

Singapore

16 June 2006

Share Price	S\$0.45
Target Price	S\$0.535
Upside Potential	18.9%
Recommendation	BUY

Report type

Update

Company ticker

Bloomberg: ISDN SP

Sector

Mechatronics

Company website

www.isdnholdings.com

Major shareholders

Teo Cher Koon 59.3%

Share data

SGX Mainboard	
Share Cap :	158.8m shares
Market Cap:	S\$71.5m
Free Float	40%

Analyst

Westcomb Research Team

(65) 6319 4988

research@westcombfinancial.com

www.estockresearch.com

MICA (P) 073/01/2006

1Q06 results in line with expectations

- **1Q06 unaudited results in line**

ISDN reported 1Q06 revenue of S\$16.7 million and net profit of S\$1.59 million in an informal presentation lodged on Masnet. This is in line with our full year forecasts for FY06.

ISDN generally experiences higher sales in the second half of the FY as customers in North Asia tend to place orders during this period.

Revenue in the second half as compared to the first half was 23.1%, 53.1%, and 42.7% higher in FY02, FY03 and FY05 respectively. FY04 was an anomaly due to the slow down of the semiconductor industry in the second half of the FY which resulted in the first half revenue being 13.5% higher than the corresponding second half revenue.

- **Management continues to be bullish**

Based on current RFQ (Request for Quotation) and order book visibility, Management is optimistic on 2Q06 numbers.

Currently, the Group aims to triple existing number of sales offices in China to 50 offices by end 2008. With growth in North Asia expected to outpace other regions, Management is confident that net profit can double by 2008.

This is expected to be driven by the recovery of the semiconductor industry and the increasing demand for motion control devices and components in the PRC. ISDN can leverage on their increasing exposure to PRC, strong technical expertise and continued close relationships with key suppliers to ride on the growth in these areas.

- **Global slowdown a risk – mitigated somewhat by fast diversifying income base**

Recently there has been increased risk of a global slowdown and the semiconductor industry being the most sensitive, will be most susceptible to any slowdown.

ISDN's income base is fast diversifying due to the high growth of the general automation business in PRC. In FY03, the general automation segment accounted for 19.8% of total revenue. This increased to 31.3% of total revenue in FY04. The contribution from general automation is expected to continue its increase with the explosive growth of ISDN's sales in the PRC market. The general automation segment is very diverse and includes the medical, automotive, security, aviation, power tools, robotics, printing, oil & gas, and food & beverage sectors.

- **Plans**

In the next 1-3 years, ISDN intends to expand operations in Asia Pacific, with particular focus on the China market. After that (next 3-5 years), ISDN expects to increase market presence in the rest of Asia Pacific, e.g. India, Vietnam and Indonesia. The successful business model will then be replicated worldwide in the next 5-10 years.

ISDN aims to achieve this through acquisitions, joint ventures and strategic

alliances. ISDN is currently in negotiations with at least 3 potential business partners who are expected to bring value-add to the Group.

ISDN also plans to establish more manufacturing facilities for motion control components in China.

Recommendation

- We are of the view that prospects for the Group are good: net profit should see double-digit growth in FY06 and FY07.
- Key risks include cyclical of the semiconductor industry, intense competition, and over-dependence on key partners and suppliers.
- Below is a table highlighting the Group's comparables. The average actual PER for FY05 and estimated PER for FY06 and FY07, stood at 18.9x, 13.3x and 11.7x respectively.
- 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 have upgraded our price target for ISDN to S\$0.535. Maintain BUY.

Company	FY	Market Cap (S\$M)	Act. FY05 PER (x)	Est. FY06 PER (x)	Est. FY07 PER (x)	P/B (x)	ROE (%)
<u>Singapore</u>							
ISDN	12/05	71.5	10.4	9.9	8.4	3.8	32.2
<u>US</u>							
Emerson Electric	9/05	53,802	20.5	18.9	16.5	4.6	19.4
Allied Motion Tech	12/05	51.3	31.4	-	-	1.2	3.7
<u>France</u>							
Schneider Electric	12/05	34,834	16.8	14.0	12.7	2.0	12.8
<u>Korea</u>							
SFA Engineering	12/05	505.1	7.0	7.1	6.0	2.5	42.3

