

Singapore

**ADD** (no change)

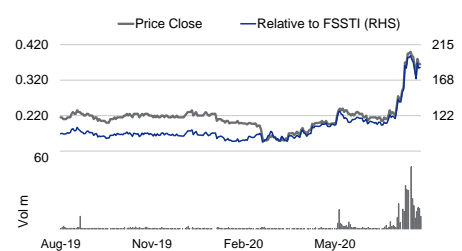
Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.365
Target price:	S\$0.501
Previous target:	S\$0.501
Up/downside:	37.2%
CGS-CIMB / Consensus:	3.2%
Reuters:	ISDN.SI
Bloomberg:	ISDN SP
Market cap:	US\$114.5m
	S\$156.8m
Average daily turnover:	US\$1.51m
	S\$2.08m
Current shares o/s:	429.6m
Free float:	54.2%

\*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	65.9	86.2	73.8
Relative (%)	69.3	87.5	93.2

Major shareholders	% held
Teo Cher Koon	31.7
NTCP SPV VI	8.9
Braun Karl Walter	4.7

Analyst(s)



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# ISDN Holdings Ltd

## Positive on 2H20

- ISDN held its 1H20 earnings call on 19 Aug 2020.
- 2H20 outlook could be more positive than 1H20 though Covid-19 is a risk.
- Reiterate Add. Upside earnings risk from Covid-19 related products in 2H20.

### Positive on 2H20

We listened in to ISDN's 1H20 results call on 19 Aug 2020. Our take is that management is generally positive on 2H20 outlook as the core motion control business continues to see strong demand as companies accelerate automation efforts given the Covid-19 pandemic, relocation of production lines out of China and also China's increased spending to develop its own semiconductor supply chain. The company is also splitting its operations into five key segments (see Figure 1) to sharpen its competitive focus.

### Positioning for Industry 4.0

ISDN started in the 1990s as a parts distributor. Today, the group has grown to be able to offer broad Industry 4.0 solutions and components. ISDN has 913 employees, of which 40% or about 365 are engineers. The company has more than 10,000 customers and it has 49 sales offices in China and 65 sales offices across Asia. The company's business in China rebounded strongly in 2Q20 and there was a broad-based increase in demand for its core motion controls solutions in Singapore, Malaysia and Vietnam.

### Covid-19 opportunities

On 6 May 2020, ISDN entered into a joint venture with ERST Project GmbH to deploy disinfectant solutions and coating technology in Asia. Currently, ISDN has signed on dormitory operator Centurion Corporation as well as public transport companies and some education companies as customers. ISDN has a 51% stake in the joint venture. We expect some contribution from this joint venture in 2H20 but have yet to model this into our numbers.

### Renewable energy – possibly begin in 2021

Two of ISDN's three mini-hydropower plants have essentially been completed by 1H20 (Figures 3 and 4). Given the travel restrictions due to Covid-19, we expect the two completed power plants to be switched on only in FY21. The third plant may be completed by end 1Q21 or 1H21 depending on the Covid-19 situation. We believe that the mini-hydropower plants could see meaningful profit contributions once they are operational and have stabilised. We have yet to factor such earnings contributions into our forecasts.

### Reiterate Add

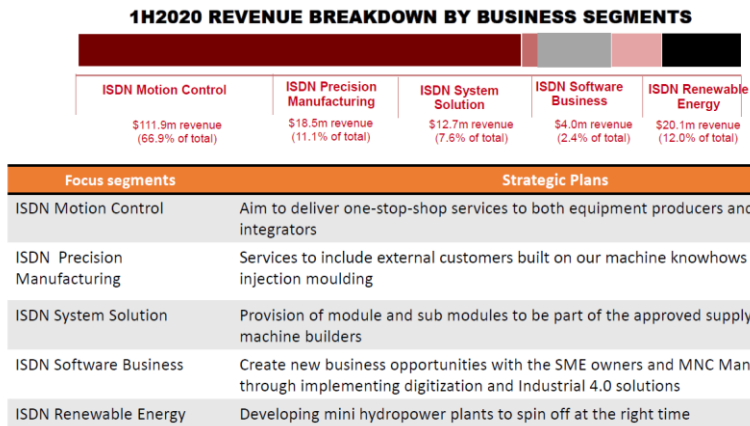
Reiterate Add. Our TP is based on CY21F P/E of 10x (c.58% discount to its global peers). Potential re-rating catalysts for the stock could come from stronger-than-expected sales orders for its core motion control business. Downside risks are order delays and cost overruns in its hydropower business.

