

Singapore

ADD (previously HOLD)

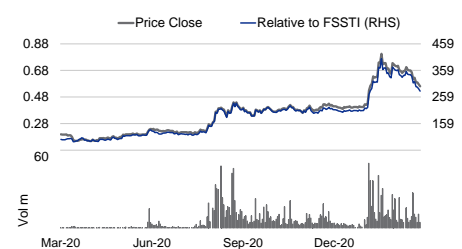
Consensus ratings*: Buy 1 Hold 1 Sell 0

Current price:	S\$0.56
Target price:	S\$0.72
Previous target:	S\$0.72
Up/downside:	28.5%
CGS-CIMB / Consensus:	0.0%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$183.1m
	S\$243.8m
Average daily turnover:	US\$4.99m
	S\$6.63m
Current shares o/s:	435.3m
Free float:	54.4%

*Source: Bloomberg

Key changes in this note

- FY21F EPS raised by 1.3%.
- FY22F EPS reduced by 0.1%.
- FY23F forecasts introduced.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-23.8	33.3	181.4
Relative (%)	-26.4	27.7	182.7

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

Strong performance from core business

- ISDN's FY20 revenue was slightly above our/Bloomberg consensus' expectations at 104.0%/103.4% of full-year forecasts.
- FY20 net profit was negatively affected by impairment and unrealised foreign exchange losses. Excluding impairment charges, core net profit was in line.
- We upgrade our call to Add (previously Hold) as ISDN's core industrial automation business continues to perform. TP remains unchanged at S\$0.72.

Focus on core earnings

ISDN's FY20 revenue grew 24.4% yoy to S\$361.9m. The core Industrial Automation (IA) business (93.1% of FY20 sales) saw yoy revenue growth of 17.7%, driven by accelerated investments in industrial automation arising from the Covid-19 pandemic. Gross profit margin for the IA business rose 0.9% pt to 27.8% in FY20 (FY19:26.9%). Net profit for FY20 grew 114.8% yoy to S\$15.1m (9M20: S\$15.1m). On a full-year basis, exceptional items included S\$4.6m in impairment losses on financial assets (which included impairment loss on funding to investee companies where legal claims are in progress) and a provision of S\$1.5m as a prudential measure for legal claims from a litigation against its former general manager. Excluding these exceptional items, core net profit would have been in line (99.9%) with our FY20 forecast and 14.3% above Bloomberg consensus' expectations. In FY20, ISDN also suffered an unrealised foreign exchange loss of S\$3.0m (we did not classify this as an exceptional item), without which, core net profit would have been above our forecast.

Macro trends still favourable

ISDN remains positive on the outlook for its core IA business. According to Mordor Intelligence, China's Factory Automation and Industrial Controls Market is forecast to grow at a compound annual growth rate of 9.8% over 2019 to 2025F. ISDN also noted that with the competition between China and the United States, there has been a significant reconfiguration of regional supply chains favouring suppliers based in Southeast Asia. ISDN believes it will continue to benefit from these trends. Other than the core IA business, ISDN guided that it remains on track to achieve commercialisation of its mini-hydropower business in 2021F. The group is also optimistic on the emerging disinfectant business led by its flagship certified Waterliq product which continues to gain commercial traction in addressing the need for ecologically-friendly disinfectants.

Upgrade to Add from Hold

We adjust FY21F-22F forecasts for housekeeping purposes and introduce FY23F forecasts. Target price remains unchanged at S\$0.72, still based on unchanged 12x (50% discount to peer average) FY22F earnings. Potential re-rating catalysts could come from stronger-than-expected sales orders for its mainstay industrial automation business and profit contribution from its hydropower segment. Downside risks are order delays, cost overruns in its hydropower business and a prolonged Covid-19 outbreak.

