



ISDN Holdings

(ISDN SP/ISDN.SI)

Ending 2020 on a high note

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- **ISDN reported 1H20 results** – 1H20 sales are +13.8% YoY, and 1H20 PATMI is +72.5% YoY. Sales formed 54% of our forecast, while EPS was 79.6% of our forecast.
- **ISDN management** mentioned an S\$80mn+ order book and strong July sales. We think 2H20 could shape up to be better than 1H20 and bring ISDN to new highs.
- **Maintain OUTPERFORM with new TP of S\$0.47, 28.8% upside to Wednesday's close.** We see additional catalysts to come from stronger than expected sales performance, continued margin outperformance, upside surprise from hydropower operations, or successful expansion of the new disinfectant business.

ISDN reported strong 1H20 results with double digit sales growth (S\$167mn, +13.8% YoY) and higher than expected PATMI growth (S\$9.57mn, +72.5% YoY), despite COVID-19 creating various disruptions. Sales growth was largely led by the renewable energy segment as construction continues at the mini-hydropower plant sites. Due to the low gross profit margin recognised from the construction business, overall gross margins fell YoY by 0.7 ppt to 24.7%, and would have been 27.1% excluding the hydropower business.

The core business saw a modest 2% growth, due to growing demand in SEA for industrial automation solutions as major companies relocated supply chains outside of China. Together with Indonesia's hydropower plant contribution, sales outside of key markets took up a substantial 21% weightage, up from 12% in FY19. Despite project delays caused by COVID-19, the first two hydropower plants are at 98% completion, and will likely see operation in late FY20 or early FY21. ISDN has also expanded upon its disinfectant solutions business with ERST Project GmbH, with the announcement of another 2 major commercial partners, likely being the Singapore Science Park and either SBS or SMRT.

Going forward, we expect continued sales momentum for ISDN, as mgmt. revealed that 1) July 2020 set a new record as the best performing month for ISDN, even better than April's performance of S\$32.4mn sales, and 2) ISDN still has an S\$80mn+ order book as of 19 August. While this number is lower than the S\$95mn disclosed for 1Q20, we think it is reasonable, given that the S\$95mn included delayed orders from China's early lockdown. This also provides revenue visibility into 4Q20. Overall, we envisage ISDN's 2H20 to draw in more sales than 1H20, but remain cautious on profitability, given prior track record of 2H19 and 2H18.

Outperform - Maintain		Performance (Absolute)	
Price as of 19 Aug 20 (SGD)	0.37	1 Month (%)	85.7
12M TP (\$)	0.47	3 Month (%)	88.8
Previous TP (\$)	0.42	12 Month (%)	100.6
Upside, incl div (%)	28.8	Perf. vs STI Index (Red)	
Trading data			
Mkt Cap (\$mn)	168		
Issued Shares (mn)	430		
Vol - 3M Daily avg (mn)	6.2		
Val - 3M Daily avg (\$mn)	2.0		
Free Float (%)	63.1%		
Major Shareholders		Previous Recommendations	
Teo Cher Koon	31.7%	6-Aug-20	OP S\$0.42
Novo Tellus	8.9%		

Financials & Key Operating Statistics					
YE Dec (S\$ m)	2018	2019	2020F	2021F	2022F
Revenue	301,990	290,985	339,192	347,370	367,077
PATMI	10,946	7,047	14,071	14,428	15,289
EPS (cents)	2.77	1.68	3.28	3.36	3.56
EPS growth (%)	15.4%	(39.3%)	94.7%	2.5%	6.0%
DPS (Sing cents)	0.70	0.40	0.82	0.84	0.89
Div Yield (Y%)	1.9%	1.1%	2.2%	2.3%	2.4%
Net Profit Margin (%)	5.5%	4.9%	6.4%	6.4%	6.4%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Price P/B (x)	1.00	1.00	0.96	0.90	0.84
ROE (%)	7.8%	4.8%	8.9%	8.6%	8.5%

Source: Company data, KGI Research

Forecasts: We raise revenue forecasts, largely through hydropower business contribution. Mgmt. has guided that the hydropower operational revenues will be almost pure profit due to the low cost of operation, but we assume similar 27% gross margins to err on the side of caution. While the disinfectant business will have an impact on the 2H20 statements, we exclude their contribution due to the lack of information for the time being. We lower estimates for Non-controlling Interest to 35% of profit from 40%, as 1H20 was around 25%, which shows a normalisation towards 2017/2018's levels.

Valuation & Action: At 14x P/E, our 12M TP is now S\$0.47, a 28.8% upside to Wednesday's close price. We maintain our OUTPERFORM recommendation. We see additional catalysts to come from stronger than expected sales performance, continued margin outperformance, upside surprise from hydropower operations, or successful expansion of the new disinfectant business.

Risks: Further delays on hydropower projects, order book delays, weak profitability akin to 2H18/2H19's performance.

