

## ISDN Ltd

**06 Mar 2008**
*Another solid year for ISDN*

Snapshot		P&L				Key ratios (FY08F)	
Recommendation	Buy on Weakness	(Y/E Dec)	FY2006	FY2007	FY2008F	PER	11x
		Current Price	S\$0.57	Revenue (S\$m)	74.5	102.9	123.4
Target Price	S\$0.63	EBIT	8.1	8.5	9.9	Div yield	5.4%
No of Shares	196.2m	Earnings	6.2	5.6	9.9	ROE	21%
Market Cap	S\$110m	EPS (Scts)	4.2	3.0	5.0	Net gearing	Cash
Year Hi/Lo	S\$0.57/0.37	EPS growth (%)	10.2	-20.5	63.1	Current ratio	1.6x

*Source: SIAS Research, Bloomberg*

### FY07 Results Update

- ISDN reported 2007 results last week, with revenues slightly ahead of our expectations but earnings fell shy of our forecasts due to margin pressure.

S\$m	FY 07	FY 06	% Chg
Revenue	102.9	74.5	+38
Profit Bf Tax	8.9	8.6	+3.1
Net Profit*	5.6	6.1	-9.1
Net Margin	5.4	8.1	-33.3

*Source: Company, SIAS Research*
*\* Net profit after minority interests*

- Net profit eased 9.1% to S\$5.6m, even though revenue rose to a record high of S\$102.9m. The decline in net profit was due to the increase in raw material costs and higher admin charges. According to management, hikes in cost were mainly due to human resource set up for joint ventures, which just started to contribute in FY08. We believe the subsequent decline in margins was a one off event. Going forward, we forecast the net margin will recover to around 8%.

#### Revenue by Business Segments

Revenue (S\$ m)	FY07	FY06	% Chg
Motion Control	77.4	57.5	34.5
Other Engineering Solutions	19.5	10.4	87.3
Industrial Computing	6.0	6.6	-8.9

*Source: Company*

- ISDN's revenue was fuelled by another robust growth year in China with more than 60% of revenue coming from North

Asia, and from the Motion Control and Other Engineering Solution segments.

- The Motion Control segment showed good growth with a diversifying industry base. The group is benefiting from its decision to go into the alternative energy sector. The latest development is the delivery of 18 units of positioning stages and control system for a leading solar panel equipment manufacturer in China. Orders from this customer in the solar energy industry could hit RMB30m in 2008 and contribute about S\$1m to the bottom line.

### Business Outlook

- Companies which serve international markets have found it virtually impossible to ignore China in recent years. The country has grabbed headlines with double-digit economic expansion rates, large-scale urban construction, and a rising influence on global trade.
- It's no surprise to us that ISDN's expansion strategy in China now starts to bear fruits. We forecast ISDN's North Asia sales growth to continue, leading the company to another year of solid growth at 20% in FY08.
- In addition, the Group's recently completed acquisition of Dirak Asia will also contribute at least S\$2m to the Group's profitability in 2008 based on the profit guarantee served.

- More news could come from the M&A front in 2008. We believe the company is still at accelerating growth stage. Alliance with strategic partners will further strengthen its operations in China.

#### Key Risk

- Mid-term risks include tightening of credit market and growth slowing down in China.

#### Valuation & Recommendation

- No doubt that there are many risks when investing in China, which is still transitioning into a vibrant market economy. However, companies can uncover attractive opportunities by sticking to areas that stand to benefit from China's economic transformation.

We think service providers to Chinese economy like ISDN have the potential to deliver solid returns for long-term investors.

- Following our previous trading buy call in December last year, the stock price has since strengthened to a one year high of 57 cents on 21 Feb 08, despite the weakness in the general market.
- As more positive signs show up in terms of revenue and profit for FY08, we apply a PE multiple of 12.5x, upgraded from 12x used previously, and arrive a target price of 63 cents.
- **Buy on weakness** for this counter with good support seen at around 50-52 cents. **(JESSY XIA)**

### Financial Table and Ratios

(Y/E Dec)	FY05	FY06	FY07	FY08F
<b>Profit &amp; Loss (\$m)</b>				
Turnover	54.9	74.5	102.9	123.4
EBITDA	6.0	8.6	9.1	10.9
Pretax	7.5	8.6	8.9	12.3
Earnings	6.0	6.6	5.7	9.9
EPS (fully diluted - Sts)	3.8	4.2	3.1	5.0
EPS (fully diluted - Scts)	3.8	4.2	3.1	5.0
<b>Balance Sheet (\$m)</b>				
Long Term Assets	7.0	8.5	10.3	25.1
Current Assets	33.3	38.5	56.7	59.5
Current Liabilities	19.6	19.9	26.8	37.1
Long Term Liabilities	1.4	2.4	1.3	3.1
Total Equity	18.9	24.6	39.1	47.1
<b>Cash Flow (\$m)</b>				
Operating Cash Flow	2.2	2.8	2.8	0.9
Investing Cash Flow	4.9	(3.3)	(2.5)	(9.0)
Financing Cash Flow	4.8	(4.1)	7.0	3.1
<b>Financial Ratios</b>				
Revenue Growth (%)	2.6	35.8	38.0	20.0
Operating Profit Growth (%)	(11.9)	43.8	6.0	18.9
Earnings Growth (%)	0.4	10.2	(14.3)	75.0
EPS Growth (%)	(16.7)	10.2	(25.5)	63.1
EBITDA Margin (%)	10.9	11.6	8.9	8.8
Net Margin (%)	10.9	8.9	5.5	8.0
Current Ratio (x)	1.7	1.9	2.1	1.6
Book value per share (S\$ cts)	11.9	15.5	21.2	22.8
Net (Debt)/ Cash per share (S\$ cts)	4.8	2.8	5.3	0.3
Net Debt / Equity (%)	Cash	Cash	Cash	Cash
Dividend payout ratio (cts)	47.8	48.2	80.8	59.5
Return on Equity (%)	31.7	26.8	14.5	21.0
Return on Asset (%)	14.8	14.0	8.4	12.9
Debtor Days	87.1	73.6	71.4	76.7
Creditor Days	64.1	65.2	61.8	58.7
Inventory Days	72.0	86.4	81.6	81.1
Cash Conversion Cycle	95.0	94.8	91.2	99.1
<b>Valuations</b>				
Price to sales (x)	1.6	1.2	1.0	0.9
PER (x)	14.7	17.9	17.9	11.0
Price to book (x)	4.7	3.6	2.6	2.2
Dividend Yield (%)	3.2	3.6	4.5	5.4

Source: Company, SIAS Research

### About the Company

ISDN is a mechatronics engineering group that provides integrated solutions to motion control and industrial computing customers, including design, customisation, assembly installation and after sales support. ISDN strives to be a one-stop services provider of component parts for their motion control and industrial computing customers. ISDN has a customer base of more than 2,000 customers and are not overly dependent on any single customer. ISDN has long-standing relationship with Maxon Motor AG. The tie-ups with Maxon include the exclusive distributorship agreement in the region (Singapore, Hong Kong, Thailand, Malaysia, the Philippines and Indonesia) and the PRC JVs. The company also has set up 52 offices in PRC to facilitate the servicing customers in this region. Dirak Asia was included in the group as an associate in Jan 08.

### Price and Volume Chart



Source: Bloomberg

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