

## Singapore

**HOLD** (no change)

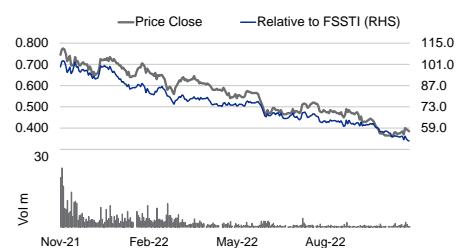
Consensus ratings\*: Buy 0 Hold 1 Sell 0

Current price:	S\$0.385
Target price:	S\$0.42
Previous target:	S\$0.39
Up/downside:	9.1%
CGS-CIMB / Consensus:	7.7%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$123.4m
	S\$168.9m
Average daily turnover:	US\$0.15m
	S\$0.21m
Current shares o/s:	435.3m
Free float:	54.2%

\*Source: Bloomberg

**Key changes in this note**

- FY22-24F revenue raised by 1.8-1.9%.
- FY22-24F EPS forecast increased by 7.5-7.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.5	-19	-48.3
Relative (%)	-10	-19.4	-49.1

**Major shareholders**

	% held
Teo Cher Koon	32.2
NTCP SPV VI	8.6

**Analyst(s)**

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# ISDN Holdings Ltd

## 3Q22 better-than-expected

- 3Q22 revenue (S\$95.8m, -10.2% yoy, -0.2% qoq) was 5.0% above our S\$91.2m forecast. 9M22 revenue formed 76.2% of our full-year forecast.
- 3Q22 net profit (S\$4.5m, -47.7% yoy, -3.2% qoq) was 50.0% above our S\$3.0m forecast. 9M22 net profit formed 84.8% of our full-year forecast.
- We reiterate our Hold call with a higher TP of S\$0.42.

### 3Q22 revenue/net profit declined yoy but stabilised qoq

3Q22 revenue fell by 10.2% yoy and 0.2% qoq to S\$95.8m, due to headwinds in cyclical industries in China (e.g. electronics, automotive) and weaker Rmb to US\$/S\$ exchange rates. 3Q22 revenue of S\$95.8m was 5.0% above our full-year expectation while 9M22 revenue formed 76.2% of our full-year forecast. Gross profit margin was maintained at 28.6%, similar to 3Q21. PBT margin declined 4.1% pts yoy to 10.6% in 3Q22. Net profit slumped 47.7% yoy to S\$4.5m in 3Q22, which was 50.0% above our S\$3.0m forecast. We think the outperformance was due to smaller than feared unrealised foreign exchange losses (no detailed financials were disclosed). 9M22 net profit formed 84.8% of our full-year expectations. ISDN's 11.5% yoy revenue decline to S\$286.5m in 9M22 was attributed to: (1) inventory stock ups by customers to offset supply chain shortages; (2) supply and production disruptions in China due to its Covid-19 lockdowns; (3) cyclical downturn in certain segments of the semiconductor industry, machine tools, and industrial automation; and (4) renminbi depreciation against the Singapore dollar.

### Cautious in the near term, but optimistic for the long-term

ISDN expects stabilising cyclical factors in China as customers have less stock-up activity, coupled with improving component shortages for the automotive industry. The company guided that its long-term outlook hinges on China's Covid-19 lockdown policies and reopening activities which affects factory operations and the supply chain. In its 9M22 business update release, ISDN also commented that it thinks that the renminbi will stem its decline as China opens up its economy in the coming months. ISDN also sees growth in its non-Chinese operations' revenue which grew 22% yoy in 9M22 (no numbers were disclosed).