Financial Ratios

Financial Ratios						
Year end: 31 Dec	2002	2003A	2004A	2005A	2006F	2007F
Per Share Data						
Revenue/share (Sing cts)	16.2	29.6	40.6	40.8	41.5	50.2
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	12.7	15.5
Valuation						
P/revenue (x)	2.8	1.5	1.1	1.1	1.1	0.9
PER(x)	39.2	19.1	10.3	10.4	9.9	8.4
P/NTA (x)	na	na	4.5	4.1	3.6	2.9
PEG (x)	na	0.2	0.1	-6.9	1.9	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%	23.6%	24.8%
Growth Rates (%)						
Revenue	na	83.1%	37.1%	2.6%	20.2%	20.8%
Gross profit	na	59.3%	44.4%	13.2%	18.1%	18.0%
Operating profit	na	110.8%	91.9%	-5.4%	20.2%	17.4%
Pre-tax profit	na	110.4%	90.7%	5.4%	26.0%	18.2%
Net profit	na	104.8%	86.6%	0.5%	24.3%	17.6%
Margins (%)						
Gross margin	30.3%	26.3%	27.7%	30.6%	30.1%	29.4%
Operating margin	8.1%	9.4%	13.1%	12.1%	12.1%	11.7%
Pre-tax margin	8.4%	9.6%	13.4%	13.7%	14.4%	14.1%
Net margin	7.1%	7.9%	10.8%	10.6%	11.0%	10.7%

Earnings Forecast

Profit & Loss (\$\$ m)						
Year end: 31 Dec	2002A	2003A	2004A	2005A	2006F	2007F
Revenue	21.30	39.00	53.46	54.87	65.95	79.67
Cost of sales	14.85	28.73	38.62	38.07	46.11	56.26
Gross profit	6.45	10.27	14.83	16.79	19.83	23.41
Operating expenses	5.13	6.97	8.34	11.15	12.26	14.45
Selling & dist	0.82	1.11	1.29	1.74	2.33	3.03
Admin expense	3.97	5.39	6.04	8.77	9.26	10.65
Other operating expenses	0.34	0.47	1.01	0.63	0.67	0.77
Other operating income	0.42	0.35	0.51	1.03	0.47	0.49
Operating profit	1.73	3.65	7.00	6.63	7.97	9.35
Net interest	(0.07)	(0.09)	(0.09)	(0.11)	0.01	0.05
Associate income	0.11	0.18	0.22	1.00	1.50	1.80
Pre-tax profit	1.78	3.74	7.14	7.52	9.48	11.20
Income tax	0.26	0.69	1.27	1.62	2.11	2.53
MI	0.01	(0.04)	0.09	0.09	0.14	0.18
Net Profit	1.51	3.10	5.78	5.81	7.22	8.49
EPS (Sing cts)	1.15	2.35	4.39	4.32	4.55	5.35
EPS growth (%)	0.0%	104.8%	86.6%	-1.5%	5.3%	17.6%

Balance Sheet

Balance Sheet (\$\$ m)				
Year End: 31 Dec	2004A	2005A	2006F	2007F
Total non-current assets	5.8	7.0	9.3	11.2
Plant and Equipment	4.1	4.8	5.5	5.6
Investment in associates	1.1	1.6	3.1	4.9
Investment property	0.7	0.7	0.7	0.7
Goodwill	0.0	0.0	0.0	0.0
Current assets				
Inventories	5.6	7.5	10.7	14.6
Trade & other receivables	8.9	13.8	17.2	21.8
Cash and cash equivalents	5.7	11.9	3.4	2.3
Total current assets	20.2	33.3	31.3	38.8
Total assets	26.0	40.3	40.6	50.0
Current liabilities				
Trade & other payables	6.5	9.8	12.6	16.2
Income tax payable	1.8	2.5	2.5	2.5
Borrowings	1.2	2.9	0.8	0.5
Trust Receipts	0.8	0.0	0.0	0.0
Dividend payable		4.4	0.0	0.0
Current liabilities	10.3	19.6	15.9	19.2
Non-current liabilities				
Deferred tax liabilities	0.0	0.0	0.0	0.0
Borrowings	1.3	1.4	0.8	0.5
Total non-current liabilities	1.3	1.4	0.9	0.6
Minority Interest	0.2	0.4	0.6	0.7
Shareholders funds	14.2	18.9	23.2	29.5

