

Singapore

HOLD (previously REDUCE)

Consensus ratings*: Buy 0 Hold 0 Sell 1

Current price:	S\$0.305
Target price:	S\$0.32
Previous target:	S\$0.36
Up/downside:	4.9%
CGSI / Consensus:	na
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$101.0m
	S\$136.0m
Average daily turnover:	US\$0.22m
	S\$0.30m
Current shares o/s:	441.5m
Free float:	54.2%
*Source: Bloomberg	

Key changes in this note

- FY24F EPS forecast reduced by 35.0%.
- FY25F EPS reduced by 32.2%.
- FY26F forecasts introduced.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-10.3	-16.4	-35.8
Relative (%)	-10.2	-18.2	-35.8

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

Analyst(s)



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ISDN Holdings Ltd

Remain focused on long-term growth

- 2H23 revenue was 2.6% above our S\$168.3m forecast. FY23 revenue (S\$341.8m, -7.8% yoy) was 1.3% above our S\$337.4m full-year forecast.
- 2H23 net profit was 94.9% below our S\$7.2m forecast. FY23 net profit of S\$4.95m was 58.1% below our full-year forecast of S\$11.8m.
- Adjusting for foreign exchange loss and impairment loss on financial asset, net profit would have been S\$9.05m, 23.4% below our full-year forecast.

FY23 performance hit by semicon slowdown and one-offs

ISDN's FY23 revenue fell 7.8% yoy to S\$341.8m, 1.3% above our S\$337.4m forecast. ISDN's China industrial automation revenue (73% of FY23 revenue) grew 6.6% yoy in renminbi terms but was down 2.4% yoy as the renminbi weakened against the Singapore dollar in FY23. ISDN's Southeast Asia industrial automation business (21% of FY23 revenue) was significantly impacted by the semicon slowdown in 2H23 and revenue fell 28.3% yoy in FY23. As ISDN holds the view that demand in both its China market and the semicon industry in Southeast Asia would recover over FY24-26F, the group did not aggressively reduce its cost structure in the face of weaker revenue. While distribution expenses fell 8.3% yoy, administrative expenses grew 3.2% yoy. Net profit (profit after tax and minority interest) fell 66.1% yoy to S\$4.95m in FY23, 58.1% below our full-year forecast. Excluding foreign exchange loss of S\$2.5m and impairment loss on financial assets of S\$1.6m, net profit would have been S\$9.05m, 23.4% below our full-year forecast.

Management is cautiously optimistic on FY24F

Management noted that China's Manufacturing Purchasing Managers' Index (PMI) crossed the 50 points benchmark into growth territory in Dec 23 and Jan 24. It also highlighted that World Semiconductor Trade Statistics (WSTS) forecasts (28 Nov 2023) global semicon sales could grow 13.1% in 2024F. Management believes that a slowing cyclical headwind, continued demand for industrial automation in Asia, and the growth of ISDN's strategic capabilities, positions the group well to capitalise on cyclical recovery and long-term growth in industrial automation.

