

ISDN Holdings

(ISDN SP/ISDN.SI)

Business recovery, and more to come

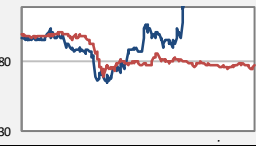
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- **ISDN provided 3Q20 updates on 4th November** – 9M20 sales are up 24.7% while 9M20 PATMI has already exceed FY19 PATMI.
- **Sales momentum to continue.** ISDN continued to have strong performance from China and Vietnam, offsetting COVID-19 delays to its Indonesian hydropower plants. Lower expenses have also helped to deliver strong profit figures.
- **Maintain OUTPERFORM with new TP of S\$0.60, 50% upside to Thursday's close.** We update cost estimates and the hydropower business forecast, as well as raise revenue growth forecasts for ISDN's side businesses.

ISDN reported their strongest quarterly results – implied 3Q20 sales are S\$96.8mn (9M20: S\$264mn, +24.7% YoY) with PBT of 9.6mn (9M20: 26.2mn, +49.4% YoY). 3Q20 gross margins were strong at 27.7% (9M20: 25.8%, -0.6% YoY) while profit margin fell by ~60bps vs 1H20, from 7.7% to 7.1% (9M20: 7.5%, +1.2% YoY). 9M20 PATMI at 15.1mn now exceeds FY19 PATMI.

Geographic-dependent performance. By end-industries, revenue mix between 1H20 and 3Q20 were largely similar. However, sales to Vietnam and China saw an expansion in 3Q20, in accordance to China's recovery in the industrial automation industry, as well as supply chain shifts into Vietnam. Meanwhile in Indonesia, the hydropower businesses were still stalled by COVID-19 case escalations. Anggocci and Sisira are still billed at 98% completion, while the 3rd plant Lau Biang is at 50.5% completion with a view of completion around 2Q or 3Q FY2021. Upside surprises this quarter came from industrial computing and system solutions, as both business segments brought in quarterly sales that exceeded 1H20's results.

While the 4th quarter is traditionally a weaker quarter for ISDN, we doubt this would be the case this year as 1) ISDN mgmt. indicated that order book remains healthy, above the previously disclosed level of S\$80mn and 2) Prior 4Q18 weakness was due to a one-off trade receivable impairment while 4Q19 weakness was from above-average admin expenses. Operating expenses this year have been kept to an all-time low of ~16% of sales, with evident results on the bottom line, as travel is still low priority amongst ISDN executives, with most meetings taking place online. Going forward, we expect ISDN to maintain such cost savings, as more productivity measures such as CRM software is implemented.

Outperform (Maintain)		Performance (Absolute)	
Price as of 19 Nov 20 (SGD)	0.40	1 Month (%)	0.0
12M TP (\$)	\$0.60	3 Month (%)	13.4
Previous TP (\$)	0.47	12 Month (%)	78.8
Upside, incl div (%)	50.1		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	172		
Issued Shares (mn)	435		
Vol - 3M Daily avg (mn)	9.9		
Val - 3M Daily avg (\$mn)	3.9		
Free Float (%)	54.4%		
Major Shareholders		Previous Recommendations	
Teo Cher Koon	31.7%	20-Aug-20	OP S\$0.47
Novo Tellus	8.9%	6-Aug-20	OP S\$0.42

Financials & Key Operating Statistics					
YE Dec (\$ m)	2018	2019	2020F	2021F	2022F
Revenue	301,990	290,985	352,363	361,680	387,185
PATMI	10,946	7,047	15,934	18,425	22,282
EPS (cents)	2.77	1.68	3.71	4.29	5.19
EPS growth (%)	15.4%	(39.3%)	120.4%	15.6%	20.9%
DPS (Sing cents)	0.70	0.40	0.93	1.07	1.30
Div Yield (Y%)	1.8%	1.0%	2.3%	2.7%	3.3%
Net Profit Margin (%)	5.5%	4.9%	6.5%	7.3%	8.2%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Price P/B (x)	1.08	1.08	1.03	0.95	0.87
ROE (%)	7.8%	4.8%	10.0%	10.7%	11.9%

