

## ISDN Holdings

4Q11 results update

## Overweight

Current Price **S\$0.13**  
05 March 2012

Fair Value **S\$0.22**

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## Historical Chart



Source: Bloomberg

## Stock Statistics

|                    |          |
|--------------------|----------|
| Market Cap         | S\$38.8m |
| 52-HI              | S\$0.205 |
| 52-LOW             | S\$0.111 |
| Avg Vol (1 yr)     | 485,555  |
| Shares Outstanding | 298.7m   |
| Free Float         | 118.5m   |

## Key Indicators

|             |          |
|-------------|----------|
| ROE 12F     | 11.5%    |
| ROA 12F     | 7.0%     |
| P/BK        | 0.64x    |
| Net cash/sh | Net cash |

## Major Shareholders

|                   |       |
|-------------------|-------|
| Teo Cher Koon     | 51.5% |
| Karl Walter Braun | 8.8%  |

## Core business remains steady

- **Spot on.** 4Q11 net profit of S\$1.1m (-48% yoy) was spot on with our expectation. Despite an expected slowdown for the current and next quarter, we have kept our estimates unchanged as we expect a stronger second half this year. Our fair value remains S\$0.22, still pegged at 1x FY12 P/NTA or an implied 6.6x FY12 PER. Given the undemanding valuation with reasonable yield of 3-5% yield, maintain **Overweight**.
- **Semiconductor outlook is for a recovery but expect this to be slow.** According to SEMI, the North American equipment makers posted US\$1.18bn in orders in January-2012 (3 month average basis), which experienced their fourth consecutive month of improvement in orders. Despite the fact that consumer confidence globally is still weak, we believe the worst could be over as the semiconductor and automotive sectors have suffered and come through two major crises from the Japan earthquake and Thailand floods.
- **Expect contribution from Hydroponics business in second half of the year.** In a separate announcement, the group's wholly-owned subsidiary, Eil-Gro Hydroponics Pte Ltd (EGH) has entered into a JV agreement with Ho Lee Group Pte Ltd to establish a business of setting up and operating hydroponics farms across the Asia-Pacific region. The issued share capital of the JV Company will be S\$2.2m, of which EGH will own 51%. According to management, they will be setting up two farms at the beginning (cost about S\$400k per farm) located in Johor Bahru and supply mainly to supermarkets such as NTUC and Cold Storage.
- **Sales dropped 20% yoy to S\$36.1m** due mainly to slowdown in demand from semicon equipment. The decline was also partially due to the formation of an associated company with a brand owner. The associated company has since taken over the products that were previously distributed by its subsidiaries. Nevertheless, its gross profit margins improved slightly by 0.9% yoy to 30.8%.
- **Balance sheet remains healthy.** ISDN generated S\$1.8m of negative free cash flow in 4Q after increasing its capex spending. However, including S\$3.8m disposal of investment, net cash increased by S\$1.4m from previous quarter to S\$6.4m as at December quarter. As expected, the board declared a final dividend of S\$0.005.

