

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.65
Target price:	S\$1.00
Previous target:	S\$0.85
Up/downside:	54.1%
CGS-CIMB / Consensus:	17.8%

Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$210.7m
	S\$285.1m
Average daily turnover:	US\$2.47m
	S\$3.34m
Current shares o/s:	435.3m
Free float:	54.4%

*Source: Bloomberg

Key changes in this note

- FY21F EPS raised by 6.5%.
- FY22F EPS raised by 2.3%.
- FY23F EPS raised by 9.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	-19.3	73.3
Relative (%)	3.7	-20.7	54.3

Major shareholders	% held
Teo Cher Koon	32.0
NTCP SPV VI	8.5
Braun Karl Walter	4.6

Analyst(s)

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ISDN Holdings Ltd

Re-rating catalyst: hydropower earnings

- 3Q21 net profit was above expectations at 35% of our full-year forecast.
- Potential hydropower earnings contribution in FY22F could re-rate the shares. Guidance from management could help improve valuation.
- Reiterate Add with a higher TP of S\$1.00 on rollover.

3Q21: most profitable quarter in its history

ISDN's 3Q21 revenue grew 10.2% yoy to S\$106.7m while net profit grew 56.8% yoy to S\$8.6m, making 3Q21 the most profitable quarter in the company's history. 9M21 revenue grew 22.7% yoy to S\$323.8m while 9M21 net profit grew 37.9% yoy to S\$20.8m. 3Q21 revenue/net profit at 25%/35% of our full-year forecast was in line/above our expectations. We note that gross profit margin expanded to 28.6% in 3Q21 versus 27.7% while 9M21 gross profit margin was 27.4% versus 25.8% in 9M20. Although no detailed explanation was provided in the business update, we think that the improvement in gross profit margin could be due to a) tapering off of construction-related revenue (for its mini-hydropower plants in Indonesia), b) incremental increase in revenue from higher margin Industry 4.0 software and cloud solutions, and c) an improved cost structure with the completion of an upgrade to its IT systems and consolidation of corporate functions to improve efficiency. The company reported a cash balance of S\$59.8m at end Sep-2021.

Raised FY21-23F forecasts

We raise our FY21-23F gross profit margin expectations by 0.2-0.8% pts assuming that ISDN continues to have leeway for further cost improvements, leading to a 2.3-9.4% increase in our net profit forecasts. Potential downside risks to 4Q21F net profit are a) possible provisions for bad debts, and b) adjustments for under provisioning of tax expenses.

FY22F – mini-hydropower business could be upside earnings risk

ISDN reported that two of its three mini-hydropower plants in Indonesia were successfully commissioned in Sep 2021 and have already commenced delivering electricity to the regional power grids. The company expects to be able to start commercial operations for these two plants in the coming months. We believe ISDN's valuation can be improved when management is able to share the potential net profit impact from this business with investors.