Financial Summary

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (S\$m)	291.0	361.9	383.2	391.0	395.6
Net Profit (S\$m)	6.59	15.14	24.50	26.12	27.40
Core EPS (S\$)	0.017	0.049	0.056	0.060	0.063
Core EPS Growth	(37%)	180%	15%	7%	5%
FD Core P/E (x)	30.80	11.39	9.95	9.33	8.90
Price To Sales (x)	0.83	0.67	0.64	0.62	0.62
DPS (S\$)	0.004	0.008	0.015	0.016	0.016
Dividend Yield	0.71%	1.43%	2.61%	2.79%	2.92%
EV/EBITDA (x)	9.77	6.70	5.80	5.07	4.47
P/FCFE (x)	14.49	8.97	14.71	7.61	7.10
Net Gearing	(16.4%)	(12.3%)	(15.2%)	(22.9%)	(29.9%)
P/BV (x)	1.57	1.43	1.30	1.18	1.07
ROE	5.0%	13.1%	13.7%	13.2%	12.6%
% Change In Core EPS Estimates			1.27%	(0.06%)	
CGS-CIMB/Consensus EPS (x)			1.13	1.07	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results summary

FYE Dec (\$\$ m)	2HFY20	2HFY19	yoy % chg	4QFY20 Cum	4QFY19 Cum	yoy % chg	Prev FY20F	Comments
Revenue	194.68	144.02	35.2	361.86	290.99	24.4	347.80	Above at 104.0%/103.4% of our/Bloomberg consensus
Operating costs	(177.17)	(129.84)	36.5	(319.21)	(264.55)	20.7	(307.60)	
EBITDA	17.51	14.18	23.4	42.66	26.44	61.4	40.20	
EBITDA margin (%)	8.99	9.85	(8.7)	11.79	9.09	29.8	11.56	
Depn & amort.	(2.15)	(2.77)	(22.6)	(4.09)	(3.83)	6.6	(4.04)	
EBIT	21.68	11.41	90.0	38.57	22.60	70.6	36.16	
Interest income	0.06	0.11	(43.0)	0.30	0.31	(2.6)	0.40	
Interest exp	(0.76)	(1.28)	(40.4)	(1.74)	(2.11)	(17.7)	(2.00)	
Associates	0.51	(0.41)	(223.9)	0.98	(0.14)	(809.4)	0.70	
Exceptionals	(6.12)	(0.52)	na	(6.12)	(0.45)	1,272.9	0.00	Net impairment loss on financial assets of S\$4.6m (including debts from investee companies where arbitration is in progress) on full-year basis. S\$1.5m provision for legal compensation risk relating to litigation against former General Manager.
Pretax profit	15.36	9.30	65.1	31.99	20.22	58.2	35.26	
Tax	(5.75)	(3.43)	67.3	(9.50)	(6.03)	57.5	(7.97)	
Tax rate (%)	37.40	36.91	1.3	29.68	29.82	(0.5)	22.60	
Minority interests	4.05	4.37	(7.4)	7.36	7.15	3.0	6.00	
Net profit	5.57	1.50	271.4	15.14	7.05	114.8	21.29	Below at 71.1%/81.4% of our/Bloomberg consensus expectation
Core net profit	11.69	2.02	478.1	21.26	7.49	183.8	21.29	Excluding exceptionals, core net profit was in line with our expectation (99.9% of our forecast) and 14.3% above Bloomberg consensus expectation. Core net profit would have been higher if we classify the unrealised foreign exchange loss of S\$3.0m in FY20 as an exceptional item.
EPS (S cts)	1.28	0.35	265.7	3.51	1.68	108.9	4.96	
Core EPS (S cts)	2.70	0.47	469.6	4.93	1.79	175.4	4.96	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