### Financial Summary

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue (S\$m)	302.0	291.0	334.6	346.1	359.5
Net Profit (S\$m)	10.95	7.03	18.73	21.52	23.19
Core EPS (S\$)	0.028	0.016	0.044	0.050	0.054
Core EPS Growth	(2%)	(41%)	166%	15%	8%
FD Core P/E (x)	13.16	21.39	8.37	7.29	6.76
Price To Sales (x)	0.48	0.54	0.47	0.45	0.44
DPS (S\$)	0.007	0.004	0.011	0.013	0.014
Dividend Yield	1.92%	1.10%	3.11%	3.57%	3.85%
EV/EBITDA (x)	6.42	6.54	5.56	4.56	3.91
P/FCFE (x)	13.00	9.19	19.92	6.48	6.08
Net Gearing	(7.5%)	(16.4%)	(6.9%)	(14.4%)	(20.8%)
P/BV (x)	1.00	1.02	0.94	0.86	0.79
ROE	7.8%	4.7%	11.7%	12.3%	12.1%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			1.12	1.19	1.20

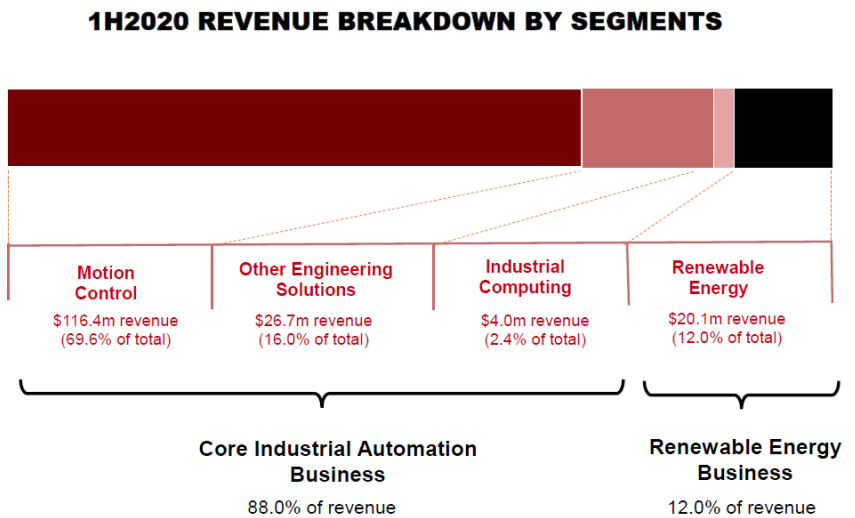
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 1: New segmentation**