## Key Financial Data

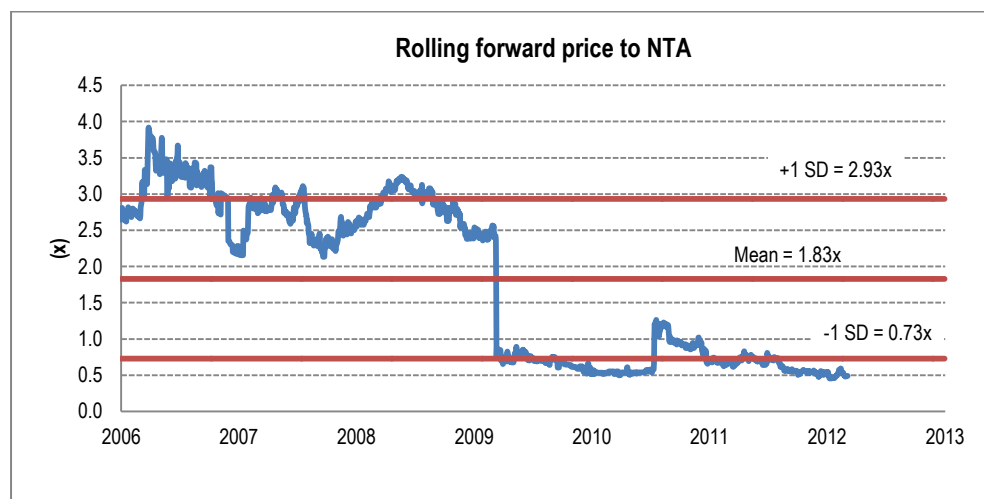
| (S\$ m, FYE Dec)         | 2010  | 2011   | 2012F | 2013F | 2014F |
|--------------------------|-------|--------|-------|-------|-------|
| <b>Sales</b>             | 163.6 | 165.9  | 182.5 | 200.8 | 220.9 |
| <b>Gross Profit</b>      | 48.0  | 48.5   | 51.1  | 56.2  | 61.8  |
| <b>Net Profit</b>        | 8.3   | 8.4    | 9.9   | 11.1  | 12.2  |
| <b>EPS (cents)</b>       | 3.3   | 2.8    | 3.3   | 3.7   | 4.1   |
| <b>EPS growth (%)</b>    | 692.4 | (14.6) | 18.1  | 11.4  | 10.5  |
| <b>PER (x)</b>           | 3.9   | 4.6    | 3.9   | 3.5   | 3.2   |
| <b>NTA/share (cents)</b> | 20.4  | 20.0   | 21.9  | 24.0  | 26.4  |
| <b>DPS (cents)</b>       | 0.5   | 0.5    | 0.5   | 0.6   | 0.7   |
| <b>Div Yield (%)</b>     | 3.8   | 3.8    | 4.2   | 4.7   | 5.1   |

Source: Company, NRA Capital estimates

## Results comparison

| FYE Dec (\$\$ m)     | 4Q11       | 4Q10       | yoy %<br>chg | 3Q11       | qoq %<br>chg | Prev.<br>4Q11F | Comments                                 |
|----------------------|------------|------------|--------------|------------|--------------|----------------|--|
| Revenue              | 36.1       | 45.2       | (20)         | 36.7       | (2)          | 39.0           | Slightly below expectation               |
| Operating costs      | (34.3)     | (40.3)     | (15)         | (37.0)     | (7)          | (37.6)         | Below, lower-than-expected sales         |
| EBITDA               | 1.8        | 4.9        | (63)         | (0.3)      | 746          | 1.4            | Above, better-than-expected margins      |
| EBITDA margin (%)    | 5.0        | 10.8       |              | (0.8)      |              | 3.6            | 1.4% pt above expectation                |
| Depn & amort.        | (0.7)      | (1.3)      | (49)         | 1.0        | (166)        | (0.5)          | In line                                  |
| EBIT                 | 1.1        | 3.6        | (69)         | 0.7        | 50           | 0.9            | Above, better-than-expected margins      |
| Interest expense     | (0.3)      | (0.4)      | (8)          | (0.3)      | 3            | (0.3)          | In line                                  |
| Interest & invt inc  | 0.8        | 0.3        | 164          | 1.9        | (56)         | 0.8            | In line                                  |
| Associates' contrib  | (0.1)      | 0.1        | (167)        | 0.2        | (147)        | 0.3            | Below, loss contribution from associates |
| Exceptionals         | 0.0        | 0.0        | 0            | 0.0        | 0            | 0.0            |  |
| <b>Pretax profit</b> | <b>1.5</b> | <b>3.7</b> | <b>(58)</b>  | <b>2.5</b> | <b>(40)</b>  | <b>1.7</b>     | 10% below expectation                    |
| Tax                  | (0.6)      | (1.1)      | (49)         | (0.2)      | 217          | (0.5)          | In line                                  |
| Tax rate (%)         | 37.6       | 30.4       |              | 7.2        |              | 31.4           |  |
| Minority interests   | 0.1        | (0.5)      | 123          | (0.5)      | 122          | (0.1)          | Above, loss from associates              |
| <b>Net profit</b>    | <b>1.1</b> | <b>2.1</b> | <b>(48)</b>  | <b>1.8</b> | <b>(42)</b>  | <b>1.1</b>     | Spot on                                  |
| EPS (cts)            | 0.4        | 0.8        | (56)         | 0.6        | (42)         | 0.4            |  |