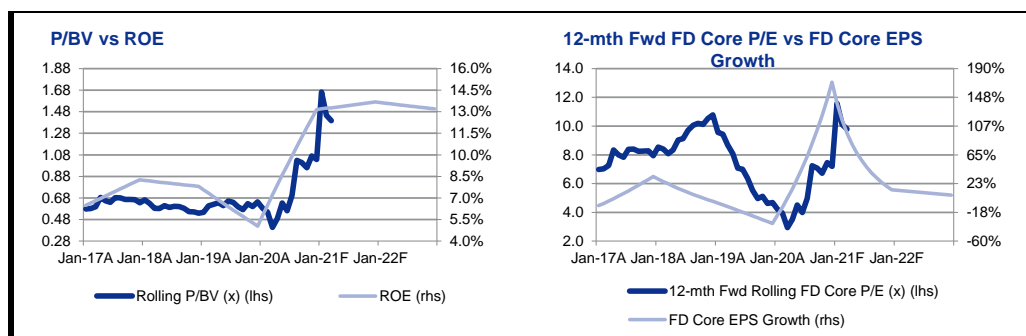
(\$\$ m)	Old		New		% chg	
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Revenue	357.9	372.3	383.2	391.0	7.0	5.0
Gross profit	92.0	97.5	98.5	102.4	7.0	5.0
Operating expenses	(59.4)	(62.5)	(63.2)	(65.0)	6.4	3.9
Operating profit	36.8	39.5	39.7	42.2	7.8	7.0
Net profit	23.9	25.8	24.5	26.1	2.6	1.3
Gross profit margin (%)	25.7	26.2	25.7	26.2	0.0	0.0
Net profit margin (%)	6.7	6.9	6.4	6.7	(0.3)	(0.2)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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 (%)
						CY21F	CY22F	CY23F		CY21F	CY22F		
ISDN Holdings Ltd	ISDN SP	Add	0.56	0.72	183	10.0	9.3	8.9	9.9%	1.30	1.18	13.7%	2.6%
Motion Control peers													
Allied Motion Technologies Inc	AMOT US	NR	50.33	na	491	29.2	na	na	na	na	na	na	na
Altra Industrial Motion Corp	AIMC US	NR	61.47	na	3,984	19.7	16.8	15.6	na	1.83	na	9.4%	0.4%
Hiwin Technologies Corp	2049 TT	NR	399.0	na	4,885	33.8	26.1	na	na	4.63	4.09	14.4%	0.9%
Omron Corp	6645 JP	NR	8,850	na	16,986	31.2	29.7	27.9	-44.1%	3.05	2.84	9.1%	1.0%
Teco Electric and Machinery Co	1504 TT	NR	30.35	na	2,337	16.4	na	na	na	1.08	na	6.2%	3.4%
Simple average						26.0	24.2	21.7	-44.1%	2.65	3.47	9.8%	1.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	291.0	361.9	383.2	391.0	395.6
Gross Profit	77.4	99.7	102.9	107.2	110.3
Operating EBITDA	25.9	38.6	44.1	47.0	48.9
Depreciation And Amortisation	(3.8)	(4.1)	(4.4)	(4.8)	(5.1)
Operating EBIT	22.1	34.5	39.7	42.2	43.8
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	42.0	44.3	45.7
Exceptional Items	(0.4)	(6.1)	0.0	0.0	0.0
Pre-tax Profit	19.7	32.0	42.0	44.3	45.7
Taxation	(6.0)	(9.5)	(9.5)	(10.0)	(10.3)
Exceptional Income - post-tax					
Profit After Tax	13.7	22.5	32.5	34.3	35.4
Minority Interests	(7.1)	(7.4)	(8.0)	(8.2)	(8.0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.6	15.1	24.5	26.1	27.4
Recurring Net Profit	7.5	21.3	24.5	26.1	27.4
Fully Diluted Recurring Net Profit	7.5	21.3	24.5	26.1	27.4

Cash Flow

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	25.95	38.62	44.11	46.99	48.93
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(1.40)	23.44	(14.24)	(0.92)	(0.37)
(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)	(9.49)	(10.02)	(10.34)
Cashflow From Operations	16.31	30.58	21.57	37.05	39.32
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)	(6.37)	(6.79)	(7.12)
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)	(6.37)	(6.79)	(7.12)
Total Cash Generated	18.56	20.94	10.21	25.26	27.19
Free Cashflow To Equity	15.92	27.00	16.57	32.05	34.32
Free Cashflow To Firm	18.03	26.23	18.57	34.05	36.32

