

Singapore

ADD (no change)

Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.565
Target price:	S\$0.61
Previous target:	S\$0.55
Up/downside:	8.0%
CGS-CIMB / Consensus:	10.9%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$186.5m
	S\$247.8m
Average daily turnover:	US\$0.38m
	S\$0.55m
Current shares o/s:	435.3m
Free float:	54.2%

*Source: Bloomberg

Key changes in this note

- FY23-24F EPS increased by 8.2-11.7% as we assume Anggoci obtains COD by end-1Q23F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	27	41.3	-19.9
Relative (%)	26.3	33	-21

Major shareholders

	% held
Teo Cher Koon	32.2
NTCP SPV VI	8.6

Analyst(s)

William TNG, CFA

T (65) 6210 8676
E william.tng@cgs-cimb.com

Izabella TAN

T (65) 6210 8897
E izabella.tan@cgs-cimb.com

ISDN Holdings Ltd

Assuming Anggoci COD

- ISDN provided an update on its mini hydropower business to investors via a virtual investor meeting on Friday, 13 Jan 2023.
- Proforma net profit impact from its LB1 plant was shared and the company is optimistic that its other two plants could achieve COD soon.
- We assume Anggoci will obtain COD by end-1Q23F and factor in its net profit contributions for FY23-24F, leading to a higher S\$0.61 TP. Maintain Add.

ISDN's LB1 net profit impact in line with our expectations

ISDN held a virtual investor briefing on Friday, 13 Jan 2023, 11.00 a.m. (it had on 12 Jan 2023 posted a public announcement providing details on how to participate in this virtual call). ISDN shared that the Lau Biang 1 (LB1) mini hydropower plant is located at the Lau Biang river in North Sumatra, which enjoys significant rainfall and has a sustainable energy demand from the local community. ISDN also shared that on a proforma basis, LB1 would have contributed S\$2.0m to its 9M22 profit after tax and minority interest, in line with our expectations.

Expecting faster COD for remaining plants

ISDN currently has two other hydropower plants in North Sumatra, Indonesia, namely Anggoci (10MW capacity) and Sisira (4.6MW capacity), which were successfully commissioned in Sep 2021. Management guided that they are hopeful these two plants will finally achieve commercial operation date (COD) soon (possibly by 1Q23F, in our view). ISDN also guided that it has in total 164MW worth of hydropower concessions (including LB1, Anggoci and Sisira). There are plans to continue building up the mini hydropower business with planned LB2-LB6 plants in the coming years. Management also guided that the company would be mindful of improving shareholders' returns via options such as a) raising dividend payout as cash flow improves with the COD of the power plants; b) selling the power plants if it benefits shareholders; and c) potentially list the mini hydropower plants business.

Reiterate Add with higher S\$0.61 TP as we assume Anggoci COD

As Sisira is a show case and learning project for ISDN, we think the net profit contribution from this plant is low. However, the Anggoci plant which is also 10MW capacity could have a similar net profit potential as LB1. We assume that Anggoci can achieve COD by end-1Q23F and contribute to ISDN's FY23-24F net profits. This leads to 1.2-2.3% increases in our FY23-24F revenue forecasts and 8.2-11.7% increases in our net profit forecasts. Given the EPS increases, our TP rises to S\$0.61, based on an unchanged 8.9x P/E multiple (5-year average). 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, the possibility of bad debts as economic conditions worsen, and failure to achieve COD for Anggoci.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	361.9	440.1	382.7	414.0	449.7
Net Profit (S\$m)	15.14	25.49	19.79	26.01	30.26
Core EPS (S\$)	0.049	0.058	0.045	0.059	0.069
Core EPS Growth	180%	19%	(22%)	31%	16%
FD Core P/E (x)	11.49	9.69	12.52	9.53	8.19
Price To Sales (x)	0.68	0.56	0.65	0.60	0.55
DPS (S\$)	0.008	0.015	0.011	0.015	0.017
Dividend Yield	1.42%	2.57%	2.00%	2.62%	3.05%
EV/EBITDA (x)	6.76	5.57	6.13	4.69	3.83
P/FCFE (x)	9.05	17.96	6.32	9.17	8.19
Net Gearing	(12.3%)	(8.7%)	(21.3%)	(26.8%)	(31.6%)
P/BV (x)	1.45	1.26	1.17	1.07	0.98
ROE	13.1%	13.9%	9.7%	11.7%	12.5%
% Change In Core EPS Estimates			0.0%	8.2%	11.7%
CGS-CIMB/Consensus EPS (x)			1.00	1.08	1.11