Upgrade from Reduce to Hold

Given the weaker gross profit margin (GPM), we cut our FY24-25F GPM assumptions by 2.0-2.8% pts leading to a 32.2-35.0% decrease in our FY24-25F EPS forecasts. We roll over our TP to FY25F and value ISDN at its 10-year average P/E of 11.0x (previously 9.5x at Aug 23) leading to a lower S\$0.32 TP (FY25 EPS forecast reduced by 32%). We also introduce our FY26F forecasts. We upgrade ISDN from Reduce to Hold as better demand conditions could provide earnings upside over FY24-25F. 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 re-stimulate its economy. Downside risks include weak customer demand if the global economy continues to slow and the possibility of bad debts as economic conditions worsen.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	370.8	341.8	367.5	384.5	396.2
Net Profit (S\$m)	14.62	4.95	10.87	12.90	14.66
Core EPS (S\$)	0.033	0.011	0.024	0.029	0.033
Core EPS Growth	(43%)	(67%)	120%	19%	14%
FD Core P/E (x)	9.15	27.24	12.51	10.55	9.28
Price To Sales (x)	0.36	0.40	0.37	0.35	0.34
DPS (S\$)	0.008	0.003	0.006	0.007	0.008
Dividend Yield	2.62%	0.92%	2.00%	2.37%	2.69%
EV/EBITDA (x)	4.18	7.62	4.10	3.78	3.38
P/FCFE (x)	9.82	12.12	2.42	7.87	6.72
Net Gearing	(9.3%)	6.5%	(14.7%)	(18.8%)	(23.3%)
P/BV (x)	0.68	0.68	0.66	0.63	0.60
ROE	7.40%	2.50%	5.36%	6.09%	6.60%
% Change In Core EPS Estimates			(35.0%)	(32.2%)	
EPS/Consensus EPS (x)			0.66	0.72	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Remain focused on long-term growth

Key earnings risks ►

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 re-stimulate its economy. A faster pace of recovery for the semicon industry could also help 2H24F net profit recovery.

Downside risks include weak customer demand if the global economy continues to slow and the possibility of bad debts as economic conditions worsen and operational hiccups at its mini-hydropower plants in Indonesia.

ISDN's last reported its 1H23 results on 8 Aug 2023. The company did not release any 3Q23 business update and our last report on ISDN was on 21 Aug 2023.

Figure 1: Results comparison

FYE Dec (\$\$ m)	2HFY23	2HFY22	yoy % chg	1HFY23	hoh % chg	FY23	FY22	yoy % chg	Prev Comments FY23F
Revenue	172.61	180.07	-4.14	169.15	2.04	341.77	370.78	-7.82	337.44 2H23 revenue was 2.6% above our S\$168.3m forecast. FY23 revenue was 1.3% above our full-year forecast.
Operating costs	(161.6)	(164.5)	(1.7)	(151.0)	7.1	(312.6)	(332.0)	(5.8)	(326.7)
EBITDA	11.0	15.6	(29.6)	18.2	(39.6)	29.2	38.8	(24.9)	36.1 S\$6.9m lower than expected due to higher mix of lower margin products.
EBITDA margin (%)	6.4	8.7	-2.3% pts	10.7	-4.4% pts	8.5	10.5	(18.5)	36.1 Margin decline due to shift in sales mix towards lower margin products.
Depn & amort.	(3.0)	(2.3)	30.6	(2.5)	19.6	(5.6)	(4.9)	14.6	(5.2)
EBIT	7.9	13.3	(40.1)	15.6	(49.2)	23.6	33.9	(30.5)	31.0
Interest income	0.2	0.2	12.7	0.1	70.4	0.3	0.4	(16.3)	0.4
Interest expense	(2.3)	(2.2)	4.1	(2.1)	12.0	(4.4)	(3.5)	26.0	(3.6)
Associate	(0.3)	0.1	(494.9)	(0.4)	(12.6)	(0.7)	1.2	na	0.5
Exceptionals	0.0	0.0	na	0.0	na	0.0	0.0	na	0.0
Pretax profit	5.5	11.3	(51.1)	13.3	(58.6)	18.9	32.0	(41.1)	28.2
Tax	(3.4)	(4.4)	(21.8)	(4.3)	(20.3)	(7.7)	(8.9)	(13.9)	(7.2)
Tax rate (%)	61.8	38.6	+23.2% pts	32.1	+29.7% pts	40.8	27.9	46.0	25.6
Minority interests	1.7	3.4	(48.8)	4.5	(61.2)	6.2	8.5	(26.5)	9.2
Net profit	0.37	3.55	-89.52	4.58	-91.88	4.95	14.62	-66.13	11.82 2H23 net profit was 94.9% below our S\$7.2m forecast. FY23 net profit was 58.1% below our S\$11.8m forecast. Adjusting for FX loss and impairment loss on financial asset, net profit would have been S\$9.05m, 23.4% below our forecast.
Core net profit	0.4	3.6	(89.5)	4.6	(91.9)	5.0	14.6	(66.1)	11.8
EPS (cts)	0.1	0.8	(90.1)	1.0	(92.3)	1.1	3.3	(66.4)	2.7
Core EPS (cts)	0.1	0.8	(90.1)	1.0	(92.3)	1.1	3.3	(66.4)	2.7