Source: Company data, KGI Research

Forecasts: We raise FY20/FY21 revenue forecasts by 3.9%/4.1%, buoyed by industrial computing and system solutions growth. For hydropower segment, we estimate another S\$3-4mn of construction revenue recognition this year, followed by S\$9mn next year as the 3 plants complete construction, and assume ~S\$5mn of tariff revenue for FY21, which climbs to S\$17mn in FY22 and on as all 3 plants become fully operational. We also remodel gross profit estimates, taking 70% GPM during the tariff stage, leading to a pick-up in gross profits in FY21 onwards. We lower distribution costs to 7% of sales for FY20 and 7.5% going forward, while raising finance costs marginally to match increased debt. We reduce non-controlling interest to 30% as 3Q20 results imply continued <30% NCI, similar to 1H20. EPS estimates are up 13.2%/27.7% in FY20F/FY21F from overall changes.

Valuation & Action: At 14x P/E, our 12M TP is now S\$0.60, a 50% upside to Thursday's close price. We maintain our OUTPERFORM recommendation. Further upside catalysts to come from earlier-than-expected hydropower completion dates, better-than-expected hydropower margins, and further expansion of disinfectant business.

Risks: Further delays on hydropower projects, order book delays, trade receivable write-downs, FX losses.

Figure 1: Results comparison to prior FY20 forecast and 9M20. Red numbers indicate implied figure.

Values in SGD '000	Old FY20F	9M20	% of estimate	Variance
Revenue	339,192	264,015	77.8%	
Cost of sales	-247,610	-195,903	79.1%	
Gross Profit	91,582	68,112	74.4%	
Operating expenses	-59,019	-42,026	71.2%	
Profit from Operations	32,562	26,086	80.1%	
Finance income/(expenses)	-1,637	n/a	n/a	
Profit before Tax	30,926	26,265	84.9%	
Net profit	21,648	19,801	91.5%	
PATMI	14,071	15,058	107.0%	
<i>Gross Margin</i>	27.0%	25.8%		-1.2%
<i>PBT Margin</i>	9.1%	9.9%		0.8%
<i>Net Profit Margin</i>	6.4%	7.5%		1.1%
<i>PATMI Margin</i>	4.1%	5.7%		1.6%
EPS (in Scents)	3.28	3.51	107.0%	

Values in SGD '000	9M20	9M19	yoy % chg
Revenue	264,015	211,682	24.7%
Cost of sales	-195,903	-155,903	25.7%
Gross Profit	68,112	55,779	22.1%
Operating expenses	-42,026	-39,925	5.3%
Profit from Operations	26,086	15,854	64.5%
Finance income/(expenses)	n/a	-1,315	n/a
Profit before Tax	26,265	17,581	49.4%
Net profit	19,801	13,336	48.5%
PATMI	15,058	7,331	105.4%
<i>Gross Margin</i>	25.8%	26.4%	-0.6%
<i>PBT Margin</i>	9.9%	8.3%	1.6%
<i>Net Profit Margin</i>	7.5%	6.3%	1.2%
<i>PATMI Margin</i>	5.7%	3.5%	2.2%
EPS (in Scents)	3.51	1.77	98.0%

Source: Company data, KGI Research

Figure 2: New FY20, FY21 and implied 4Q20 forecasts

Values in SGD '000	New FY20F	Old FY20F	Variance
Revenue	352,363	339,192	3.9%
Cost of sales	-260,970	-247,610	5.4%
Gross Profit	91,393	91,582	-0.2%
Operating expenses	-56,730	-59,019	-3.9%
Profit from Operations	34,663	32,562	6.5%
Finance income/(expenses)	-2,144	-1,637	31.0%
Profit before Tax	32,519	30,926	5.2%
Net profit	22,764	21,648	5.2%
PATMI	15,934	14,071	13.2%
<i>Gross Margin</i>	<i>25.9%</i>	<i>27.0%</i>	<i>-1.1%</i>
<i>PBT Margin</i>	<i>9.2%</i>	<i>9.1%</i>	<i>0.1%</i>
<i>Net Profit Margin</i>	<i>6.5%</i>	<i>6.4%</i>	<i>0.1%</i>
<i>PATMI Margin</i>	<i>4.5%</i>	<i>4.1%</i>	<i>0.4%</i>
EPS (in Scents)	3.71	3.28	13.2%