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	382.7	409.1	439.7	382.7	414.0	449.7	0.0	1.2	2.3
Gross profit	108.7	118.6	127.5	108.7	121.3	131.8	0.0	2.3	3.3
Operating expenses	(74.2)	(77.9)	(81.8)	(74.2)	(77.9)	(81.8)	0.0	0.0	0.0
Net profit	19.8	24.0	27.1	19.8	26.0	30.3	0.0	8.2	11.7
Gross profit margin (%)	28.4	29.0	29.0	28.4	29.3	29.3	0.0	0.3	0.3
Net profit margin (%)	5.2	5.9	6.2	5.2	6.3	6.7	0.0	0.4	0.5

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

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

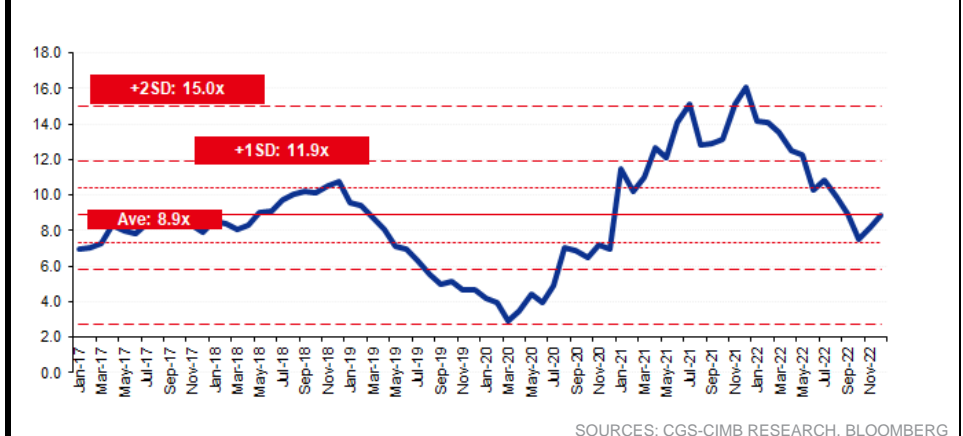


Figure 3: Peer comparison

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	Add	0.57	0.61	186	12.5	9.5	6.2%	1.17	1.07	9.4%	2.0%
AEM Holdings Ltd	AEM SP	Add	3.34	3.76	776	7.9	8.6	7.2%	2.06	1.75	29.6%	3.2%
Aztech Global Ltd	AZTECH SP	Add	0.83	0.96	479	7.3	6.6	7.9%	1.89	1.66	28.4%	7.1%
Frencken Group Ltd	FRKN SP	Reduce	0.96	0.95	307	8.1	7.4	-1.1%	0.98	0.90	12.8%	3.7%
Grand Venture Technology Ltd	GVTL SP	Hold	0.54	0.52	138	12.9	12.9	-6.3%	1.58	1.44	12.5%	1.6%
Nanofilm Technologies Int'l Ltd	NANO SP	Hold	1.48	1.37	732	17.7	13.6	10.1%	2.07	1.86	12.3%	1.4%
UMS Holdings Ltd	UMSH SP	Add	1.25	1.57	629	7.7	8.0	29.6%	2.38	1.98	35.0%	4.0%
Vicplas International Ltd	VPS SP	Add	0.19	0.27	73	9.5	7.7	11.5%	1.18	1.06	13.1%	2.7%
Venture Corporation	VMS SP	Add	17.88	20.10	3,915	14.4	14.0	7.3%	1.82	1.72	12.5%	4.2%
Simple average excluding ISDN						10.7	9.9	8.3%	1.74	1.55	19.5%	3.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
DATA AS AT 13 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 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

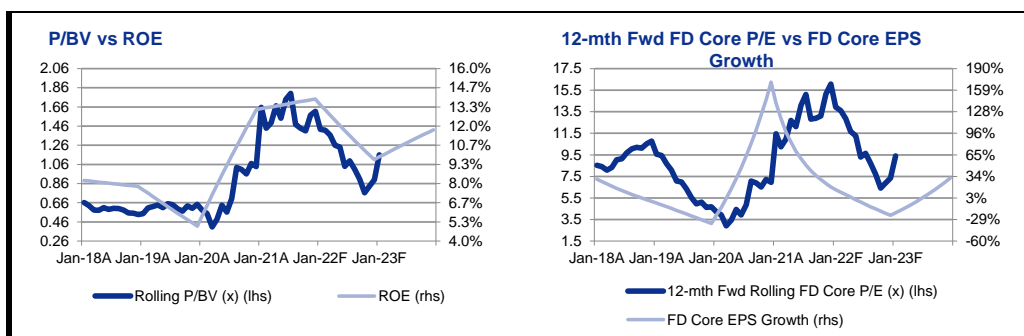
Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