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Earnings revision

(S\$m)	Old		New		Chg	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	367.5	384.5	367.5	384.5	0.0%	0.0%
Gross profit	106.6	114.4	99.2	103.8	-6.9%	-9.2%
Operating expenses	(74.8)	(78.7)	(70.0)	(73.8)	-6.3%	-6.2%
Core EPS (S\$)	0.038	0.043	0.024	0.029	-35.0%	-32.2%
					in % pts	
Gross profit margin	29.00%	29.75%	27.00%	27.00%	(2.0)	(2.8)
Net profit margin	4.51%	4.90%	2.96%	3.35%	(1.6)	(1.6)

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: ISDN's 12-month forward P/E (x)



SOURCES: CGSI RESEARCH, BLOOMBERG

Figure 4: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (Icl curr)	Target Price (Icl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY24F	CY25F		CY24F	CY25F		
ISDN Holdings Ltd	ISDN SP	Hold	0.31	0.32	101	9.2	27.2	-25.0%	0.68	0.68	7.2%	2.6%
AEM Holdings Ltd	AEM SP	Hold	2.23	2.32	512	5.4	101.3	-30.0%	1.42	1.47	27.8%	4.6%
Aztech Global Ltd	AZTECH SP	Add	1.04	1.23	596	11.9	8.0	8.5%	2.83	2.33	22.6%	4.3%
Frencken Group Ltd	FRKN SP	Add	1.63	1.70	517	13.3	21.3	-9.2%	1.76	1.72	13.1%	2.2%
Grand Venture Technology Ltd	GVTL SP	Add	0.51	0.62	127	12.8	30.9	-20.5%	1.45	1.45	11.6%	1.2%
Nanofilm Technologies Int'l Ltd	NANO SP	Reduce	0.74	0.75	358	11.1	154.0	-30.6%	1.16	1.26	10.0%	3.0%
UMS Holdings Ltd	UMSH SP	Add	1.32	1.76	696	9.0	14.7	13.1%	2.59	2.46	31.0%	3.9%
Venture Corporation	VMS SP	Add	14.02	15.93	3,020	11.0	15.1	-2.1%	1.43	1.44	12.8%	5.3%
Simple average excluding ISDN						10.7	49.3	-10.1%	1.81	1.73	18.4%	3.5%

DATA AS AT 18 MAR 2024

SOURCES: CGSI 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.

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

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.

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 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

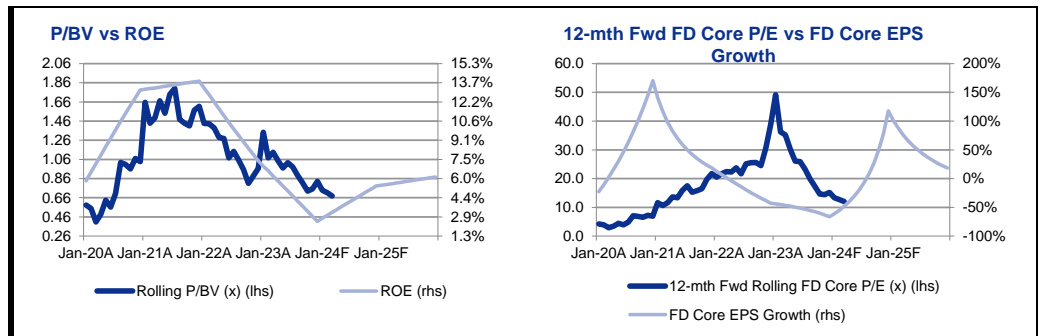
Rising wage costs and increasing competition for talent is a key trend to watch out for. ISDN's employees are its most valuable assets as they understand customer requirements and are able to offer value-added solutions as per management.