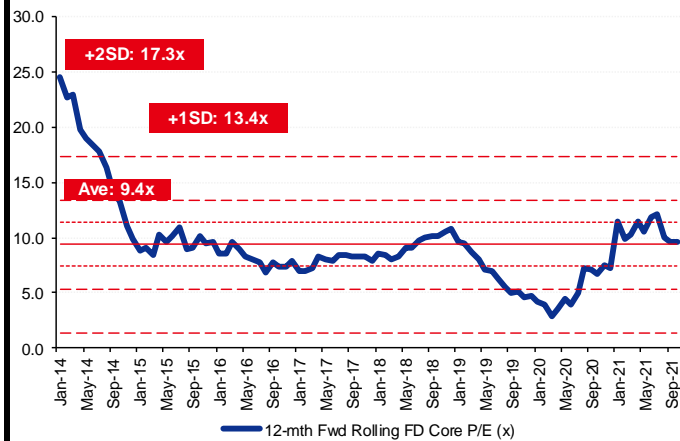
Reiterate Add, higher TP on rollover

Our TP (S\$1.00, previously S\$0.85) is derived as follows: a) we roll over valuation to FY23F, and b) target P/E (on FY23F EPS) is 12.8x (CY23F sector average P/E multiple). Previously, we valued ISDN at 12.6x P/E multiple which is the CY22F sector average multiple. Potential re-rating catalyst is earlier profit contribution from its hydropower segment. Downside risk is prolonged Covid-19 outbreak.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (S\$m)	291.0	361.9	426.0	460.1	493.5
Net Profit (S\$m)	6.59	15.14	26.13	30.08	34.07
Core EPS (S\$)	0.017	0.049	0.060	0.069	0.078
Core EPS Growth	(37%)	180%	23%	15%	13%
FD Core P/E (x)	35.75	13.22	10.83	9.41	8.31
Price To Sales (x)	0.96	0.78	0.66	0.61	0.57
DPS (S\$)	0.004	0.008	0.016	0.018	0.020
Dividend Yield	0.62%	1.23%	2.40%	2.76%	3.13%
EV/EBITDA (x)	11.26	7.72	5.61	4.99	4.14
P/FCFE (x)	16.82	10.41	19.76	8.92	7.33
Net Gearing	(16.4%)	(12.3%)	(13.8%)	(20.6%)	(27.5%)
P/BV (x)	1.82	1.66	1.49	1.34	1.19
ROE	5.0%	13.1%	14.5%	15.0%	15.2%
% Change In Core EPS Estimates			6.46%	2.33%	9.44%
CGS-CIMB/Consensus EPS (x)			1.07	1.02	1.09

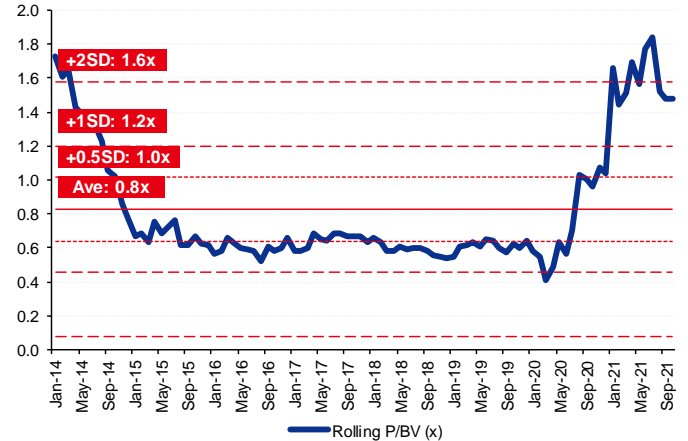
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: ISDN Holdings Ltd's 12-mth Forward P/E (x)




SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

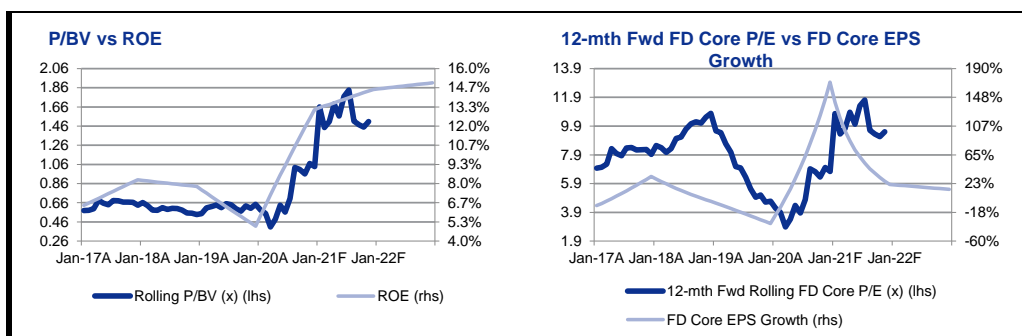
Figure 5: ISDN Holdings Ltd's P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