### Reiterate Hold with a higher TP of S\$0.42

Our TP is still based on 8.6x CY23F P/E, its 5-year average in FY18-22. Given the better-than-expected revenue performance, we raise our FY22-24F revenue forecasts by 1.8-1.9%, leading to a 7.5-7.8% increase in our EPS forecasts. Hence, we lift our TP to S\$0.42 from S\$0.39 previously. We reiterate our Hold call pending greater clarity on the reopening of its key China market (c.70% of FY21 revenue). Upside risks include potential profit contribution from its hydropower segment and faster-than-expected easing of China's Covid-19 policies/restrictions. Downside risks include a prolonged Covid-19 outbreak leading to travel restrictions, which affect ISDN's ability to service its customers.

**Financial Summary**

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	361.9	440.1	382.7	404.1	434.7
Net Profit (S\$m)	15.14	25.49	19.79	21.63	24.40
Core EPS (S\$)	0.049	0.058	0.045	0.049	0.056
Core EPS Growth	180%	19%	(22%)	9%	13%
FD Core P/E (x)	7.83	6.60	8.53	7.81	6.92
Price To Sales (x)	0.46	0.38	0.44	0.42	0.39
DPS (S\$)	0.008	0.015	0.011	0.012	0.014
Dividend Yield	2.08%	3.77%	2.93%	3.20%	3.61%
EV/EBITDA (x)	4.73	3.94	4.13	3.56	2.89
P/FCFE (x)	6.17	12.24	4.31	7.07	6.52
Net Gearing	(12.3%)	(8.7%)	(21.3%)	(26.4%)	(30.8%)
P/BV (x)	0.99	0.86	0.80	0.74	0.69
ROE	13.1%	13.9%	9.7%	9.8%	10.3%
% Change In Core EPS Estimates			7.82%	7.64%	7.46%
CGS-CIMB/Consensus EPS (x)			1.07	1.07	1.07

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: Results summary (\$ m)**

	yoy			qoq		Comments
	3Q22	3Q21	chg (%)	2Q22	chg (%)	
Revenue	95.77	106.66	-10.2%	95.99	-0.2%	Above our S\$91.2m expectation by 5.0%. 9M22 revenue formed 76.2% of our full-year expectation (no Bloomberg consensus). Revenue declined yoy due to headwinds in cyclical industries in China and weaker Rmb.
Gross profit	27.36	30.52	-10.4%	27.64	-1.0%	
Operating expenses*	(18.58)	(17.46)	6.4%	(19.48)	-4.6%	
Profit before tax	10.17	15.76	-35.4%	9.91	2.6%	
Tax expenses	(2.48)	(3.70)	-33.0%	(2.35)	5.2%	
Profit after tax	7.70	12.06	-36.2%	7.56	1.8%	
Minority interest	(3.20)	(3.46)	-7.4%	(2.91)	9.8%	
Net profit	4.50	8.60	-47.7%	4.65	-3.2%	Above our S\$3.0m expectation by 50.0%. 9M22 net profit formed 84.8% of our full-year forecast. We think the better-than-expected net profit performance could be due to lesser than feared unrealised foreign exchanges loss (detailed financials were not disclosed) as well as lesser minority interest leakage as ISDN raised its stakes in some subsidiaries.
			<u>% pts</u>		<u>% pts</u>	
Gross profit margin (%)	28.56	28.61	-4.8%	28.79	-22.7%	Margin was relatively stable as ISDN strived to achieve a better product mix in favour of better margin products.
Profit before tax margin (%)	10.62	14.77	(4.15)	10.33	0.29	
Net profit margin (%)	4.70	8.07	(3.37)	4.84	(0.14)	
Tax rate (%)	24.34	23.46	0.87	23.74	0.60	

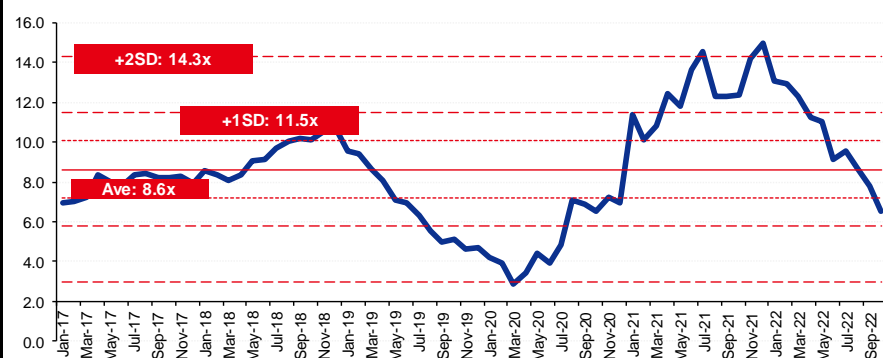
\*Operating expenses = distribution costs & admin exp