Values in SGD '000	New FY21F	Old FY21F	Variance
Revenue	361,680	347,370	4.1%
Cost of sales	-261,896	-253,580	3.3%
Gross Profit	99,783	93,790	6.4%
Operating expenses	-60,039	-60,442	-0.7%
Profit from Operations	39,745	33,347	19.2%
Finance income/(expenses)	-2,144	-1,637	31.0%
Profit before Tax	37,601	31,711	18.6%
Net profit	26,321	22,197	18.6%
PATMI	18,425	14,428	27.7%
<i>Gross Margin</i>	<i>27.6%</i>	<i>27.0%</i>	<i>0.6%</i>
<i>PBT Margin</i>	<i>10.4%</i>	<i>9.1%</i>	<i>1.3%</i>
<i>Net Profit Margin</i>	<i>7.3%</i>	<i>6.4%</i>	<i>0.9%</i>
<i>PATMI Margin</i>	<i>5.1%</i>	<i>4.2%</i>	<i>0.9%</i>
EPS (in Scents)	4.29	3.36	27.7%

Values in SGD '000	4Q20F	4Q19	yoy % chg
Revenue	88,348	79,303	11.4%
Cost of sales	-65,067	-57,657	12.9%
Gross Profit	23,281	21,646	7.6%
Operating expenses	-14,704	-14,587	0.8%
Profit from Operations	8,577	7,059	21.5%
Finance income/(expenses)	n/a	-792	n/a
Profit before Tax	6,254	2,641	136.8%
Net profit	2,962	856	246.1%
PATMI	876	-284	-408.6%
<i>Gross Margin</i>	<i>26.4%</i>	<i>27.3%</i>	<i>-0.9%</i>
<i>PBT Margin</i>	<i>7.1%</i>	<i>3.3%</i>	<i>3.7%</i>
<i>Net Profit Margin</i>	<i>3.4%</i>	<i>1.1%</i>	<i>2.3%</i>
<i>PATMI Margin</i>	<i>1.0%</i>	<i>-0.4%</i>	<i>1.4%</i>
EPS (in Scents)	0.20	-0.09	-333.6%