Source: Bloomberg, NRA Capital Research



Source: NRA Capital Estimates

| <b>Profit &amp; Loss</b> (S\$ m, FYE Dec) | <b>2010</b> | <b>2011</b> | <b>2012F</b> | <b>2013F</b> | <b>2014F</b> |
|---|-------------|-------------|--------------|--------------|--------------|
| Revenue                                   | 163.6       | 165.9       | 182.5        | 200.8        | 220.9        |
| Operating expenses                        | (147.7)     | (150.9)     | (163.7)      | (180.3)      | (198.5)      |
| EBITDA                                    | 15.9        | 15.1        | 18.8         | 20.5         | 22.3         |
| Depreciation & amortisation               | (0.3)       | (2.2)       | (2.2)        | (2.2)        | (2.2)        |
| EBIT                                      | 15.6        | 12.8        | 16.6         | 18.3         | 20.1         |
| Net interest & invt income                | (1.4)       | 1.5         | 0.1          | 0.3          | 0.4          |
| Associates' contribution                  | 0.5         | 0.7         | 0.9          | 1.0          | 1.1          |
| Exceptional items                         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          |
| <b>Pretax profit</b>                      | <b>14.7</b> | <b>15.1</b> | <b>17.6</b>  | <b>19.6</b>  | <b>21.6</b>  |
| Tax                                       | (4.0)       | (4.0)       | (4.9)        | (5.5)        | (6.1)        |
| Minority interests                        | (2.4)       | (2.7)       | (2.7)        | (3.0)        | (3.3)        |
| <b>Net profit</b>                         | <b>8.3</b>  | <b>8.4</b>  | <b>9.9</b>   | <b>11.1</b>  | <b>12.2</b>  |
| Wt. shares (m)                            | 251.7       | 298.7       | 298.7        | 298.7        | 298.7        |
| Shares at year-end (m)                    | 251.7       | 298.7       | 298.7        | 298.7        | 298.7        |

| <b>Balance Sheet</b> (S\$ m, as at Dec)     | <b>2010</b>  | <b>2011</b>  | <b>2012F</b> | <b>2013F</b> | <b>2014F</b> |
|---|--------------|--------------|--------------|--------------|--------------|
| Fixed assets                                | 24.9         | 27.9         | 31.8         | 35.7         | 39.6         |
| Intangible assets                           | 11.9         | 11.7         | 11.7         | 11.7         | 11.7         |
| Other long-term assets                      | 4.2          | 4.8          | 4.9          | 5.1          | 5.2          |
| <b>Total non-current assets</b>             | <b>41.0</b>  | <b>44.4</b>  | <b>48.4</b>  | <b>52.5</b>  | <b>56.5</b>  |
| Cash and equivalents                        | 29.0         | 28.4         | 34.3         | 35.8         | 40.5         |
| Stocks                                      | 25.8         | 29.2         | 31.5         | 34.7         | 38.2         |
| Trade debtors                               | 42.5         | 36.7         | 43.2         | 49.2         | 56.1         |
| Other current assets                        | 0.6          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total current assets</b>                 | <b>97.8</b>  | <b>94.3</b>  | <b>109.1</b> | <b>119.7</b> | <b>134.7</b> |
| Trade creditors                             | 37.2         | 31.3         | 40.7         | 43.8         | 47.2         |
| Short-term borrowings                       | 16.8         | 11.1         | 9.1          | 8.0          | 8.8          |
| Other current liabilities                   | 2.1          | 1.6          | 2.5          | 2.7          | 3.0          |
| <b>Total current liabilities</b>            | <b>56.1</b>  | <b>43.9</b>  | <b>52.3</b>  | <b>54.6</b>  | <b>59.1</b>  |
| Long-term borrowings                        | 8.3          | 10.9         | 10.3         | 10.2         | 11.2         |
| Other long-term liabilities                 | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total long-term liabilities</b>          | <b>8.3</b>   | <b>11.0</b>  | <b>10.3</b>  | <b>10.3</b>  | <b>11.2</b>  |
| <b>Shareholders' funds</b>                  | <b>68.9</b>  | <b>77.7</b>  | <b>86.1</b>  | <b>95.4</b>  | <b>105.7</b> |
| Minority interests                          | 5.6          | 6.1          | 8.9          | 11.9         | 15.2         |
| NTA/share (S\$)                             | 0.20         | 0.20         | 0.22         | 0.24         | 0.26         |
| <b>Total Assets</b>                         | <b>138.8</b> | <b>138.7</b> | <b>157.5</b> | <b>172.2</b> | <b>191.2</b> |
| <b>Total Liabilities + S'holders' funds</b> | <b>138.8</b> | <b>138.7</b> | <b>157.5</b> | <b>172.2</b> | <b>191.2</b> |