Implications

ISDN provides equal opportunities for employees with respect to 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 travel (parking and petrol inclusive) allowance, mobile phone allowance, overseas travel and meals allowance, and overtime tax claims are included in the total remuneration and benefits package for employees.

SOURCES: CGSI RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	370.8	341.8	367.5	384.5	396.2
Gross Profit	110.7	96.7	105.2	110.1	113.3
Operating EBITDA	35.8	24.7	35.1	36.3	37.7
Depreciation And Amortisation	(4.9)	(5.6)	(5.9)	(6.3)	(6.3)
Operating EBIT	30.9	19.1	29.2	30.0	31.4
Financial Income/(Expense)	(3.1)	(4.1)	(4.1)	(4.1)	(4.1)
Pretax Income/(Loss) from Assoc.	1.2	(0.7)	0.5	0.5	0.5
Non-Operating Income/(Expense)	3.0	4.5	2.0	1.0	2.0
Profit Before Tax (pre-EI)	32.0	18.9	27.6	27.4	29.8
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	32.0	18.9	27.6	27.4	29.8
Taxation	(8.9)	(7.7)	(7.1)	(7.0)	(7.6)
Exceptional Income - post-tax					
Profit After Tax	23.1	11.2	20.5	20.4	22.2
Minority Interests	(8.5)	(6.2)	(9.6)	(7.5)	(7.5)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14.6	5.0	10.9	12.9	14.7
Recurring Net Profit	14.6	5.0	10.9	12.9	14.7
Fully Diluted Recurring Net Profit	14.6	5.0	10.9	12.9	14.7

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	35.76	24.75	35.12	36.29	37.66
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(1.75)	(46.62)	35.28	(3.59)	(2.38)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1.60	11.75	2.00	0.70	1.70
Net Interest (Paid)/Received	(3.08)	(4.05)	(4.10)	(4.10)	(4.10)
Tax Paid	(9.53)	(9.97)	(7.06)	(7.02)	(7.62)
Cashflow From Operations	22.99	(24.15)	61.24	22.29	25.26
Capex	(2.28)	(4.36)	(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	0.28	0.35	0.00	0.00	0.00
Cash Flow From Investing	(2.01)	(4.02)	(5.00)	(5.00)	(5.00)
Debt Raised/(repaid)	(7.36)	39.29	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	(17.40)	(8.09)	(2.72)	(3.22)	(3.66)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	(0.19)	1.63	0.00	0.00	0.00
Cash Flow From Financing	(24.95)	32.83	(2.72)	(3.22)	(3.66)
Total Cash Generated	(3.97)	4.67	53.52	14.06	16.59
Free Cashflow To Equity	13.62	11.13	56.24	17.29	20.26
Free Cashflow To Firm	24.47	(23.77)	60.64	21.69	24.66

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	56.6	60.0	113.6	127.6	144.2
Total Debtors	101.1	110.6	104.7	109.6	112.9
Inventories	81.2	73.0	66.9	70.0	72.1
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	238.9	243.6	285.1	307.1	329.2
Fixed Assets	63.2	63.2	62.2	61.0	59.7
Total Investments	6.3	5.3	5.8	6.3	6.8
Intangible Assets	12.2	12.2	12.2	12.2	12.2
Total Other Non-Current Assets	79.8	75.9	75.9	75.9	75.9
Total Non-current Assets	161.5	156.5	156.1	155.3	154.5
Short-term Debt	23.8	19.7	19.7	19.7	19.7
Current Portion of Long-Term Debt					
Total Creditors	95.1	64.6	87.6	91.6	94.4
Other Current Liabilities	23.3	13.9	13.9	13.9	13.9
Total Current Liabilities	142.2	98.1	121.1	125.2	128.0
Total Long-term Debt	10.1	56.0	56.0	56.0	56.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5.5	5.6	5.6	5.6	5.6
Total Non-current Liabilities	15.6	61.6	61.6	61.6	61.6
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	157.8	159.8	182.7	186.8	189.6
Shareholders' Equity	197.8	198.6	206.8	216.4	227.4
Minority Interests	44.8	42.0	51.7	59.2	66.7
Total Equity	242.6	240.7	258.5	275.6	294.1