Source: Company data, KGI Research

Figure 2: Peer comparison table

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Net Gearing (%)	P/E (x)		P/B (x)		(YTD) Price Performance	(1YR) Price Performance	(1YR) Total Returns (%)	
				FY19	FY20F		12M	Forward	Historical	Forward				
ISDN SP	ISDN HOLDINGS LTD	SGD 0.40	128	1.7	2.5	-3.9	15.3	10.1	0.6	1.0	71.7	75.6	78.8	
Japan automation-related companies														
6861 JP	KEYENCE CORP	JPY 51880.00	121,475	0.6	0.4	-53.7	68.4	66.9	4.4	6.6	38.8	41.9	40.5	
6954 JP	FANUC CORP	JPY 24545.00	47,715	2.0	0.9	-38.9	76.8	67.8	2.1	3.4	21.3	17.9	18.0	
6645 JP	OMRON CORP	JPY 8470.00	16,818	1.5	1.0	-29.0	47.9	45.3	2.1	3.1	31.9	29.1	30.1	
6506 JP	YASKAWA ELECTRIC CORP	JPY 4765.00	12,234	1.5	0.6	17.9	82.1	71.5	3.9	5.3	14.3	16.1	14.1	
6324 JP	HARMONIC DRIVE SYSTEMS INC	JPY 7640.00	7,084	0.4	0.3	-9.1	-	1383.6	4.6	7.5	45.0	57.4	54.7	
6845 JP	AZBIL CORP	JPY 4500.00	6,291	1.8	1.1	-42.1	31.5	34.0	2.1	3.2	45.9	41.3	42.5	
6841 JP	YOKOGAWA ELECTRIC CORP	JPY 1875.00	4,849	2.6	1.8	-14.4	34.3	25.3	1.2	1.7	-2.8	1.0	1.3	
6481 JP	THK CO LTD	JPY 3020.00	3,892	1.1	0.5	-14.6	-	-	1.3	1.4	1.8	1.0	-0.1	
6407 JP	CKD CORP	JPY 2104.00	1,376	1.2	0.7	5.5	28.7	45.0	1.1	1.6	14.5	15.0	16.9	
Average				24,637	1.4	0.8	(19.8)	52.8	217.4	2.5	3.8	23.0	24.5	24.2
Median				7,084	1.5	0.7	(14.6)	47.9	56.1	2.1	3.2	21.3	17.9	18.0
Europe automation-related companies														
ABBN SW	ABB LTD-REG	CHF 25.10	59,803	3.3	3.0	42.7	119.9	36.5	3.8	3.8	7.4	15.6	20.7	
KUKAF US	KUKA AG	USD 45.00	1,764	0.4	0.4	-4.6	-	-	1.4	1.6	18.4	3.8	0.1	
ISR GR	ISRA VISION AG	EUR 47.48	1,237	0.4	-	-0.6	78.9	-	3.9	-	22.2	7.2	7.0	
HMS SS	HMS NETWORKS AB	SEK 231.50	1,261	1.1	0.7	39.3	45.9	53.5	8.1	8.9	34.0	59.2	61.9	
OEMB SS	OEM INTERNATIONAL AB-B SHS	SEK 283.00	763	2.8	-	12.4	21.5	-	5.4	-	13.2	30.4	31.0	
Average				12,965	1.6	1.4	17.8	66.6	45.0	4.5	4.8	19.0	23.2	24.1
Median				1,261	1.1	0.7	12.4	62.4	45.0	3.9	3.8	18.4	15.6	20.7
North American automation-related companies														
ROK US	ROCKWELL AUTOMATION INC	USD 241.32	28,036	1.8	1.8	123.2	31.8	28.3	24.9	22.1	19.1	22.7	24.4	
CGNX US	COGNEX CORP	USD 71.36	12,462	0.4	0.3	-29.1	84.1	73.5	7.1	8.2	27.3	41.2	43.6	
ATA CN	ATS AUTOMATION TOOLING SYS	CAD 19.52	1,380	0.0	-	35.3	32.7	20.9	1.7	0.0	-8.9	-1.0	-2.0	
Average				13,959	0.7	1.0	43.2	49.5	40.9	11.3	10.1	12.5	21.0	22.0
Median				12,462	0.4	1.0	35.3	32.7	28.3	7.1	8.2	19.1	22.7	24.4