| <b>Cash Flow</b> (S\$ m, FYE Dec)   | <b>2010</b>  | <b>2011</b>  | <b>2012F</b> | <b>2013F</b> | <b>2014F</b> |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Pretax profit                       | 14.7         | 15.1         | 17.6         | 19.6         | 21.6         |
| Depreciation & non-cash adjustments | 4.2          | 3.6          | (0.7)        | (1.1)        | (1.3)        |
| Working capital changes             | (5.0)        | (9.7)        | (0.2)        | (6.7)        | (7.7)        |
| Cash tax paid                       | (2.5)        | (4.5)        | (1.6)        | (2.5)        | (2.8)        |
| Others                              | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Cash flow from operations</b>    | <b>11.4</b>  | <b>4.5</b>   | <b>15.1</b>  | <b>9.3</b>   | <b>9.8</b>   |
| Capex                               | (4.9)        | (4.2)        | (5.0)        | (5.0)        | (5.0)        |
| Net investments & sale of FA        | (0.3)        | 6.3          | 0.0          | 0.0          | 0.0          |
| Others                              | (3.7)        | (0.0)        | 0.0          | 0.0          | 0.0          |
| <b>Cash flow from investing</b>     | <b>(8.8)</b> | <b>2.1</b>   | <b>(5.0)</b> | <b>(5.0)</b> | <b>(5.0)</b> |
| Debt raised/(repaid)                | 2.6          | (2.6)        | (2.6)        | (1.1)        | 1.8          |
| Equity raised/(repaid)              | 5.4          | 0.0          | 0.0          | 0.0          | 0.0          |
| Dividends paid                      | 0.0          | (1.5)        | (1.5)        | (1.6)        | (1.8)        |
| Cash interest & others              | (0.3)        | (2.5)        | (0.1)        | (0.1)        | (0.1)        |
| <b>Cash flow from financing</b>     | <b>7.6</b>   | <b>(6.6)</b> | <b>(4.2)</b> | <b>(2.8)</b> | <b>(0.1)</b> |
| <b>Change in cash</b>               | <b>10.3</b>  | <b>(0.1)</b> | <b>5.9</b>   | <b>1.5</b>   | <b>4.7</b>   |
| <b>Change in net cash/(debt)</b>    | <b>7.8</b>   | <b>2.5</b>   | <b>8.5</b>   | <b>2.6</b>   | <b>2.9</b>   |
| <b>Ending net cash/(debt)</b>       | <b>3.9</b>   | <b>6.4</b>   | <b>14.9</b>  | <b>17.5</b>  | <b>20.4</b>  |

| <b>KEY RATIOS</b> (FYE Dec) | <b>2010</b> | <b>2011</b> | <b>2012F</b> | <b>2013F</b> | <b>2014F</b> |
|-----------------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue growth (%)          | 53.4        | 1.4         | 10.0         | 10.0         | 10.0         |
| EBITDA growth (%)           | 119.7       | (5.3)       | 25.0         | 8.8          | 8.9          |
| Pretax margins (%)          | 9.0         | 9.1         | 9.7          | 9.8          | 9.8          |
| Net profit margins (%)      | 5.1         | 5.1         | 5.5          | 5.5          | 5.5          |
| Interest cover (x)          | 16.0        | 14.1        | 19.2         | 22.4         | 22.6         |
| Effective tax rates (%)     | 27.4        | 26.6        | 28.0         | 28.0         | 28.0         |
| Net dividend payout (%)     | 18.0        | 0.0         | 0.0          | 0.0          | 0.0          |
| Debtors turnover (days)     | 94.7        | 80.7        | 86.5         | 89.5         | 92.7         |
| Stock turnover (days)       | 81.5        | 90.8        | 87.6         | 87.6         | 87.6         |
| Creditors turnover (days)   | 82.9        | 68.8        | 81.4         | 79.7         | 78.1         |

Source: Company, NRA Capital Estimates

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