

## ISDN Holdings

2Q11 results update

## Overweight

Current Price **S\$0.15**  
10 August 2011

Fair Value **S\$0.29**

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## Historical Chart



Source: Bloomberg

## Stock Statistics

Market Cap	S\$44.8m
52-HI	S\$0.281
52-LOW	S\$0.130
Avg Vol (1 yr)	930,290
Shares Outstanding	298.7m
Free Float	118.5m

## Key Indicators

ROE 11F	14.7%
ROA 11F	7.9%
P/BK	0.53x
Net cash/sh	Net cash

## Major Shareholders

Teo Cher Koon	51.5%
Karl Walter Braun	8.8%

## No surprises

- **Earnings above expectations.** 2Q11 net profit of S\$2.6m (-4% yoy) is above our expectation of S\$2.3m due mainly to higher-than-expected associates contribution. 1H result represents 51% of our full-year forecast.
- **Sales inched up 9% yoy to S\$48.5m**, on the back of higher motion control demand in China. Motion control sales increased by 11% yoy to S\$38.9m or formed 80.2% of sales in 2Q11. Sales of other specialised engineering solutions and industrial computing made up 17.2% and 2.6% of the total, respectively.
- **EBITDA margins expanded by 1.2% pts yoy to 12.5% in 2Q11**, following an improvement in GP margins (up 1.4% pts yoy to 29.3%). We consider this remarkable in a tough environment which include the weakening US\$ and rising cost pressure.
- **Strong balance sheet.** After shortening its cash conversion cycle by 15 days qoq to 86 days and higher capex, ISDN generated about S\$3.7m of positive free cash flow in the 2Q, and ended the quarter with S\$6.2m of net cash.
- **Core earnings outlook remains positive.** Management expects the outlook to remain positive and believe its China motion control business will continue to be a growth driver. Its high-tech farm is on track with the management plan for expansion and still expects a positive contribution this year. Currently, the group is negotiating with a few potential JV partners to erect new high-tech farms in Asia. On the energy business, ISDN's foray into the coal mining business by way of acquiring interest in Indonesia-based PT Putra Perkasa Indah is on track as the group seeks the requisite approval from the SGX and ISDN's shareholders.
- **Risk of major capex cut from chip makers.** Recently, TSMC announced to reduce its 2011 capex by 5% to US\$7.4bn from US\$7.8bn. ISDN earnings could be affected in the second half if there are further major capex cut from the chip makers, as 30% of sales are from the semiconductor sector. However, we are comfortable with our estimates as we believe the strong demand from industrial automation should be able to offset the slowing down demand from semiconductor.
- **Maintaining forecast and Overweight rating.** We have kept our FY11-13 forecasts and fair value of S\$0.29, still based on 8x FY11 PER. Given the undemanding 0.5x PBR and reasonable yield of 4.5% with healthy net cash position, maintain **Overweight**.

## Key Financial Data

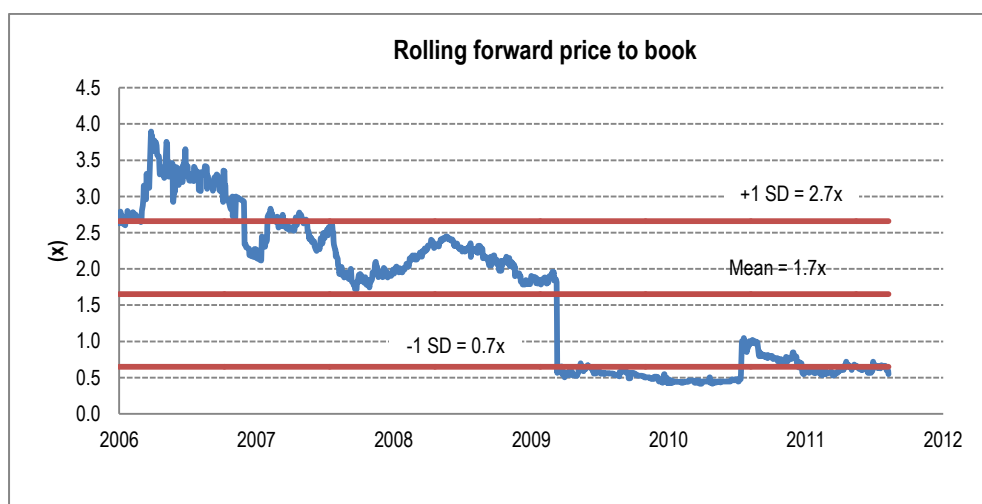
(S\$ m, FYE Dec)	2009	2010	2011F	2012F	2013F
<b>Sales</b>	106.7	163.6	186.7	205.4	226.0
<b>Gross Profit</b>	31.6	48.0	56.6	59.0	64.4
<b>Net Profit</b>	1.0	8.3	11.0	11.1	12.0
<b>EPS (cents)</b>	0.4	3.3	3.7	3.7	4.0
<b>EPS growth (%)</b>	(84.8)	692.4	12.0	0.0	8.6
<b>PER (x)</b>	34.8	4.4	3.9	3.9	3.6
<b>NAV/share (cents)</b>	20.7	27.4	26.8	30.3	34.0
<b>DPS (cents)</b>	0.0	0.6	0.7	0.6	0.7
<b>Div Yield (%)</b>	0.0	4.1	4.5	4.2	4.5

