

## Singapore

**HOLD** (previously ADD)

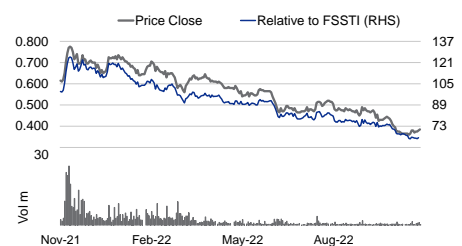
Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.385
Target price:	S\$0.39
Previous target:	S\$0.61
Up/downside:	1.3%
CGS-CIMB / Consensus:	-36.1%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$120.4m
	S\$168.9m
Average daily turnover:	US\$0.15m
	S\$0.20m
Current shares o/s:	435.3m
Free float:	54.2%

\*Source: Bloomberg

**Key changes in this note**

- FY23F EPS reduced by 13.5%.
- FY24F EPS reduced by 20.6%.
- FY25F EPS reduced by 20.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-12.5	-26	-37.4
Relative (%)	-12.5	-22.2	-34.4

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

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# ISDN Holdings Ltd

## 3Q22F net profit likely fell yoy

- We expect ISDN to provide its 3Q22F business update by 15 Nov 2022. We think revenue/net profit could fall by 14.5%/65.1% yoy (due to strong 3Q21).
- 3Q22F performance is likely to continue to be affected by China's ongoing Covid-19 lockdowns and unrealised foreign exchange losses.
- With the challenging economic conditions in China, we further reduce our FY23-24F forecasts and downgrade the stock to Hold.

### 3Q22 net profit likely fell yoy

We expect ISDN Holdings to issue its 3Q22F business update by 15 Nov 2022. We think 3Q22F revenue could fall by 14.5% yoy/5.0% qoq to S\$91.19m, due to the ongoing Covid-19 lockdowns in China (China business contributed 70% of ISDN's FY21 revenue). ISDN had its 1H22 revenue negatively affected by the mandatory Covid-19 lockdowns in China in 2Q22, which led to disruptions in inbound manufacturing components and materials as lockdowns stalled air and ground logistics networks. Disruptions to ISDN's workflow also occurred as its employees could not meet customers during that period. In addition, we note that the Rmb has weakened 5.86% against the US\$ and 2.92% against the S\$, while the Indonesian rupiah has weakened 2.17% against the US\$ in 3Q22. This will likely lead to unrealised foreign exchange losses in 3Q22F. In 1H20 and FY20, unrealised foreign exchange losses were S\$3.7m/S\$3.0m. According to ISDN's 1H22 results commentary, its foreign currency transactions are mainly denominated in Rmb and US\$, which could subject the group to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities that are denominated in Rmb. In 1H22, ISDN did not commit to any financial instruments to hedge its exposure to foreign currency risk. Its service concession receivables (mini-hydropower plants in Indonesia) will also face unrealised foreign exchange losses on translation with the weakening of the Indonesian rupiah against the US\$. We think 3Q22F net profit could fall 65.1% yoy/35.4% qoq to S\$3.0m.

### Outlook likely to remain challenging

We believe 4Q22F and FY23F outlook will remain challenging as some manufacturing exit China while others reduce their presence there. We reduce our FY22-24F revenue forecasts by 3.5-6.0%, leading to 13.5-20.6% reductions in EPS forecasts.

### Downgrade to Hold

With the uncertain economic outlook, we bring down our P/E peg to 8.6x, its 5-year average (FY18-22) on our reduced FY23F EPS forecast. Previously, we used 10.5x P/E (1 s.d. above the 5-year average P/E). Downgrade to Hold, pending China easing its zero-Covid policy in FY23F. Upside risks include potential profit contribution from its hydropower segment. 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	375.9	396.8	426.7
Net Profit (S\$m)	15.14	25.49	18.35	20.09	22.71
Core EPS (S\$)	0.049	0.058	0.042	0.046	0.052
Core EPS Growth	180%	19%	(28%)	9%	13%
FD Core P/E (x)	7.83	6.60	9.20	8.41	7.44
Price To Sales (x)	0.46	0.38	0.45	0.43	0.40
DPS (S\$)	0.008	0.015	0.010	0.011	0.013
Dividend Yield	2.08%	3.77%	2.72%	2.97%	3.36%
EV/EBITDA (x)	4.73	3.94	4.33	3.75	3.07
P/FCFE (x)	6.17	12.24	4.30	7.53	6.93
Net Gearing	(12.3%)	(8.7%)	(21.5%)	(26.4%)	(30.6%)
P/BV (x)	0.99	0.86	0.80	0.75	0.69
ROE	13.1%	13.9%	9.0%	9.2%	9.7%
% Change In Core EPS Estimates			(13.5%)	(20.6%)	(20.2%)
CGS-CIMB/Consensus EPS (x)			0.87	0.79	0.80

