

Singapore

REDUCE (no change)

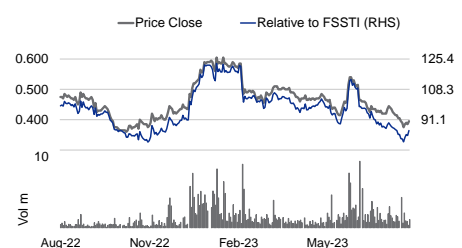
Consensus ratings*: Buy 0 Hold 0 Sell 1

Current price:	S\$0.395
Target price:	S\$0.36
Previous target:	S\$0.37
Up/downside:	-8.9%
CGS-CIMB / Consensus:	-2.7%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$128.4m
	S\$174.4m
Average daily turnover:	US\$0.62m
	S\$0.83m
Current shares o/s:	441.5m
Free float:	54.2%

*Source: Bloomberg

Key changes in this note

- FY23F core EPS forecast reduced by 18.1%.
- FY24F core EPS forecast reduced by 3.7%.
- FY25F core EPS forecast reduced by 3.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-8.1	-16.9	-18.6
Relative (%)	-5.6	-16.6	-15.5

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

Analyst(s)

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ISDN Holdings Ltd

Cautious on 2H23F outlook

- ISDN Holdings' 1H23 revenue of S\$169.2m (-11.3% yoy; 48.4% of our full-year forecast) was 7.7% above our 1H23 revenue forecast of S\$157.1m.
- 1H23 net profit of S\$4.6m (-58.6% yoy, 32.0% of our full-year forecast) was 8.4% below our S\$5.0m forecast; we expect 2H23F to be weaker.
- Reiterate Reduce. Our TP dips slightly to S\$0.36, still based on 9.5x FY24F P/E, as net profit outlook remains cautious, in our view.

1H23 net profit below our expectation

ISDN's 1H23 revenue declined 11.3% yoy to S\$169.2m, while net profit fell 58.6% yoy to S\$4.6m. 1H23 revenue was 7.7% above our S\$157.1m estimate and formed 48.4% of our full-year forecast. 1H23 net profit was 8.4% below our S\$5.0m estimate and formed only 32.0% of our full-year forecast; this was below our expectation as 2H23F performance may not be stronger hoh, in our view. No interim dividend was declared as the company adopts a prudent stance given the uncertain business environment and economic outlook. On a yoy basis, ISDN's core Industrial Automation (IA) business revenue declined 1.3% yoy in China but increased 4.3% hoh. Excluding forex impact, ISDN's IA business in China saw 7.8% hoh revenue growth. On a yoy basis, ISDN's IA business revenue in Southeast Asia fell 30% yoy due to the revenue slump experienced by semicon customers. Gross profit margin narrowed 2.6% pts yoy to 26.2% as the revenue mix shifted to lower margin products in 1H23. ISDN was careful in managing costs in 1H23 with operating expenses declining 6.1% yoy to S\$31.4m as revenue fell 11.3% yoy. In its renewable energy business (mini hydropower plants in Indonesia), S\$3.0m was billed to the Indonesian customer, PT PLN, and received by ISDN in Jul 2023.

ISDN cautious on 2H23F

ISDN is cautious on the outlook for 2H23F for its core IA business and expects the semicon industry to emerge from its sharp downturn in the next 12 months. Meanwhile, the group said that it will continue to remain vigilant on operating expenses as it expects near-term volatility in business conditions to persist in 2H23F.

Reiterate Reduce

With its weak 1H23 results confirming our earlier fears of a slowdown and its latest cautious guidance, we lower our FY23-25F revenue forecasts by 0.6-3.4% and subsequently cut FY23-25F core EPS forecasts by 3.4-18.1%. We reiterate our Reduce call with a slightly lower TP of S\$0.36, still based on 9.5x FY24F P/E (10-year average). Upside risks include higher-than-expected net profit contribution from its hydropower business segment and a faster pace of economic growth as China tries to restimulate its economy. De-rating catalysts include 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 worsen.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	440.1	370.8	337.4	367.5	384.5
Net Profit (S\$m)	25.49	14.62	11.82	16.56	18.85
Core EPS (S\$)	0.058	0.033	0.027	0.038	0.043
Core EPS Growth	19.0%	(42.6%)	(19.7%)	40.2%	13.8%
FD Core P/E (x)	6.77	11.85	14.72	10.53	9.26
Price To Sales (x)	0.39	0.47	0.52	0.47	0.45
DPS (S\$)	0.015	0.008	0.007	0.009	0.011
Dividend Yield	3.67%	2.03%	1.69%	2.37%	2.70%
EV/EBITDA (x)	4.03	5.29	5.45	4.38	3.64
P/FCFE (x)	12.56	5.77	5.75	9.87	6.81
Net Gearing	(8.7%)	(9.3%)	(19.9%)	(23.9%)	(28.4%)
P/BV (x)	0.88	0.88	0.84	0.80	0.75
ROE	13.9%	7.4%	5.8%	7.8%	8.3%
% Change In Core EPS Estimates			(18.1%)	(3.7%)	(3.4%)
CGS-CIMB/Consensus EPS (x)			0.81	0.96	0.97