Source: Company, NRA Capital estimates

## Results comparison

FYE Dec (\$\$ m)	2Q11	2Q10	yoy % chg	1Q11	qoq % chg	Prev. 2Q11F	Comments
Revenue	48.5	44.4	9	44.5	9	46.8	In line
Operating costs	(42.5)	(39.4)	8	(36.8)	15	(40.6)	In line
EBITDA	6.1	5.0	20	7.8	(22)	6.2	In line
EBITDA margin (%)	12.5	11.4		17.4		13.3	Below
Depn & amort.	(1.3)	(0.5)	178	(1.3)	0	(1.3)	In line
EBIT	4.7	4.6	4	6.5	(26)	4.9	In line
Interest expense	(0.2)	(0.2)	(27)	(0.3)	(47)	(0.3)	In line
Interest & invt inc	0.1	0.2	(51)	(0.4)	127	(0.4)	Above
Associates' contrib	0.5	0.2	248	0.1	472	0.1	Above
Exceptionals	0.0	0.0	0	0.0	nm	0.0	
<b>Pretax profit</b>	<b>5.2</b>	<b>4.7</b>	<b>11</b>	<b>5.8</b>	<b>(11)</b>	<b>4.3</b>	Above, higher-than-expected associates' contribution
Tax	(1.8)	(1.2)	49	(1.5)	22	(1.1)	Above, higher-than-expected taxation
Tax rate (%)	34.4	25.6		25.1		25.0	
Minority interests	(0.9)	(0.8)	5	(1.4)	(39)	(0.9)	In line
<b>Net profit</b>	<b>2.6</b>	<b>2.7</b>	<b>(4)</b>	<b>3.0</b>	<b>(14)</b>	<b>2.3</b>	12% above expectation
EPS (cts)	0.9	1.1	(20)	1.0	(14)	0.8	

Source: Bloomberg, NRA Capital Research



Source: NRA Capital Estimates

<b>Profit &amp; Loss</b> (S\$ m, FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue	106.7	163.6	186.7	205.4	226.0
Operating expenses	(97.6)	(144.1)	(160.7)	(179.2)	(198.1)
EBITDA	9.0	19.4	26.0	26.2	27.9
Depreciation & amortisation	(1.6)	(2.7)	(5.3)	(5.3)	(5.3)
EBIT	7.5	16.7	20.7	21.0	22.6
Net interest & invt income	(2.8)	(2.5)	(2.0)	(0.7)	(0.5)
Associates' contribution	(0.3)	0.5	1.5	1.4	1.5
Exceptional items	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>4.4</b>	<b>14.7</b>	<b>20.3</b>	<b>21.7</b>	<b>23.6</b>
Tax	(2.1)	(4.0)	(5.9)	(6.5)	(7.1)
Minority interests	(1.3)	(2.4)	(3.4)	(4.1)	(4.5)
<b>Net profit</b>	<b>1.0</b>	<b>8.3</b>	<b>11.0</b>	<b>11.1</b>	<b>12.0</b>
Wt. shares (m)	249.0	251.7	298.7	298.7	298.7
Shares at year-end (m)	249.0	251.7	298.7	298.7	298.7