Cash Flow

Cash flow Statement (\$ m)				
Year End: 31 Dec	2004A	2005A	2006F	2007F
Cash flow from Operating Activities	2.39	2.57	2.91	2.71
Pretax profit	7.14	7.52	9.48	11.20
Adjustments for:				
Depreciation	0.32	0.35	0.42	0.42
Interest expense	0.09	0.16	0.07	0.05
Interest income	(0.00)	(0.05)	(0.08)	(0.10)
Other provisions		0.05		
Associate income	(0.22)	(1.00)	(1.50)	(1.80)
Operating cash flow bef working cap change	7.32	7.04	8.39	9.78
Changes in working capital	(4.63)	(3.89)	(3.75)	(5.02)
Trade & other receivables(prioryr-curr yr)	4.37	(5.60)	(3.35)	(4.66)
Inventories	(1.54)	(2.18)	(3.23)	(3.90)
Trade & other Payables(curr yr- prior yr)	(7.46)	3.89	2.83	3.55
Cash generated from operations	2.69	3.15	4.64	4.76
Dividend from associate	0.12	0.31	0.45	0.53
Income tax paid	(0.32)	(0.73)	(2.11)	(2.53)
Interest Expense	(0.09)	(0.16)	(0.07)	(0.05)
Net cash generated fr operations	2.39	2.57	2.91	2.71
Cash flow from Investing Activities	(0.20)	(1.12)	(1.52)	(1.00)
Investment in associate		(0.17)	(0.50)	(0.50)
Capex-purchase fixed assets	(0.20)	(1.01)	(1.09)	(0.60)
Interest received	0.00	0.05	0.08	0.10
Cash flow from Financing Activities	1.57	4.81	(9.94)	(2.77)
Investments by Minority Shareholders	0.05	0.10		
Finance lease	(0.03)			
Borrowings	0.65	1.07	(2.65)	(0.60)
Trust receipts	0.79			
Net proceeds from issuance of capital		6.41		
Proceeds from issue of paid-up capital of companies of the Pro-forma Group	0.11			
Dividends paid		(2.70)	(7.30)	(2.17)
Other provisions		(0.07)		
Net effect of exchange rate changes in consolidating subsidiaries	(0.09)	(0.08)		
Net increase in cash and cash equivalent	3.67	6.18	(8.55)	(1.07)
Cash and cash generated at beginning of year	2.06	5.73	11.91	3.36
Cash and cash equivalent at end of year	5.73	11.91	3.36	2.29

As per report date, the analysts and their associated and connected persons do not have any interest in the securities recommended in the report.

As per report date, Westcomb Securities Pte Ltd and their associated and connected persons (ref: FAA Section 36(3)(c)) do not have interest in the securities recommended in the report.

The declaration of the interests for Westcomb Securities Pte Ltd, the analysts and their associated and connected persons refer to such interests that they act jointly, or otherwise acting under or in accordance with an arrangement made between them, in relation to the sending of this report.

The recommendation in this report is intended for general circulation. It does not take into account the specific investment objectives, financial situation or particular needs of any particular person. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

During the previous 12 months from the report date, Westcomb Capital Pte Ltd was the issue manager for the IPO of the Company, and Westcomb Securities Pte Ltd acted as the underwriter and placement agent of the Company's said IPO.

Westcomb Securities Pte Ltd Rating System

Buy : >15% upside over the next 12 months

Trading Buy : + 10% to + 15% range over the next 3 months

Hold : +/- 15% range over the next 12 months

Trading Sell : - 10% to - 15% range over the next 3 months

Sell : >15% downside over the next 12 months

Disclaimer

This document is published by Westcomb Securities Pte Ltd ("Westcomb"). We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Westcomb only and are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of the addressee only and is not to be taken as substitution for the exercise of judgement by the addressee who should obtain separate legal or financial advice. None of Westcomb, its affiliates, directors, members, officers or employees shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not and should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell any securities. Its affiliates, their directors, officers and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add to or dispose of any such securities. Westcomb and its affiliates may act as a market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies



Chew Sok Chuang

Head of Research

sokchuang@westcombfinancial.com

Westcomb Securities Pte Ltd
(Reg. No. 200300646M)

A member of Singapore Exchange Securities Trading Limited

5 Shenton Way #09-08

UIC Building Singapore 068808

Tel : 65- 6319 4988, Fax : 65-6220 4894