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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 (%)
						CY23F	CY24F		CY23F	CY24F		
ISDN Holdings Ltd	ISDN SP	Reduce	0.40	0.36	128	11.9	14.7	-14.0%	0.88	0.84	7.2%	2.0%
AEM Holdings Ltd	AEM SP	Reduce	3.20	2.92	728	7.8	30.6	-3.3%	2.04	2.02	27.8%	3.2%
Aztech Global Ltd	AZTECH SP	Add	0.73	1.11	415	8.4	5.8	8.2%	1.98	1.69	22.6%	6.2%
Frencken Group Ltd	FRKN SP	Add	0.98	1.10	308	8.0	17.2	-13.5%	1.06	1.02	13.1%	3.7%
Grand Venture Technology Ltd	GVTL SP	Reduce	0.60	0.51	150	15.3	30.6	-9.8%	1.72	1.66	11.6%	1.0%
Nanofilm Technologies Int'l Ltd	NANO SP	Reduce	1.00	0.91	477	15.0	45.7	-8.9%	1.57	1.50	10.0%	2.2%
UMS Holdings Ltd	UMSH SP	Add	1.10	1.19	543	7.5	12.7	9.9%	2.16	2.05	31.0%	4.7%
Venture Corporation	VMS SP	Add	13.30	16.80	2,849	10.5	13.7	1.1%	1.36	1.33	12.8%	5.6%
Simple average excluding ISDN						10.3	22.3	-2.3%	1.70	1.61	18.4%	3.8%

DATA AS AT 21 AUG 2023

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



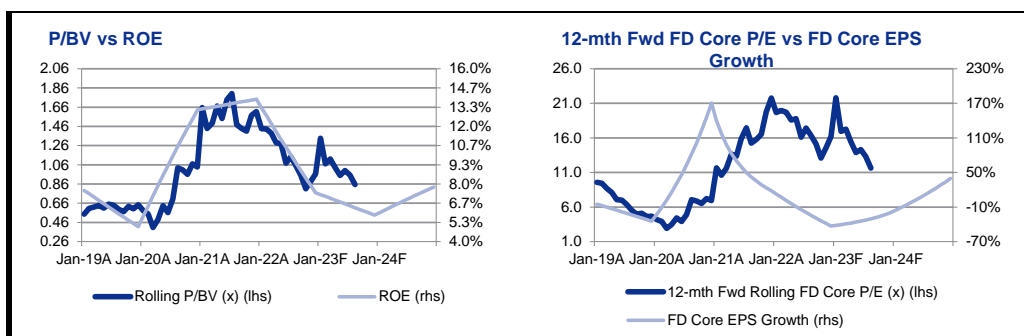
ESG in a nutshell

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.

<p>Keep your eye on</p> <p>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.</p>	<p>Implications</p> <p>As of 16 Jun 2023, ISDN has 3 mini-hydropower plants in operation in Indonesia. The company plans to continue to grow this business in Indonesia.</p>
<p>ESG highlights</p> <p>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.</p>	<p>Implications</p> <p>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.</p>
<p>Trends</p> <p>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.</p>	<p>Implications</p> <p>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 claims are included in the total remuneration and benefits package for employees.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	440.1	370.8	337.4	367.5	384.5
Gross Profit	125.2	110.7	102.4	112.1	120.2
Operating EBITDA	48.7	35.8	31.1	37.3	41.6
Depreciation And Amortisation	(4.8)	(4.9)	(5.2)	(5.5)	(5.9)
Operating EBIT	43.9	30.9	26.0	31.8	35.7
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
Profit Before Tax (pre-EI)	52.5	32.0	28.2	35.2	35.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	52.5	32.0	28.2	35.2	35.4
Taxation	(13.4)	(8.9)	(7.2)	(9.0)	(9.1)
Exceptional Income - post-tax					
Profit After Tax	39.1	23.1	21.0	26.2	26.3
Minority Interests	(13.6)	(8.5)	(9.2)	(9.6)	(7.5)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	25.5	14.6	11.8	16.6	18.8
Recurring Net Profit	25.5	14.6	11.8	16.6	18.8
Fully Diluted Recurring Net Profit	25.5	14.6	11.8	16.6	18.8