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-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	361.9	440.1	382.7	414.0	449.7
Gross Profit	99.7	125.2	113.8	126.7	137.5
Operating EBITDA	38.6	48.7	39.6	48.8	55.8
Depreciation And Amortisation	(4.1)	(4.8)	(5.1)	(5.4)	(5.8)
Operating EBIT	34.5	43.9	34.5	43.4	50.0
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	47.3	53.7
Exceptional Items	(6.1)	0.0	0.0	0.0	0.0
Pre-tax Profit	32.0	52.5	38.4	47.3	53.7
Taxation	(9.5)	(13.4)	(9.8)	(12.1)	(13.7)
Exceptional Income - post-tax					
Profit After Tax	22.5	39.1	28.6	35.2	39.9
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	26.0	30.3
Recurring Net Profit	21.3	25.5	19.8	26.0	30.3
Fully Diluted Recurring Net Profit	21.3	25.5	19.8	26.0	30.3

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	38.62	48.65	39.63	48.84	55.75
Cash Flow from Inv. & Assoc.					
Change In Working Capital	23.44	(28.76)	13.41	(5.80)	(7.66)
(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)	(12.11)	(13.74)
Cashflow From Operations	30.58	8.77	44.20	32.04	35.25
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)	(6.50)	(7.57)
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)	(6.50)	(7.57)
Total Cash Generated	20.94	8.24	34.25	20.53	22.68
Free Cashflow To Equity	27.00	13.75	39.20	27.04	30.25
Free Cashflow To Firm	26.23	8.75	41.20	29.04	32.35

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	120.3	145.0
Total Debtors	103.0	118.5	109.1	117.9	128.1
Inventories	55.6	77.5	68.3	73.0	79.3
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	217.0	257.7	275.1	311.2	352.4
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	98.7	107.2
Other Current Liabilities	22.6	25.9	25.9	25.9	25.9
Total Current Liabilities	129.1	150.2	144.5	152.0	160.5
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	170.1	178.6
Shareholders' Equity	170.0	197.1	212.0	231.5	254.2
Minority Interests	47.6	49.8	58.6	67.8	77.5
Total Equity	217.6	247.0	270.6	299.3	331.7

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	24.4%	21.6%	(13.0%)	8.2%	8.6%
Operating EBITDA Growth	48.8%	26.0%	(18.5%)	23.3%	14.1%
Operating EBITDA Margin	10.7%	11.1%	10.4%	11.8%	12.4%
Net Cash Per Share (S\$)	0.06	0.05	0.13	0.18	0.24
BVPS (S\$)	0.39	0.45	0.48	0.53	0.58
Gross Interest Cover	19.90	29.72	17.26	21.70	23.80
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	100.1	100.1
Inventory Days	75.96	77.14	98.98	89.77	89.25
Accounts Payables Days	105.2	105.0	127.7	120.7	120.7
ROIC (%)	20.6%	23.5%	15.3%	20.4%	22.9%
ROCE (%)	14.6%	16.5%	11.7%	13.5%	14.1%
Return On Average Assets	9.2%	10.4%	7.1%	8.2%	8.5%

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%	29.3%	29.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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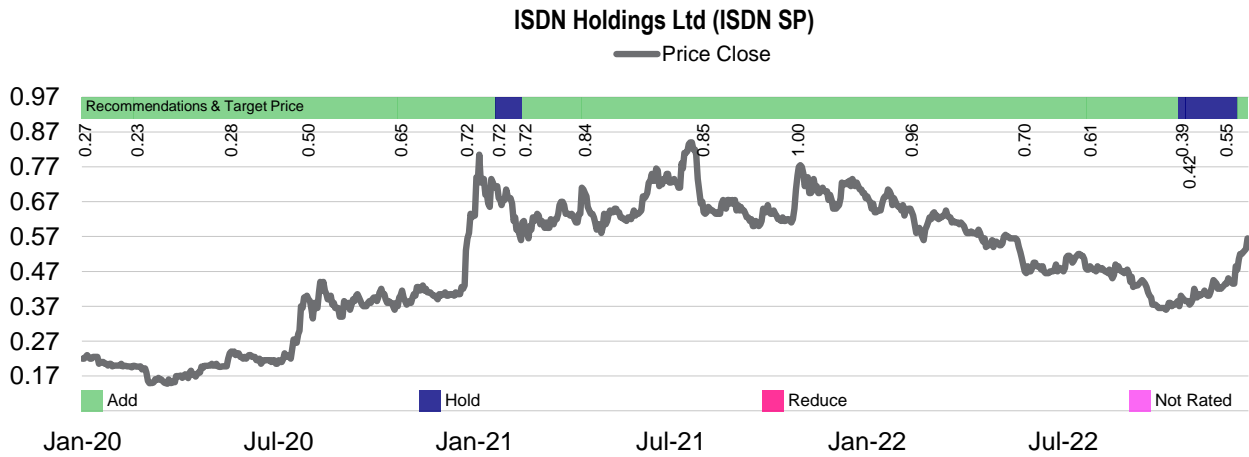
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2022		
646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold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

Spitzer Chart for stock being researched (2 year data)



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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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