

## ISDN Holdings

*1H06 Results – Impressive revenue growth*

29 Aug 2006

**Recommendation**    **Trading Buy**

Bloomberg Code    ISDN SP  
Share Price        S\$0.485  
Target Price        S\$0.535  
Upside Potential    10.3%

### Report Type

Results Update

### Company website

<http://www.isdnholdings.com>

### Stock data

Sector :                    Mechatronics  
Share Cap :                158.8m shares  
Market Cap:                S\$77.0m

Major Shareholders:

Teo Cher Koon                    59.3%

### Analyst

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## 1H06 Results

1H ended 30 June	1H05 S\$ '000	1H06 S\$ '000	Change %
Year end: 31 December			
Revenue	22.60	33.89	49.9
COGS	(15.44)	(23.69)	53.4
Gross profit	7.16	10.20	42.5
GPM (%)	31.7	30.1	-
Other operating income	0.24	0.52	116.3
Operating expenses	(4.77)	(7.06)	47.9
Profit from Ops	2.63	3.66	39.3
Finance costs	(0.04)	(0.13)	225.0
Associates income	0.33	0.48	47.4
Pre-tax profit	2.91	4.01	37.6
Tax	(0.59)	(0.80)	35.4
Tax rate (%)	20.2	19.9	
PAT	2.32	3.21	38.2
Net profit attributable to shareholders	2.29	3.16	38.0

### Revenue growth of 49.9% and net profit growth of 38.0%

Revenue grew impressively from S\$22.60 million in 1H05 to S\$33.89 million in 1H06. Revenue grew 53.9% in North Asia (China, Hong Kong, etc) and 49.8% in South Asia (Singapore, Thailand and Malaysia, etc). The growth was because of strong general demand for motion control products and solutions. Also, 1H05 saw a slowdown in global demand for semiconductors, which affected demand for products/solutions that cater to the semiconductor industry, during that period.

Gross profit margin declined from 31.7% to 30.1%. The decline could be due to increasing competition. Associates income improved from S\$0.33 million in 1H05 to S\$0.48 million in 1H06 with higher contribution from the Maxon Suzhou and Maxon Shanghai JVs.

Net profit attributable to shareholders improved 38.0% from S\$2.29 million in 1H05 to S\$3.16 million in 1H06.

### Increase in working capital requirements

There was an increase in working capital requirements of S\$3.56 million. This increase was mainly due to the increase in revenue, as well as slight lengthening of the cash conversion cycle.

### Forecasts and valuation

We are of the view that prospects for the Group are good: net profit should see double-digit growth in FY06 and FY07.

ISDN is exploring various M&A opportunities. Growth could also come from M&A activities should any of these bear fruit.

Key risks include cyclical nature of the semiconductor industry, intense competition, and over-dependence on key partners and suppliers.

We have valued ISDN at 10x FY07 PER, at a slight discount to its comparables due to its relatively smaller size and poorer liquidity. We maintain our price target for ISDN at S\$0.535. Recommendation: Trading BUY.

### Financial Ratios

Financial Ratios						
Year end: 31 Dec	2002	2003A	2004A	2005A	2006F	2007F
<b>Per Share Data</b>						
Revenue/share (Sing cts)	16.2	29.6	40.6	40.8	46.1	56.0
EPS (Sing cts)	1.15	2.35	4.39	4.32	4.55	5.35
EPS (growth)	nm	104.8%	86.6%	-1.5%	5.3%	17.6%
NTA/share (Sing cts)	na	na	10.0	10.9	12.8	15.7
<b>Valuation</b>						
P/revenue (x)	3.0	1.6	1.2	1.2	1.1	0.9
PER(x)	42.2	20.6	11.1	11.2	10.7	9.1
P/NTA (x)	na	na	4.9	4.4	3.8	3.1
PEG (x)	na	0.2	0.1	-7.5	2.0	0.5
Net gearing (x)	na	na	net cash	net cash	net cash	net cash
Return on Equity (%)	na	na	40.6%	35.1%	34.3%	32.2%
Return on Assets (%)	na	na	27.8%	23.1%	22.8%	23.5%
<b>Growth Rates (%)</b>						
Revenue	na	83.1%	37.1%	2.6%	33.3%	21.7%
Gross profit	na	59.3%	44.4%	13.2%	30.2%	20.3%
Operating profit	na	110.8%	91.9%	-5.4%	20.9%	15.9%
Pre-tax profit	na	110.4%	90.7%	5.4%	24.0%	17.7%
Net profit	na	104.8%	86.6%	0.5%	24.3%	17.6%
<b>Margins (%)</b>						
Gross margin	30.3%	26.3%	27.7%	30.6%	29.9%	29.6%
Operating margin	8.1%	9.4%	13.1%	12.1%	11.0%	10.4%
Pre-tax margin	8.4%	9.6%	13.4%	13.7%	12.8%	12.3%
Net margin	7.1%	7.9%	10.8%	10.6%	9.9%	9.5%

### Earnings Forecast

Profit & Loss (\$\$ m)						
Year end: 31 Dec	2002A	2003A	2004A	2005A	2006F	2007F
<b>Revenue</b>	21.30	39.00	53.46	54.87	73.13	89.01
<b>Cost of sales</b>	14.85	28.73	38.62	38.07	51.27	62.71
<b>Gross profit</b>	6.45	10.27	14.83	16.79	21.87	26.30
<b>Operating expenses</b>	5.13	6.97	8.34	11.15	14.65	17.76
Selling & dist	0.82	1.11	1.29	1.74	2.33	3.03
Admin expense	3.97	5.39	6.04	8.77	11.92	14.33
Other operating expenses	0.34	0.47	1.01	0.63	0.40	0.40
Other operating income	0.42	0.35	0.51	1.03	0.88	0.85
<b>Operating profit</b>	1.73	3.65	7.00	6.63	8.02	9.29
Net interest	(0.07)	(0.09)	(0.09)	(0.11)	0.01	0.05
Associate income	0.11	0.18	0.22	1.00	1.30	1.63
<b>Pre-tax profit</b>	1.78	3.74	7.14	7.52	9.33	10.98
Income tax	0.26	0.69	1.27	1.62	1.96	2.31
MI	0.01	(0.04)	0.09	0.09	0.14	0.18
<b>Net Profit</b>	1.51	3.10	5.78	5.81	7.22	8.49
<b>EPS (Sing cts)</b>	1.15	2.35	4.39	4.32	4.55	5.35
<b>EPS growth (%)</b>	0.0%	104.8%	86.6%	-1.5%	5.3%	17.6%

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Sell	: >15% downside over the next 12 months

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