<b>Balance Sheet</b> (S\$ m, as at Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Fixed assets	23.5	24.9	27.2	29.6	32.0
Intangible assets	12.9	11.9	11.9	11.9	11.9
Other long-term assets	3.1	4.2	4.4	4.5	4.6
<b>Total non-current assets</b>	<b>39.6</b>	<b>41.0</b>	<b>43.5</b>	<b>46.0</b>	<b>48.5</b>
Cash and equivalents	19.0	29.0	31.5	37.0	43.2
Stocks	19.9	25.8	28.6	32.2	35.5
Trade debtors	34.1	42.5	61.7	69.3	77.9
Other current assets	0.0	0.6	0.6	0.6	0.6
<b>Total current assets</b>	<b>73.0</b>	<b>97.8</b>	<b>122.4</b>	<b>139.1</b>	<b>157.2</b>
Trade creditors	32.0	37.2	57.1	61.9	67.2
Short-term borrowings	12.4	16.8	11.2	10.3	9.0
Other current liabilities	0.5	2.1	2.9	3.2	3.5
<b>Total current liabilities</b>	<b>45.0</b>	<b>56.1</b>	<b>71.3</b>	<b>75.5</b>	<b>79.8</b>
Long-term borrowings	10.4	8.3	5.7	6.2	6.8
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total long-term liabilities</b>	<b>10.5</b>	<b>8.3</b>	<b>5.7</b>	<b>6.3</b>	<b>6.9</b>
<b>Shareholders' funds</b>	<b>51.5</b>	<b>68.9</b>	<b>80.1</b>	<b>90.4</b>	<b>101.5</b>
Minority interests	5.6	5.6	8.9	13.0	17.6
NAV/share (S\$)	0.21	0.27	0.27	0.30	0.34
<b>Total Assets</b>	<b>112.6</b>	<b>138.8</b>	<b>166.0</b>	<b>185.1</b>	<b>205.7</b>
<b>Total Liabilities + S'holders' funds</b>	<b>112.6</b>	<b>138.8</b>	<b>166.0</b>	<b>185.1</b>	<b>205.7</b>

<b>Cash Flow</b> (S\$ m, FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Pretax profit	4.4	14.7	20.3	21.7	23.6
Depreciation & non-cash adjustments	4.2	4.2	2.1	1.4	0.7
Working capital changes	1.3	(5.0)	(2.6)	(6.8)	(7.1)
Cash tax paid	(2.4)	(2.5)	(2.1)	(3.0)	(3.3)
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from operations</b>	<b>7.5</b>	<b>11.4</b>	<b>17.7</b>	<b>13.3</b>	<b>14.0</b>
Capex	(11.5)	(4.9)	(5.0)	(5.0)	(5.0)
Net investments & sale of FA	(0.3)	(0.3)	(0.2)	0.0	0.0
Others	0.0	(3.7)	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(11.8)</b>	<b>(8.8)</b>	<b>(5.2)</b>	<b>(5.0)</b>	<b>(5.0)</b>
Debt raised/(repaid)	10.0	2.6	(8.2)	(0.4)	(0.6)
Equity raised/(repaid)	(0.3)	5.4	0.0	0.0	0.0
Dividends paid	(0.5)	0.0	(1.5)	(2.0)	(1.8)
Cash interest & others	(2.0)	(0.3)	(0.3)	(0.4)	(0.4)
<b>Cash flow from financing</b>	<b>7.2</b>	<b>7.6</b>	<b>(10.0)</b>	<b>(2.7)</b>	<b>(2.8)</b>
<b>Change in cash</b>	<b>2.9</b>	<b>10.3</b>	<b>2.5</b>	<b>5.5</b>	<b>6.2</b>
<b>Change in net cash/(debt)</b>	<b>(7.2)</b>	<b>7.8</b>	<b>10.7</b>	<b>5.9</b>	<b>6.8</b>
<b>Ending net cash/(debt)</b>	<b>(3.9)</b>	<b>3.9</b>	<b>14.6</b>	<b>20.5</b>	<b>27.4</b>

<b>KEY RATIOS</b> (FYE Dec)	<b>2009</b>	<b>2010</b>	<b>2011F</b>	<b>2012F</b>	<b>2013F</b>
Revenue growth (%)	(8.4)	53.4	14.2	10.0	10.0
EBITDA growth (%)	(28.0)	115.0	33.8	0.9	6.3
Pretax margins (%)	4.1	9.0	10.9	10.5	10.4
Net profit margins (%)	1.0	5.1	5.9	5.4	5.3
Interest cover (x)	6.1	16.0	35.3	33.8	38.2
Effective tax rates (%)	47.1	27.4	29.0	30.0	30.0
Net dividend payout (%)	0.0	18.0	0.0	0.0	0.0
Debtors turnover (days)	116.8	94.7	120.7	123.1	125.8
Stock turnover (days)	96.8	81.5	80.3	80.3	80.3
Creditors turnover (days)	109.4	82.9	111.6	110.1	108.5

Source: Company, NRA Capital Estimates

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