Indonesia, generating clean energy and job opportunities.

Implications

ISDN's mini-hydropower plants face 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 upside earnings risk as we have not factored them into our projections.

ESG highlights

At end-FY21, ISDN employs 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.

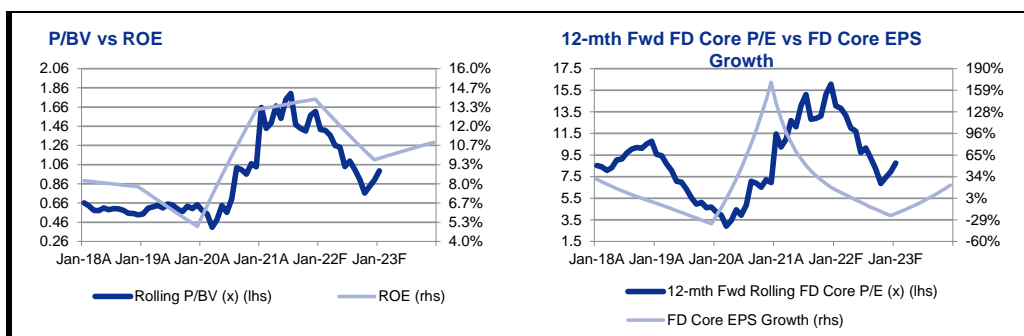
Trends

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-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	361.9	440.1	382.7	409.1	439.7
Gross Profit	99.7	125.2	113.8	124.1	133.3
Operating EBITDA	38.6	48.7	39.6	46.2	51.5
Depreciation And Amortisation	(4.1)	(4.8)	(5.1)	(5.4)	(5.8)
Operating EBIT	34.5	43.9	34.5	40.7	45.7
Financial Income/(Expense)	(1.4)	(1.1)	(1.6)	(1.6)	(1.8)
Pretax Income/(Loss) from Assoc.	1.0	1.1	0.7	0.5	0.5
Non-Operating Income/(Expense)	4.0	8.6	4.8	5.0	5.0
Profit Before Tax (pre-EI)	38.1	52.5	38.4	44.6	49.4
Exceptional Items	(6.1)	0.0	0.0	0.0	0.0
Pre-tax Profit	32.0	52.5	38.4	44.6	49.4
Taxation	(9.5)	(13.4)	(9.8)	(11.4)	(12.7)
Exceptional Income - post-tax					
Profit After Tax	22.5	39.1	28.6	33.2	36.8
Minority Interests	(7.4)	(13.6)	(8.8)	(9.2)	(9.7)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15.1	25.5	19.8	24.0	27.1
Recurring Net Profit	21.3	25.5	19.8	24.0	27.1
Fully Diluted Recurring Net Profit	21.3	25.5	19.8	24.0	27.1

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	38.62	48.65	39.63	46.18	51.50
Cash Flow from Inv. & Assoc.					
Change In Working Capital	23.44	(28.76)	13.41	(5.01)	(6.55)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(21.86)	2.80	2.60	2.70	2.70
Net Interest (Paid)/Received	(1.43)	(1.08)	(1.60)	(1.60)	(1.80)
Tax Paid	(8.19)	(12.85)	(9.84)	(11.43)	(12.65)
Cashflow From Operations	30.58	8.77	44.20	30.84	33.20
Capex	(10.51)	(6.84)	(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	4.42	5.35	0.00	0.00	0.00
Cash Flow From Investing	(6.09)	(1.49)	(5.00)	(5.00)	(5.00)
Debt Raised/(repaid)	2.51	6.47	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	(5.74)	(10.33)	(4.95)	(6.01)	(6.78)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	(0.32)	4.83	0.00	0.00	0.00
Cash Flow From Financing	(3.56)	0.97	(4.95)	(6.01)	(6.78)
Total Cash Generated	20.94	8.24	34.25	19.83	21.43
Free Cashflow To Equity	27.00	13.75	39.20	25.84	28.20
Free Cashflow To Firm	26.23	8.75	41.20	27.84	30.30