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 2: Earnings revision**

(\$m)	Old			New			Chg (%)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	375.9	396.8	426.7	382.7	404.1	434.7	1.8	1.8	1.9
Gross profit	106.8	113.1	122.0	108.7	115.2	124.3	1.8	1.8	1.9
Operating expenses	(74.2)	(77.9)	(81.8)	(74.2)	(77.9)	(81.8)	0.0	0.0	0.0
Net profit	18.4	20.1	22.7	19.8	21.6	24.4	7.8	7.6	7.5
								<u>% pts</u>	
Gross profit margin (%)	28.4	28.5	28.6	28.4	28.5	28.6	0.0	0.0	0.0
Net profit margin (%)	4.9	5.1	5.3	5.2	5.4	5.6	0.3	0.3	0.3

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 3: 12-month forward rolling P/E (x)**


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 4: 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	Hold	0.39	0.42	125	8.6	7.9	-2.2%	0.81	0.75	9.7%	2.9%
AEM Holdings Ltd	AEM SP	Add	3.62	3.76	817	8.5	9.3	7.2%	2.23	1.89	29.6%	2.9%
Aztech Global Ltd	AZTECH SP	Add	0.83	0.96	465	7.3	6.6	7.9%	1.89	1.66	28.4%	7.1%
Frencken Group Ltd	FRKN SP	Add	1.10	1.12	343	8.3	7.3	4.2%	1.12	1.01	14.5%	3.6%
Grand Venture Technology Ltd	GVTL SP	Reduce	0.52	0.40	128	12.3	12.3	-8.5%	1.51	1.37	13.3%	1.6%
Nanofilm Technologies Int'l Ltd	NANO SP	Hold	1.38	1.78	663	14.5	12.1	10.4%	1.90	1.70	14.1%	1.7%
UMS Holdings Ltd	UMSH SP	Add	1.20	1.57	587	7.4	7.7	29.6%	2.29	1.90	35.0%	4.2%
Vicplas International Ltd	VPS SP	Add	0.19	0.27	72	9.7	7.8	11.5%	1.20	1.07	13.1%	2.6%
Venture Corporation	VMS SP	Add	17.69	19.62	3,763	14.2	13.8	5.2%	1.80	1.71	13.2%	4.2%
<b>Simple average excluding ISDN</b>						<b>10.3</b>	<b>9.6</b>	<b>8.4%</b>	<b>1.74</b>	<b>1.54</b>	<b>20.2%</b>	<b>3.5%</b>
<b>Simple average excluding ISDN &amp; Nanofilm</b>						<b>9.7</b>	<b>9.3</b>	<b>3.3%</b>	<b>1.72</b>	<b>1.52</b>	<b>21.0%</b>	<b>3.8%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

DATA AS AT 16 NOV 2022



## 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 targets 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 employed more than 1,050 employees in over 50 locations throughout Asia-Pacific. ISDN has an established whistle-blowing policy that 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 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