*Negative Net Gearing = net cash position

Source: Bloomberg, KGI Research

Financials

FYE 31 December					
INCOME STATEMENT (SGD '000)	2018	2019	2020F	2021F	2022F
Revenues	301,990	290,985	352,363	361,680	387,185
Cost of sales	(221,441)	(213,560)	(260,970)	(261,896)	(275,294)
Gross profit	80,549	77,425	91,393	99,783	111,891
Distribution costs	(25,672)	(25,588)	(24,665)	(27,126)	(29,039)
Administrative expenses	(30,859)	(30,993)	(35,589)	(36,530)	(39,106)
Other operating income	4,933	3,356	5,285	5,425	5,808
Other operating expenses	(2,085)	(1,287)	(1,762)	(1,808)	(1,936)
Net impairment losses on financial assets	(2,503)	(446)	–	–	–
Finance costs	(1,035)	(2,107)	(2,144)	(2,144)	(2,144)
Share of (loss) / profit of associates, net	368	(138)	–	–	–
Profit before income tax	23,696	20,222	32,519	37,601	45,474
Income tax	(7,118)	(6,030)	(9,756)	(11,280)	(13,642)
Profit for the year	16,578	14,192	22,764	26,321	31,832
Non-controlling interests	5,632	7,145	6,829	7,896	9,550
PATMI	10,946	7,047	15,934	18,425	22,282
BALANCE SHEET (SGD '000)	2018	2019	2020F	2021F	2022F
Cash and cash equivalents	41,877	37,998	51,997	68,116	87,633
Other current assets	157,018	164,935	164,935	164,935	164,935
Total current assets	198,895	202,933	216,932	233,051	252,568
Property, plant and equipment	39,314	43,965	42,941	41,825	40,453
Intangible assets	12,227	12,227	12,227	12,227	12,227
Service concession receivables	30,233	34,261	42,705	42,705	42,705
Other non-current assets	38,275	42,637	51,081	51,081	51,081
Total non-current assets	89,816	98,829	106,249	105,133	103,761
Total assets	288,711	301,762	323,181	338,184	356,328
Trade and other payables	58,783	60,769	60,769	60,769	60,769
Loans and contract liabilities	27,020	29,099	27,830	27,830	27,830
Other current liabilities	2,367	4,264	4,264	4,264	4,264
Total current liabilities	88,170	94,132	92,863	92,863	92,863
Borrowings	11,842	7,096	16,809	16,809	16,809
Other non-current liabilities	881	1,964	1,964	1,964	1,964
Total non-current liabilities	12,723	9,060	18,773	18,773	18,773
Total liabilities	100,893	103,192	111,636	111,636	111,636
Unitholders' funds and reserves	187,818	198,570	211,545	226,548	244,692
Total liabilities and equity	288,711	301,762	323,181	338,184	356,328
CASH FLOW STATEMENT (SGD '000)	2018	2019	2020F	2021F	2022F
Profit before tax	23,696	20,222	32,519	37,601	45,474
Adjustments	4,901	7,812	12,497	5,760	6,015
Operating cash flows before WC changes	28,597	28,034	45,017	43,361	51,490
Change in working capital	20,111	(5,358)	–	–	–
Income tax paid	(5,708)	(5,721)	(9,756)	(11,280)	(13,642)
Other adjustments	(30,667)	(6,475)	(2,144)	(2,144)	(2,144)
Cash flows from operations	12,333	10,480	33,117	29,938	35,704
Capital expenditure	(2,632)	(5,017)	(2,500)	(2,500)	(2,500)
Acquisition of subsidiaries	(5,297)	–	–	–	–
Others	(5,687)	(4,798)	–	–	–
Cash flows from investing	(13,616)	(9,815)	(2,500)	(2,500)	(2,500)
Lease payments	(183)	(1,718)	–	–	–
Dividends paid	(8,643)	(7,215)	(9,788)	(11,318)	(13,688)
Interest paid	–	(163)	–	–	–
Other financing cashflow	9,446	2,066	–	–	–
Cash flows from financing	620	(7,030)	(9,788)	(11,318)	(13,688)
FX Effects, Others	(135)	278	–	–	–
Net increase in cash	(663)	(6,365)	20,829	16,120	19,516
Beginning Cash	38,053	37,255	31,168	51,997	68,116
Ending cash	37,255	31,168	51,997	68,116	87,633
KEY RATIOS	2018	2019	2020F	2021F	2022F
EPS (SGD cents)	2.77	1.68	3.71	4.29	5.19
DPS (SGD cents)	0.70	0.40	0.93	1.07	1.30
Dividend yield (%)	1.8%	1.0%	2.3%	2.7%	3.2%
NAV per share (SGD)	0.4	0.4	0.4	0.4	0.5
Price/NAV (x)	1.1	1.1	1.0	1.0	0.9
Profitability					
EBITDA Margin (%)	8.9%	7.0%	9.3%	10.5%	11.8%
Net Margin (%)	5.5%	4.9%	6.5%	7.3%	8.2%
ROE (ex. Property FV gain) (%)	7.8%	4.8%	10.0%	10.7%	11.9%
ROA (ex. Property FV gain) (%)	6.3%	4.8%	7.3%	8.0%	9.2%
Financial Structure					
Interest Coverage Ratio (x)	23.9	10.6	16.2	18.5	22.2
Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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