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	58.5	61.7	97.7	119.6	143.0
Total Debtors	103.0	118.5	109.1	116.6	125.3
Inventories	55.6	77.5	68.3	72.4	77.8
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	217.0	257.7	275.1	308.5	346.1
Fixed Assets	61.6	67.7	67.6	67.1	66.4
Total Investments	5.8	5.3	6.0	6.5	7.0
Intangible Assets	12.2	12.2	12.2	12.2	12.2
Total Other Non-Current Assets	61.4	72.3	72.3	72.3	72.3
Total Non-current Assets	141.0	157.5	158.1	158.2	157.9
Short-term Debt	22.1	27.4	27.4	27.4	27.4
Current Portion of Long-Term Debt					
Total Creditors	84.4	96.9	91.2	97.5	104.8
Other Current Liabilities	22.6	25.9	25.9	25.9	25.9
Total Current Liabilities	129.1	150.2	144.5	150.8	158.1
Total Long-term Debt	9.6	12.8	12.8	12.8	12.8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1.7	5.3	5.3	5.3	5.3
Total Non-current Liabilities	11.3	18.1	18.1	18.1	18.1
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	140.4	168.3	162.6	168.9	176.2
Shareholders' Equity	170.0	197.1	212.0	230.0	250.3
Minority Interests	47.6	49.8	58.6	67.8	77.5
Total Equity	217.6	247.0	270.6	297.8	327.8

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	24.4%	21.6%	(13.0%)	6.9%	7.5%
Operating EBITDA Growth	48.8%	26.0%	(18.5%)	16.5%	11.5%
Operating EBITDA Margin	10.7%	11.1%	10.4%	11.3%	11.7%
Net Cash Per Share (S\$)	0.06	0.05	0.13	0.18	0.23
BVPS (S\$)	0.39	0.45	0.48	0.52	0.57
Gross Interest Cover	19.90	29.72	17.26	20.37	21.77
Effective Tax Rate	29.7%	25.6%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	3.76%	5.69%	5.70%	5.70%	5.70%
Accounts Receivables Days	98.8	91.8	108.5	100.7	100.7
Inventory Days	75.96	77.14	98.98	90.12	89.73
Accounts Payables Days	105.2	105.0	127.7	120.9	120.8
ROIC (%)	20.6%	23.5%	15.3%	19.2%	21.1%
ROCE (%)	14.6%	16.5%	11.7%	12.7%	13.0%
Return On Average Assets	9.2%	10.4%	7.1%	7.7%	7.9%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Motion control rev growth (%)	20.2%	28.3%	-17.0%	6.5%	10.0%
Gross profit margin (%)	26.4%	27.4%	28.4%	29.0%	29.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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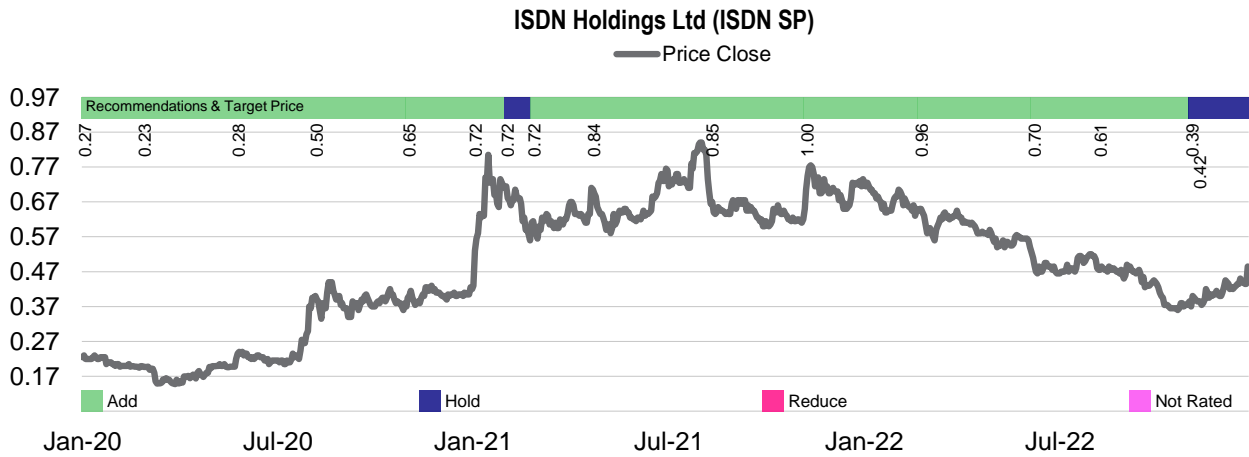
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646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Add The stock's total return is expected to exceed 10% over the next 12 months.

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