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	(15.8%)	(7.8%)	7.5%	4.6%	3.0%
Operating EBITDA Growth	(26.5%)	(30.8%)	41.9%	3.3%	3.8%
Operating EBITDA Margin	9.64%	7.24%	9.56%	9.44%	9.50%
Net Cash Per Share (S\$)	0.05	(0.04)	0.08	0.12	0.15
BVPS (S\$)	0.45	0.45	0.46	0.49	0.51
Gross Interest Cover	8.87	4.36	6.63	6.82	7.13
Effective Tax Rate	27.9%	40.8%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	5.47%	5.65%	5.61%	5.61%	5.61%
Accounts Receivables Days	108.1	113.1	107.2	101.7	102.5
Inventory Days	111.4	114.8	97.6	91.0	91.6
Accounts Payables Days	134.7	119.0	106.2	119.2	120.0
ROIC (%)	13.7%	8.7%	11.4%	13.6%	14.1%
ROCE (%)	11.1%	6.6%	9.1%	8.8%	8.8%
Return On Average Assets	6.41%	3.80%	5.85%	5.42%	5.55%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Motion control rev growth (%)	-18.0%	-6.6%	8.0%	3.0%	4.0%
Gross profit margin (%)	28.6%	26.7%	27.0%	27.0%	27.0%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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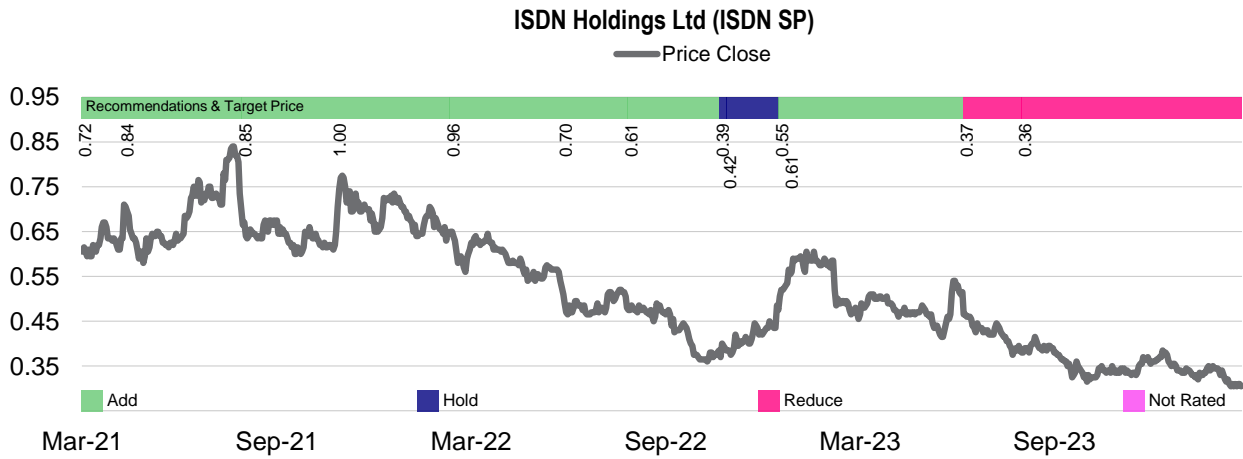
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

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.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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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.

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