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(S\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	60.9	58.5	68.7	93.9	121.1
Total Debtors	92.5	103.0	109.2	111.4	112.7
Inventories	53.2	55.6	71.0	71.9	72.4
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	206.6	217.0	248.8	277.3	306.2
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	91.3	93.2	94.3
Other Current Liabilities	2.4	22.6	22.6	22.6	22.6
Total Current Liabilities	85.1	129.1	136.0	137.9	139.0
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	147.3	149.2	150.3
Shareholders' Equity	153.4	170.0	188.1	207.5	227.7
Minority Interests	45.6	47.6	55.6	63.8	71.8
Total Equity	199.0	217.6	243.8	271.3	299.6

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	(3.6%)	24.4%	5.9%	2.0%	1.2%
Operating EBITDA Growth	(1.4%)	48.8%	14.2%	6.5%	4.1%
Operating EBITDA Margin	8.9%	10.7%	11.5%	12.0%	12.4%
Net Cash Per Share (S\$)	0.08	0.06	0.08	0.14	0.21
BVPS (S\$)	0.36	0.39	0.43	0.48	0.52
Gross Interest Cover	10.49	19.90	19.84	21.12	21.92
Effective Tax Rate	30.4%	29.7%	22.6%	22.6%	22.6%
Net Dividend Payout Ratio	24.4%	10.1%	10.5%	11.5%	12.5%
Accounts Receivables Days	118.4	98.8	101.0	103.0	103.4
Inventory Days	92.66	75.96	82.42	91.91	92.33
Accounts Payables Days	115.9	105.2	114.4	118.7	119.9
ROIC (%)	13.0%	20.6%	21.2%	20.9%	21.5%
ROCE (%)	10.2%	14.6%	15.3%	14.7%	13.9%
Return On Average Assets	5.51%	9.18%	9.10%	8.85%	8.50%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Motion control rev growth (%)	-6.7%	20.2%	5.0%	5.0%	5.0%
Gross profit margin (%)	26.6%	26.4%	25.7%	26.2%	26.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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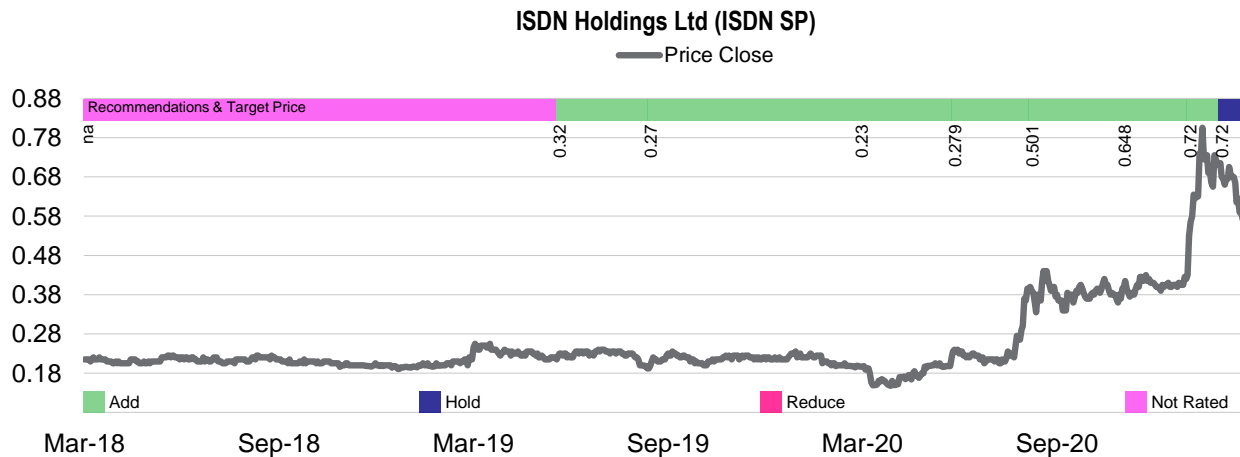
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	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.9%
Hold	21.7%	0.0%
Reduce	11.3%	0.3%

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

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

2 AGM Level 2019 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into:

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4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2019" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 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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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

#01c