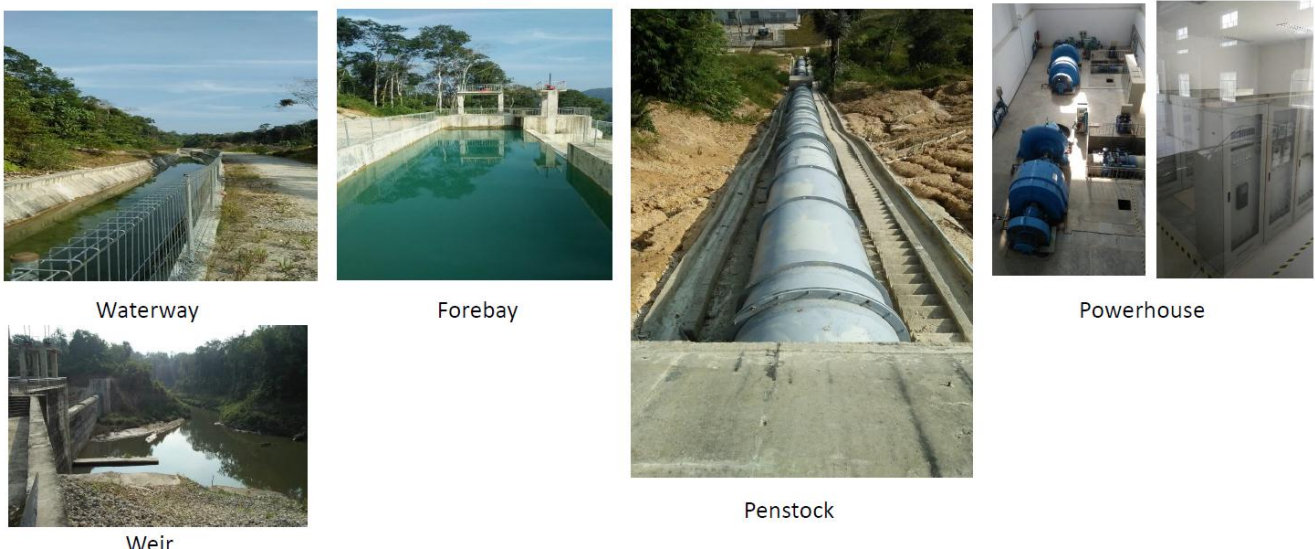
SOURCES: COMPANY REPORTS

**Figure 2: Old segmentation**



SOURCES: COMPANY REPORTS

**Figure 3: Mini-hydropower – Project Sisira (98% complete)**



SOURCES: COMPANY REPORTS

**Figure 4: Mini-hydropower – Project Anggocci (98% complete)**



Waterway



Weir



Powerhouse



Powerhouse

SOURCES: COMPANY REPORTS

**Figure 5: Mini-hydropower – Project Lau Biang (50.5% complete)**



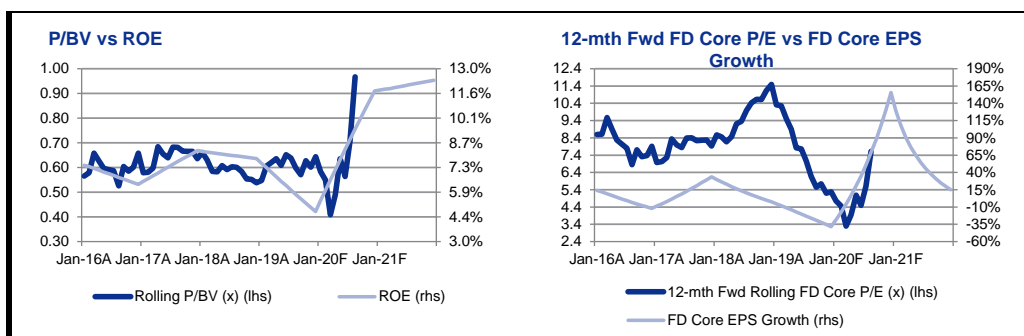
SOURCES: COMPANY REPORTS

**Figure 6: Peer comparison**

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)	Dividend Yield (%)
						CY20F	CY21F	CY22F		CY20F	CY21F		
ISDN Holdings Ltd	ISDN SP	Add	0.37	0.50	114	8.4	7.3	6.8	46.6%	0.94	0.86	11.8%	3.1%
<b>Motion Control peers</b>													
Allied Motion Technologies Inc	AMOT US	NR	43.57	na	425	35.1	25.2	na	na	na	na	na	na
Altra Industrial Motion Corp	AIMC US	NR	38.15	na	2,467	17.2	14.3	12.7	23.1%	1.32	1.22	7.0%	1.1%
Hiwin Technologies Corp	2049 TT	NR	311.5	na	3,424	51.4	28.2	23.2	51.5%	4.08	3.61	7.2%	0.6%
Omron Corp	6645 JP	NR	7,710	na	14,922	21.1	33.7	28.6	-10.9%	2.81	2.68	8.8%	1.1%
Teco Electric and Machinery Co	1504 TT	NR	29.40	na	1,996	17.4	17.2	17.3	1.5%	1.03	0.99	5.6%	3.5%
<b>Simple average</b>						<b>28.5</b>	<b>23.7</b>	<b>20.5</b>	<b>16.3%</b>	<b>2.31</b>	<b>2.12</b>	<b>7.1%</b>	<b>1.6%</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG AS 21 AUG 2020