<p>ESG in a nutshell</p>	
<p>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>	
<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>ISDN's mini-hydropower plants faced delays due to the Covid-19 pandemic. Management aims to turn on the plants by end-2021. Mini-hydropower earnings represent upside earnings risk as we have not factored them into our projections.</p>
<p>ESG highlights</p> <p>At end-FY20, ISDN had 82 subsidiaries and 74 sales offices in Asia. 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 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 had acted as a guarantor. Ineffective risk control could result in 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.</p>	<p>Implications</p> <p>ISDN provides equal opportunities for employees in respect of recruitment, training and development, job advancement, and remuneration and benefits. 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 times doctor visit reimbursement, 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.</p> <p>Our forecasts assume that ISDN's staff attrition rate will not deviate from past norms given its competitive wage benefits.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	291.0	361.9	426.0	460.1	493.5
Gross Profit	77.4	99.7	120.7	128.1	139.3
Operating EBITDA	25.9	38.6	53.8	57.8	65.2
Depreciation And Amortisation	(3.8)	(4.1)	(4.4)	(4.8)	(5.1)
Operating EBIT	22.1	34.5	49.4	53.0	60.2
Financial Income/(Expense)	(1.8)	(1.4)	(1.6)	(1.6)	(1.6)
Pretax Income/(Loss) from Assoc.	(0.1)	1.0	0.7	0.7	0.5
Non-Operating Income/(Expense)	0.0	4.0	3.2	3.0	3.0
Profit Before Tax (pre-EI)	20.2	38.1	51.7	55.1	62.1
Exceptional Items	(0.4)	(6.1)	0.0	0.0	0.0
Pre-tax Profit	19.7	32.0	51.7	55.1	62.1
Taxation	(6.0)	(9.5)	(13.2)	(14.1)	(15.9)
Exceptional Income - post-tax					
Profit After Tax	13.7	22.5	38.5	41.0	46.2
Minority Interests	(7.1)	(7.4)	(12.4)	(10.9)	(12.1)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.6	15.1	26.1	30.1	34.1
Recurring Net Profit	7.5	21.3	26.1	30.1	34.1
Fully Diluted Recurring Net Profit	7.5	21.3	26.1	30.1	34.1

Cash Flow

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	25.95	38.62	53.84	57.77	65.24
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(1.40)	23.44	(22.48)	(7.94)	(6.85)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(0.45)	(21.86)	2.80	2.60	2.70
Net Interest (Paid)/Received	(1.80)	(1.43)	(1.60)	(1.60)	(1.60)
Tax Paid	(6.00)	(8.19)	(13.24)	(14.11)	(15.89)
Cashflow From Operations	16.31	30.58	19.32	36.72	43.60
Capex	(2.62)	(10.51)	(5.00)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	4.00	0.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1.77)	4.42	0.00	0.00	0.00
Cash Flow From Investing	(0.39)	(6.09)	(5.00)	(5.00)	(5.00)
Debt Raised/(repaid)	0.00	2.51	0.00	0.00	0.00
Proceeds From Issue Of Shares	5.40	0.00	0.00	0.00	0.00
Shares Repurchased		0.00	0.00	0.00	0.00
Dividends Paid	(2.76)	(5.74)	(6.79)	(7.82)	(8.86)
Preferred Dividends		0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	(0.32)	0.00	0.00	0.00
Cash Flow From Financing	2.63	(3.56)	(6.79)	(7.82)	(8.86)
Total Cash Generated	18.56	20.94	7.53	23.90	29.74
Free Cashflow To Equity	15.92	27.00	14.32	31.72	38.60
Free Cashflow To Firm	18.03	26.23	16.32	33.72	40.60

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	60.9	58.5	66.0	89.9	119.6
Total Debtors	92.5	103.0	121.4	131.1	140.6
Inventories	53.2	55.6	77.2	84.0	89.6
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	206.6	217.0	264.6	305.0	349.8
Fixed Assets	38.1	61.6	62.2	62.4	62.3
Total Investments	0.0	5.8	6.5	7.2	7.7
Intangible Assets	13.5	12.2	12.2	12.2	12.2
Total Other Non-Current Assets	38.6	61.4	61.4	61.4	61.4
Total Non-current Assets	90.2	141.0	142.2	143.2	143.6
Short-term Debt	16.4	22.1	22.1	22.1	22.1
Current Portion of Long-Term Debt					
Total Creditors	66.3	84.4	101.5	109.7	117.6
Other Current Liabilities	2.4	22.6	22.6	22.6	22.6
Total Current Liabilities	85.1	129.1	146.3	154.4	162.3
Total Long-term Debt	11.8	9.6	9.6	9.6	9.6
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.2	1.7	1.7	1.7	1.7
Total Non-current Liabilities	12.1	11.3	11.3	11.3	11.3
Total Provisions	0.7	0.0	0.0	0.0	0.0
Total Liabilities	97.8	140.4	157.5	165.7	173.6
Shareholders' Equity	153.4	170.0	189.4	211.6	236.8
Minority Interests	45.6	47.6	60.0	70.9	83.0
Total Equity	199.0	217.6	249.3	282.5	319.8