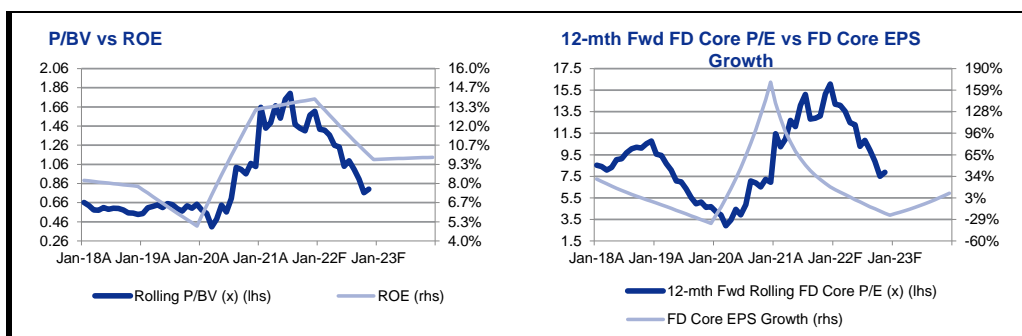
Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

### 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
<b>Total Net Revenues</b>	<b>361.9</b>	<b>440.1</b>	<b>382.7</b>	<b>404.1</b>	<b>434.7</b>
<b>Gross Profit</b>	<b>99.7</b>	<b>125.2</b>	<b>113.8</b>	<b>120.6</b>	<b>130.1</b>
<b>Operating EBITDA</b>	<b>38.6</b>	<b>48.7</b>	<b>39.6</b>	<b>42.7</b>	<b>48.3</b>
Depreciation And Amortisation	(4.1)	(4.8)	(5.1)	(5.4)	(5.8)
<b>Operating EBIT</b>	<b>34.5</b>	<b>43.9</b>	<b>34.5</b>	<b>37.3</b>	<b>42.5</b>
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
<b>Profit Before Tax (pre-EI)</b>	<b>38.1</b>	<b>52.5</b>	<b>38.4</b>	<b>41.2</b>	<b>46.2</b>
Exceptional Items	(6.1)	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>32.0</b>	<b>52.5</b>	<b>38.4</b>	<b>41.2</b>	<b>46.2</b>
Taxation	(9.5)	(13.4)	(9.8)	(10.5)	(11.8)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>22.5</b>	<b>39.1</b>	<b>28.6</b>	<b>30.6</b>	<b>34.4</b>
Minority Interests	(7.4)	(13.6)	(8.8)	(9.0)	(10.0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>15.1</b>	<b>25.5</b>	<b>19.8</b>	<b>21.6</b>	<b>24.4</b>
Recurring Net Profit	21.3	25.5	19.8	21.6	24.4
<b>Fully Diluted Recurring Net Profit</b>	<b>21.3</b>	<b>25.5</b>	<b>19.8</b>	<b>21.6</b>	<b>24.4</b>

### Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>EBITDA</b>	<b>38.62</b>	<b>48.65</b>	<b>39.63</b>	<b>42.71</b>	<b>48.32</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	23.44	(28.76)	13.41	(4.40)	(6.48)
(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)	(10.54)	(11.84)
<b>Cashflow From Operations</b>	<b>30.58</b>	<b>8.77</b>	<b>44.20</b>	<b>28.87</b>	<b>30.90</b>
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
<b>Cash Flow From Investing</b>	<b>(6.09)</b>	<b>(1.49)</b>	<b>(5.00)</b>	<b>(5.00)</b>	<b>(5.00)</b>
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)	(5.41)	(6.10)
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
<b>Cash Flow From Financing</b>	<b>(3.56)</b>	<b>0.97</b>	<b>(4.95)</b>	<b>(5.41)</b>	<b>(6.10)</b>
Total Cash Generated	20.94	8.24	34.25	18.47	19.80
<b>Free Cashflow To Equity</b>	<b>27.00</b>	<b>13.75</b>	<b>39.20</b>	<b>23.87</b>	<b>25.90</b>
<b>Free Cashflow To Firm</b>	<b>26.23</b>	<b>8.75</b>	<b>41.20</b>	<b>25.87</b>	<b>28.00</b>