## BY THE NUMBERS



### Profit & Loss

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>Total Net Revenues</b>	<b>302.0</b>	<b>291.0</b>	<b>334.6</b>	<b>346.1</b>	<b>359.5</b>
<b>Gross Profit</b>	<b>80.5</b>	<b>77.4</b>	<b>87.7</b>	<b>93.2</b>	<b>98.6</b>
<b>Operating EBITDA</b>	<b>26.3</b>	<b>25.9</b>	<b>33.7</b>	<b>38.0</b>	<b>40.6</b>
Depreciation And Amortisation	(2.2)	(3.8)	(4.0)	(4.2)	(4.4)
<b>Operating EBIT</b>	<b>24.1</b>	<b>22.1</b>	<b>29.7</b>	<b>33.8</b>	<b>36.1</b>
Financial Income/(Expense)	(0.8)	(1.8)	(1.6)	(1.6)	(1.6)
Pretax Income/(Loss) from Assoc.	0.4	(0.1)	0.7	0.7	0.7
Non-Operating Income/(Expense)	0.0	0.0	3.2	3.2	3.0
<b>Profit Before Tax (pre-EI)</b>	<b>23.7</b>	<b>20.2</b>	<b>32.0</b>	<b>36.1</b>	<b>38.2</b>
Exceptional Items	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>23.7</b>	<b>20.2</b>	<b>32.0</b>	<b>36.1</b>	<b>38.2</b>
Taxation	(7.1)	(6.0)	(7.2)	(8.2)	(8.6)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>16.6</b>	<b>14.2</b>	<b>24.7</b>	<b>27.9</b>	<b>29.6</b>
Minority Interests	(5.6)	(7.1)	(6.0)	(6.4)	(6.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>10.9</b>	<b>7.0</b>	<b>18.7</b>	<b>21.5</b>	<b>23.2</b>
Recurring Net Profit	10.9	7.0	18.7	21.5	23.2
<b>Fully Diluted Recurring Net Profit</b>	<b>10.9</b>	<b>7.0</b>	<b>18.7</b>	<b>21.5</b>	<b>23.2</b>

### Cash Flow

(\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
<b>EBITDA</b>	<b>26.31</b>	<b>25.95</b>	<b>33.69</b>	<b>38.00</b>	<b>40.57</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(17.51)	(1.40)	(15.86)	(3.22)	(3.99)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	2.56	0.00	1.44	1.75	2.05
Net Interest (Paid)/Received	(0.78)	(1.80)	(1.60)	(1.60)	(1.60)
Tax Paid	(5.71)	(6.00)	(7.22)	(8.15)	(8.64)
<b>Cashflow From Operations</b>	<b>4.87</b>	<b>16.75</b>	<b>10.45</b>	<b>26.78</b>	<b>28.39</b>
Capex	(2.60)	(2.62)	(3.00)	(3.00)	(3.00)
Disposals Of FAs/subsidiaries	0.88	4.00	0.00	0.00	0.00
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4.39)	(1.77)	0.40	0.40	0.40
<b>Cash Flow From Investing</b>	<b>(6.11)</b>	<b>(0.39)</b>	<b>(2.60)</b>	<b>(2.60)</b>	<b>(2.60)</b>
Debt Raised/(repaid)	12.32	0.00	0.02	0.00	0.00
Proceeds From Issue Of Shares	0.00	5.40	0.00	0.00	0.00
Shares Repurchased			0.00	0.00	0.00
Dividends Paid	(2.29)	(2.76)	(4.87)	(5.59)	(6.03)
Preferred Dividends			0.00	0.00	0.00
Other Financing Cashflow	(8.03)	0.00	0.00	0.00	0.00
<b>Cash Flow From Financing</b>	<b>2.01</b>	<b>2.63</b>	<b>(4.85)</b>	<b>(5.59)</b>	<b>(6.03)</b>
Total Cash Generated	0.77	19.00	3.00	18.59	19.76
<b>Free Cashflow To Equity</b>	<b>11.08</b>	<b>16.37</b>	<b>7.87</b>	<b>24.18</b>	<b>25.79</b>
<b>Free Cashflow To Firm</b>	<b>(0.21)</b>	<b>18.48</b>	<b>9.85</b>	<b>26.18</b>	<b>27.79</b>

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**BY THE NUMBERS... cont'd**
**Balance Sheet**

(S\$m)	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Cash And Equivalents	41.9	60.9	42.3	62.0	82.3
Total Debtors	96.2	92.5	128.3	132.7	137.9
Inventories	55.2	53.2	62.6	64.1	66.1
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>193.3</b>	<b>206.6</b>	<b>233.2</b>	<b>258.8</b>	<b>286.3</b>
Fixed Assets	39.3	38.1	42.9	41.7	40.3
Total Investments	0.0	0.0	6.3	7.0	7.7
Intangible Assets	13.5	13.5	12.2	12.2	12.2
Total Other Non-Current Assets	37.0	38.6	37.1	37.1	37.1
<b>Total Non-current Assets</b>	<b>89.8</b>	<b>90.2</b>	<b>98.6</b>	<b>98.0</b>	<b>97.3</b>
Short-term Debt	16.4	16.4	20.2	20.2	20.2
Current Portion of Long-Term Debt					
Total Creditors	69.4	66.3	79.7	82.5	85.7
Other Current Liabilities	2.4	2.4	4.3	4.3	4.3
<b>Total Current Liabilities</b>	<b>88.2</b>	<b>85.1</b>	<b>104.2</b>	<b>107.0</b>	<b>110.2</b>
Total Long-term Debt	11.8	11.8	7.1	7.1	7.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.2	0.2	2.0	2.0	2.0
<b>Total Non-current Liabilities</b>	<b>12.1</b>	<b>12.1</b>	<b>9.1</b>	<b>9.1</b>	<b>9.1</b>
Total Provisions	0.7	0.7	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>100.9</b>	<b>97.8</b>	<b>113.3</b>	<b>116.1</b>	<b>119.3</b>
Shareholders' Equity	143.8	153.4	166.6	182.5	199.7
Minority Interests	38.5	45.6	51.8	58.2	64.6
<b>Total Equity</b>	<b>182.2</b>	<b>199.0</b>	<b>218.4</b>	<b>240.8</b>	<b>264.3</b>