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	(3.6%)	24.4%	17.7%	8.0%	7.3%
Operating EBITDA Growth	(1.4%)	48.8%	39.4%	7.3%	12.9%
Operating EBITDA Margin	8.9%	10.7%	12.6%	12.6%	13.2%
Net Cash Per Share (\$\$)	0.08	0.06	0.08	0.13	0.20
BVPS (\$\$)	0.36	0.39	0.43	0.49	0.54
Gross Interest Cover	10.49	19.90	24.71	26.51	30.08
Effective Tax Rate	30.4%	29.7%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	24.4%	10.1%	9.9%	10.0%	10.1%
Accounts Receivables Days	118.4	98.8	96.1	100.1	100.5
Inventory Days	92.66	75.96	79.39	88.59	89.42
Accounts Payables Days	115.9	105.2	111.1	116.1	117.1
ROIC (%)	13.0%	20.6%	26.5%	25.2%	27.5%
ROCE (%)	10.2%	14.6%	18.8%	17.9%	18.2%
Return On Average Assets	5.5%	9.2%	10.5%	10.0%	10.1%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Motion control rev growth (%)	-6.7%	20.2%	25.0%	9.0%	8.0%
Gross profit margin (%)	26.6%	26.4%	27.3%	26.8%	27.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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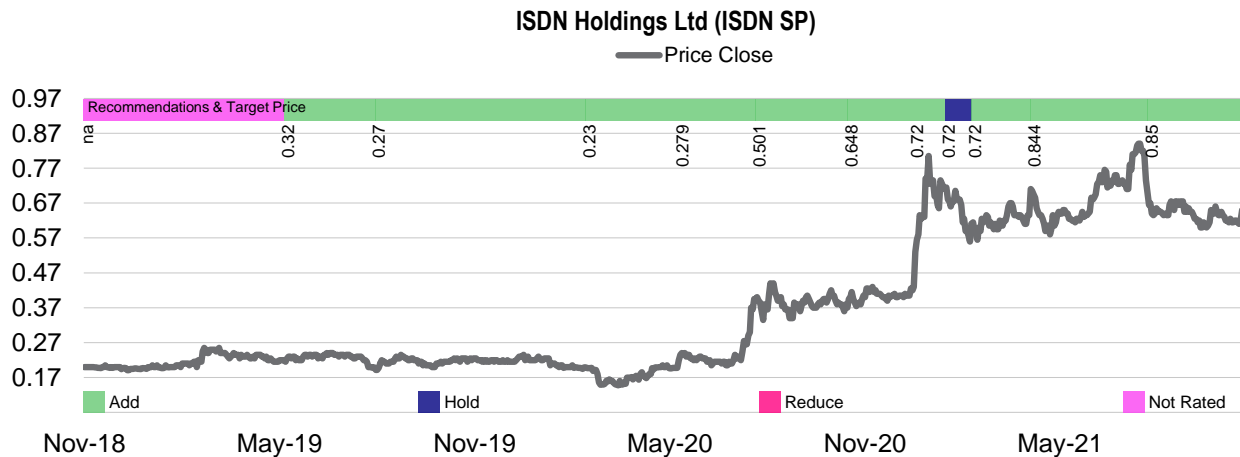
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623 companies under coverage for quarter ended on 30 September 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	72.4%	1.1%
Hold	20.1%	0.0%
Reduce	7.5%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** - Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** - Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

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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.
<i>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.</i>	
Sector Ratings	Definition:
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.
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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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