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	48.65	35.76	31.14	37.30	41.57
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(28.76)	13.67	11.88	(6.25)	(2.77)
(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)	(7.22)	(9.02)	(9.07)
Cashflow From Operations	8.77	39.41	35.26	22.67	30.63
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
Cash Flow From Investing	(1.49)	(2.01)	(5.00)	(5.00)	(5.00)
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)	(2.95)	(4.14)	(4.71)
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
Cash Flow From Financing	0.97	(24.95)	(2.95)	(4.14)	(4.71)
Total Cash Generated	8.24	12.45	27.31	13.53	20.91
Free Cashflow To Equity	13.75	30.04	30.26	17.67	25.63
Free Cashflow To Firm	8.75	40.89	33.89	20.03	27.73

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	85.9	101.4	120.3
Total Debtors	118.5	101.1	96.1	104.7	109.5
Inventories	77.5	81.2	59.9	65.1	67.3
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	257.7	238.9	241.9	271.2	297.2
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
Total Non-current Assets	157.5	161.5	161.8	161.8	161.4
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	80.4	87.6	91.6
Other Current Liabilities	25.9	23.3	23.3	23.3	23.3
Total Current Liabilities	150.2	142.2	127.5	134.7	138.7
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
Total Non-current Liabilities	18.1	15.6	15.6	15.6	15.6
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	168.3	157.8	143.1	150.3	154.3
Shareholders' Equity	197.1	197.8	206.7	219.1	233.2
Minority Interests	49.8	44.8	53.9	63.6	71.1
Total Equity	247.0	242.6	260.6	282.7	304.3

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	21.6%	(15.8%)	(9.0%)	8.9%	4.6%
Operating EBITDA Growth	26.0%	(26.5%)	(12.9%)	19.8%	11.4%
Operating EBITDA Margin	11.1%	9.6%	9.2%	10.1%	10.8%
Net Cash Per Share (S\$)	0.05	0.05	0.12	0.15	0.20
BVPS (S\$)	0.45	0.45	0.47	0.50	0.53
Gross Interest Cover	29.72	8.87	7.14	13.47	17.01
Effective Tax Rate	25.6%	27.9%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	5.69%	5.47%	5.66%	5.66%	5.66%
Accounts Receivables Days	91.8	108.1	106.7	100.0	101.7
Inventory Days	77.1	111.4	109.5	89.5	91.4
Accounts Payables Days	105.0	134.7	136.3	120.4	123.8
ROIC (%)	23.5%	13.7%	11.8%	15.3%	16.7%
ROCE (%)	16.5%	11.1%	9.2%	10.5%	11.0%
Return On Average Assets	10.4%	6.4%	6.0%	6.8%	6.3%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Motion control rev growth (%)	28.3%	-18.0%	-5.5%	8.0%	3.0%
Gross profit margin (%)	27.4%	28.6%	28.8%	29.0%	29.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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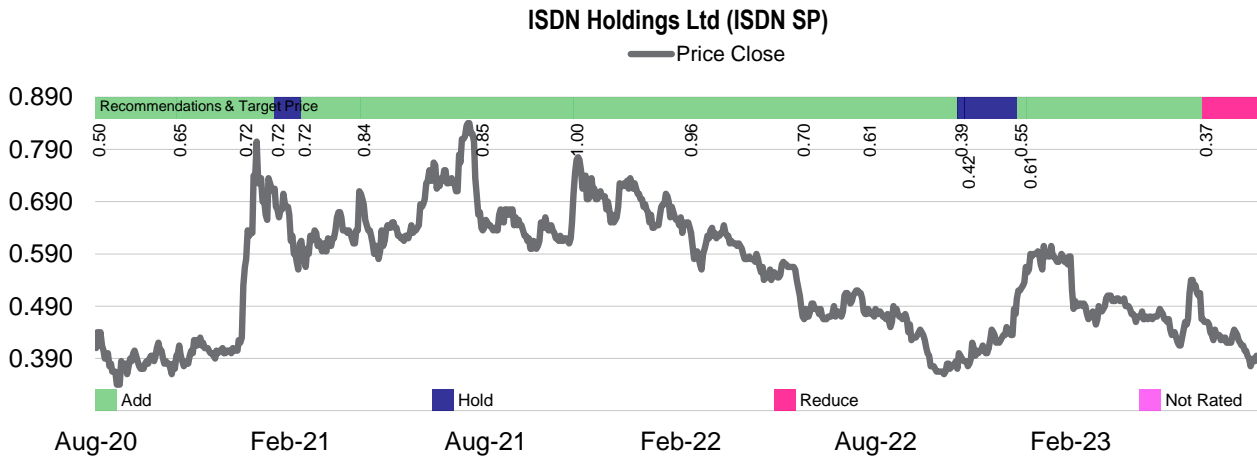
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2023		
632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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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.

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