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	118.2	140.0
Total Debtors	103.0	118.5	109.1	115.1	123.9
Inventories	55.6	77.5	68.3	72.0	77.4
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>217.0</b>	<b>257.7</b>	<b>275.1</b>	<b>305.4</b>	<b>341.2</b>
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
<b>Total Non-current Assets</b>	<b>141.0</b>	<b>157.5</b>	<b>158.1</b>	<b>158.2</b>	<b>157.9</b>
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	96.3	103.6
Other Current Liabilities	22.6	25.9	25.9	25.9	25.9
<b>Total Current Liabilities</b>	<b>129.1</b>	<b>150.2</b>	<b>144.5</b>	<b>149.6</b>	<b>156.9</b>
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
<b>Total Non-current Liabilities</b>	<b>11.3</b>	<b>18.1</b>	<b>18.1</b>	<b>18.1</b>	<b>18.1</b>
Total Provisions	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>140.4</b>	<b>168.3</b>	<b>162.6</b>	<b>167.7</b>	<b>175.0</b>
Shareholders' Equity	170.0	197.1	212.0	228.2	246.5
Minority Interests	47.6	49.8	58.6	67.6	77.6
<b>Total Equity</b>	<b>217.6</b>	<b>247.0</b>	<b>270.6</b>	<b>295.8</b>	<b>324.1</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	24.4%	21.6%	(13.0%)	5.6%	7.6%
Operating EBITDA Growth	48.8%	26.0%	(18.5%)	7.8%	13.1%
Operating EBITDA Margin	10.7%	11.1%	10.4%	10.6%	11.1%
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	0.56
Gross Interest Cover	19.90	29.72	17.26	18.63	20.25
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	101.3	100.6
Inventory Days	75.96	77.14	98.98	90.36	89.76
Accounts Payables Days	105.2	105.0	127.7	120.7	120.1
ROIC (%)	20.6%	23.5%	15.3%	17.6%	19.6%
ROCE (%)	14.6%	16.5%	11.7%	11.6%	12.2%
Return On Average Assets	9.2%	10.4%	7.1%	7.2%	7.5%

### 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%	28.5%	28.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



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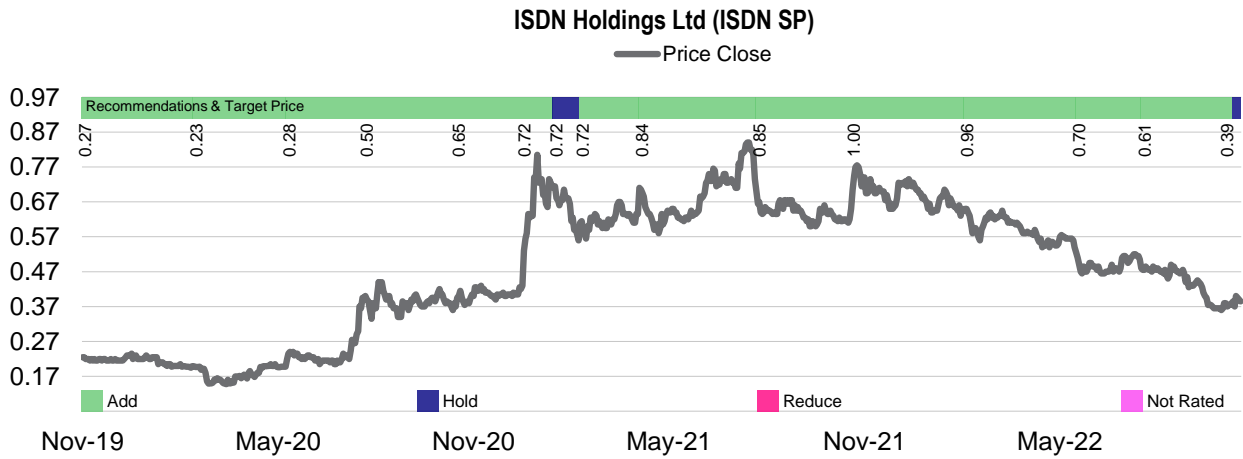
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646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



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**Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

**Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

**Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

**Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

**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.