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revision

(S\$m)	Old			New			Chg (%)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	389.5	421.4	453.8	375.9	396.8	426.7	-3.5	-5.8	-6.0
Gross profit	110.6	120.1	129.8	106.8	113.1	122.0	-3.5	-5.8	-6.0
Operating expenses	(74.2)	(77.9)	(81.8)	(74.2)	(77.9)	(81.8)	0.0	0.0	0.0
Net profit	21.2	25.3	28.5	18.4	20.1	22.7	-13.5	-20.6	-20.2
Gross profit margin (%)	28.4	28.5	28.6	28.4	28.5	28.6	0.0	0.0	0.0
Net profit margin (%)	5.4	6.0	6.3	4.9	5.1	5.3	(0.6)	(0.9)	(1.0)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: China's Covid-19 lockdowns

	Jul-22	Aug-22	Sep-22
Shanghai	12-13 Jul (2 days)		
Wugang	11-18 Jul (8 days)		
Lanzhou	11-24 Jul (14 days)		
Gansu	11-17 Jul (7 days)		
Chengdu	17-22 Jul (6 days)		1-15 Sep (15 days)
Wuhan	27-29 Jul (3 days)		
Hainan		4-16 Aug (13 days)	
Urumqi		10-14 Aug (5 days)	
Yiwu		11-21 Aug (11 days)	
Dunhuang		13 Aug (1 day)	
Inner Mongolia		14-16 Aug (3 days)	
Tibet		14-21 Aug (8 days)	
Jiangzi		14-16 Aug (3 days)	
Huaqiangbei		29 Aug-1 Sep (4 days)	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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



**Figure 4: Peer comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl 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	0.39	120	9.2	8.4	-5.3%	0.80	0.75	9.2%	2.7%
AEM Holdings Ltd	AEM SP	Add	3.43	3.76	755	8.1	8.9	7.2%	2.12	1.79	29.6%	3.1%
Aztech Global Ltd	AZTECH SP	Add	0.86	0.96	473	7.6	6.9	7.9%	1.97	1.73	28.4%	6.8%
Frencken Group Ltd	FRKN SP	Add	0.91	1.12	277	6.9	6.0	4.2%	0.93	0.84	14.5%	4.3%
Grand Venture Technology Ltd	GVTL SP	Reduce	0.50	0.40	121	11.9	12.0	-8.5%	1.46	1.33	13.3%	1.7%
Nanofilm Technologies Int'l Ltd	NANO SP	Hold	1.42	1.78	665	15.0	12.5	10.4%	1.96	1.75	14.1%	1.7%
UMS Holdings Ltd	UMSH SP	Add	0.97	1.37	463	6.9	7.2	22.2%	1.93	1.65	31.6%	5.2%
Vicplas International Ltd	VPS SP	Add	0.19	0.27	70	9.7	7.8	11.5%	1.20	1.07	13.1%	2.6%
Venture Corporation	VMS SP	Add	17.21	19.62	3,571	13.8	13.4	5.2%	1.75	1.66	13.2%	4.4%
<b>Simple average excluding ISDN</b>						<b>10.0</b>	<b>9.3</b>	<b>7.5%</b>	<b>1.66</b>	<b>1.48</b>	<b>19.7%</b>	<b>3.7%</b>

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG  
 DATA AS AT 9 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

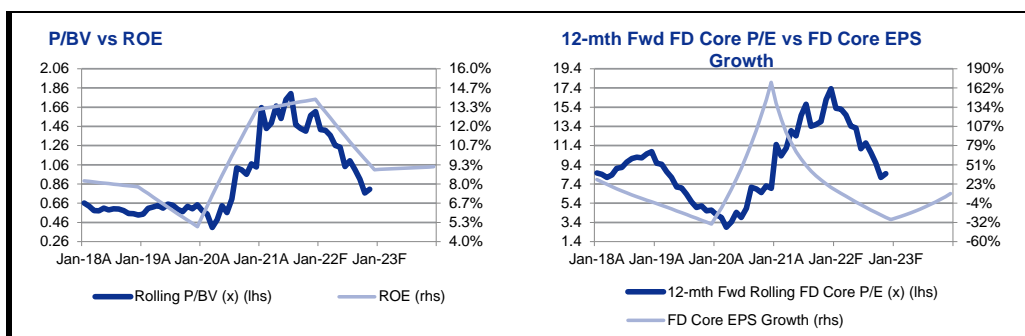
Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