**Key Ratios**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Revenue Growth	3.4%	(3.6%)	15.0%	3.4%	3.9%
Operating EBITDA Growth	16.0%	(1.4%)	29.8%	12.8%	6.8%
Operating EBITDA Margin	8.7%	8.9%	10.1%	11.0%	11.3%
Net Cash Per Share (S\$)	0.03	0.08	0.03	0.08	0.13
BVPS (S\$)	0.36	0.36	0.39	0.42	0.46
Gross Interest Cover	23.30	10.49	14.83	16.88	18.07
Effective Tax Rate	30.0%	29.7%	22.6%	22.6%	22.6%
Net Dividend Payout Ratio	25.2%	24.4%	11.5%	12.0%	13.0%
Accounts Receivables Days	112.0	118.4	120.8	137.7	137.4
Inventory Days	86.69	92.66	85.83	91.41	91.12
Accounts Payables Days	113.8	115.9	108.2	117.1	117.7
ROIC (%)	18.8%	13.0%	17.7%	17.0%	18.0%
ROCE (%)	12.9%	10.2%	12.7%	13.3%	13.1%
Return On Average Assets	6.68%	5.51%	8.38%	8.57%	8.43%

**Key Drivers**

	Dec-18A	Dec-19A	Dec-20F	Dec-21F	Dec-22F
ASP Change (% , Main Product)	N/A	N/A	N/A	N/A	N/A
Unit sales growth (% , main prod)	5.6%	-4.8%	2.4%	6.2%	5.9%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	19.6%	19.3%	19.4%	19.6%	19.7%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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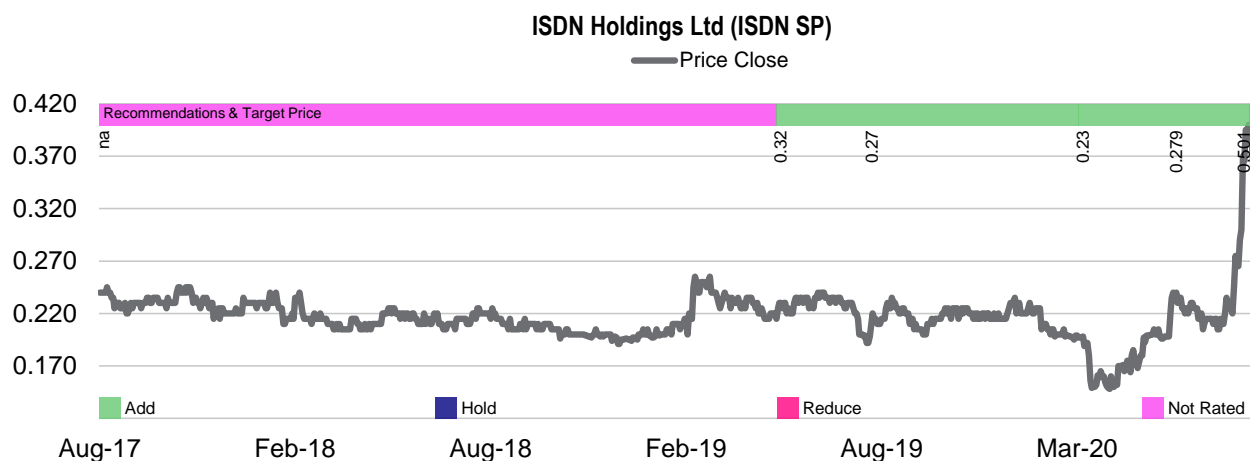
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### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

**Recommendation Framework****Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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