### 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>375.9</b>	<b>396.8</b>	<b>426.7</b>
<b>Gross Profit</b>	<b>99.7</b>	<b>125.2</b>	<b>111.9</b>	<b>118.5</b>	<b>127.8</b>
<b>Operating EBITDA</b>	<b>38.6</b>	<b>48.7</b>	<b>37.7</b>	<b>40.6</b>	<b>46.0</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>32.6</b>	<b>35.2</b>	<b>40.3</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>36.5</b>	<b>39.1</b>	<b>44.0</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>36.5</b>	<b>39.1</b>	<b>44.0</b>
Taxation	(9.5)	(13.4)	(9.3)	(10.0)	(11.3)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>22.5</b>	<b>39.1</b>	<b>27.2</b>	<b>29.1</b>	<b>32.7</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>18.4</b>	<b>20.1</b>	<b>22.7</b>
Recurring Net Profit	21.3	25.5	18.4	20.1	22.7
<b>Fully Diluted Recurring Net Profit</b>	<b>21.3</b>	<b>25.5</b>	<b>18.4</b>	<b>20.1</b>	<b>22.7</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>37.70</b>	<b>40.65</b>	<b>46.04</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	23.44	(28.76)	14.94	(4.30)	(6.32)
(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)	(9.34)	(10.01)	(11.25)
<b>Cashflow From Operations</b>	<b>30.58</b>	<b>8.77</b>	<b>44.29</b>	<b>27.44</b>	<b>29.37</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)	(4.59)	(5.02)	(5.68)
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>(4.59)</b>	<b>(5.02)</b>	<b>(5.68)</b>
Total Cash Generated	20.94	8.24	34.70	17.41	18.69
<b>Free Cashflow To Equity</b>	<b>27.00</b>	<b>13.75</b>	<b>39.29</b>	<b>22.44</b>	<b>24.37</b>
<b>Free Cashflow To Firm</b>	<b>26.23</b>	<b>8.75</b>	<b>41.29</b>	<b>24.44</b>	<b>26.47</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	98.2	117.6	138.3
Total Debtors	103.0	118.5	107.1	113.1	121.6
Inventories	55.6	77.5	67.1	70.7	76.0
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>272.4</b>	<b>301.4</b>	<b>335.8</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	89.6	94.6	101.7
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>142.9</b>	<b>147.9</b>	<b>155.0</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>161.0</b>	<b>166.0</b>	<b>173.1</b>
Shareholders' Equity	170.0	197.1	210.9	226.0	243.0
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>269.5</b>	<b>293.6</b>	<b>320.6</b>

### Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	24.4%	21.6%	(14.6%)	5.6%	7.5%
Operating EBITDA Growth	48.8%	26.0%	(22.5%)	7.8%	13.3%
Operating EBITDA Margin	10.7%	11.1%	10.0%	10.2%	10.8%
Net Cash Per Share (S\$)	0.06	0.05	0.13	0.18	0.22
BVPS (S\$)	0.39	0.45	0.48	0.52	0.55
Gross Interest Cover	19.90	29.72	16.29	17.60	19.17
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	109.5	101.3	100.6
Inventory Days	75.96	77.14	99.97	90.40	89.81
Accounts Payables Days	105.2	105.0	128.9	120.8	120.2
ROIC (%)	20.6%	23.5%	14.5%	16.7%	18.7%
ROCE (%)	14.6%	16.5%	11.1%	11.1%	11.7%
Return On Average Assets	9.2%	10.4%	6.8%	6.9%	7.2%

### Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Motion control rev growth (%)	20.2%	28.3%	-19.0%	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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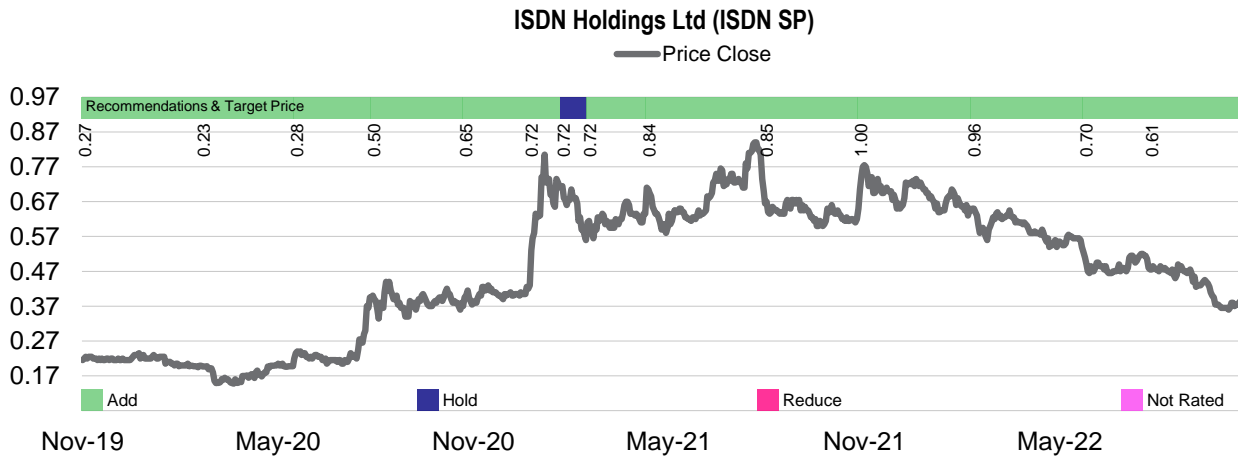
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2022		
646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



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