Figure 1: Results comparison to prior FY20 forecast and 1H19

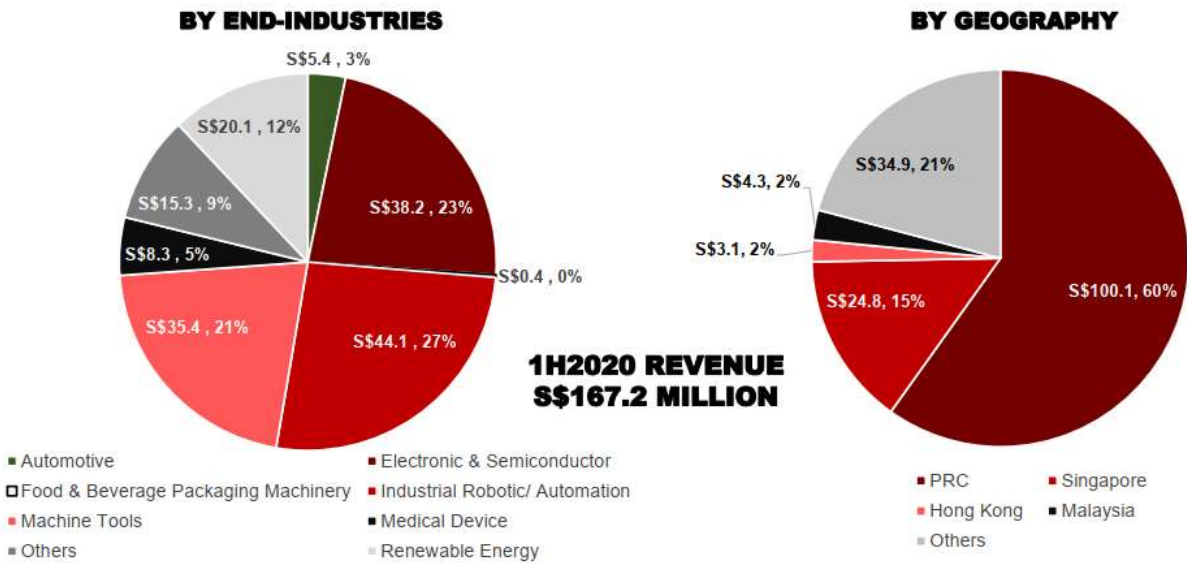
Values in SGD '000	Old FY20F	1H20	% of estimate	Variance
Revenue	308,040	167,185	54.3%	
Cost of sales	-224,869	-125,850	56.0%	
Gross Profit	83,171	41,335	49.7%	
Operating expenses	-53,599	-24,624	45.9%	
Profit from Operations	29,572	16,711	56.5%	
Finance income/(expenses)	-1,637	-972	59.4%	
Profit before Tax	27,935	16,633	59.5%	
Net profit	19,554	12,882	65.9%	
PATMI	11,733	9,572	81.6%	
<i>Gross Margin</i>	27.0%	24.7%		-2.3%
<i>PBT Margin</i>	9.1%	9.9%		0.9%
<i>Net Profit Margin</i>	6.3%	7.7%		1.4%
EPS (in Scents)	2.80	2.23	79.6%	

Values in SGD '000	1H20	1H19	yoy % chg
Revenue	167,185	146,963	13.8%
Cost of sales	-125,850	-109,564	14.9%
Gross Profit	41,335	37,399	10.5%
Operating expenses	-24,624	-26,000	-5.3%
Profit from Operations	16,711	11,399	46.6%
Finance income/(expenses)	-972	-827	17.5%
Profit before Tax	16,633	10,921	52.3%
Net profit	12,882	8,324	54.8%
PATMI	9,572	5,548	72.5%
<i>Gross Margin</i>	24.7%	25.4%	-0.7%
<i>PBT Margin</i>	9.9%	7.4%	2.5%
<i>Net Profit Margin</i>	7.7%	5.7%	2.0%
EPS (in Scents)	2.23	1.35	65.2%

Source: Company data, KGI Research

Figure 2: Less contribution from auto industry and from China

1H2020 Revenue Breakdown



Strong end-industry **diversification** and **strategic** geographical mix

Source: Bloomberg, KGI Research

Figure 3: New FY20F and FY21F estimates

Values in SGD '000	New FY20F	Old FY20F	Variance
Revenue	339,192	308,040	10.1%
Cost of sales	-247,610	-224,869	10.1%
Gross Profit	91,582	83,171	10.1%
Operating expenses	-59,019	-53,599	10.1%
Profit from Operations	32,562	29,572	10.1%
Finance income/(expenses)	-1,637	-1,637	0.0%
Profit before Tax	30,926	27,935	10.7%
Net profit	21,648	19,554	
PATMI	14,071	11,733	19.9%
Gross Margin	27.0%	27.0%	0.0%
PBT Margin	9.1%	9.1%	0.0%
Net Profit Margin	6.4%	6.3%	0.0%
EPS (in Sents)	3.28	2.80	17.0%

Values in SGD '000	New FY21F	Old FY21F	Variance
Revenue	347,370	327,431	6.1%
Cost of sales	-253,580	-239,025	6.1%
Gross Profit	93,790	88,406	6.1%
Operating expenses	-60,442	-56,973	6.1%
Profit from Operations	33,347	31,433	6.1%
Finance income/(expenses)	-1,637	-1,637	0.0%
Profit before Tax	31,711	29,796	6.4%
Net profit	22,197	20,858	6.4%
PATMI	14,428	12,515	15.3%
Gross Margin	27.0%	27.0%	0.0%
PBT Margin	9.1%	9.1%	0.0%
Net Profit Margin	6.4%	6.4%	0.0%
EPS (in Sents)	3.36	2.99	12.3%

Source: Bloomberg, KGI Research

Figure 4: Peer comparisons table

Company Name	BBG Ticker	Price (local curr.)	Market Cap (\$\$ Mn)	P/E (x)			P/B (x)		5-YR P/B AVG (x)	3y EPS CAGR (%)	Div Yield (%)	Div Payout Ratio (%)	Debt to Equity	Net Debt to Equity
				Current	FY20F	FY21F	Current	FY20F						
ISDN HOLDINGS LTD	ISDN SP	SGD 0.37	165	22.3	11.1	10.9	1.1	1.0	0.6	-17%	2.34	24.4	15.2	-3.9
Motion Control Specialists (Average)				67.7	38.7	28.9	4.1	4.4	3.0	-0.1	0.8	0.0	76.2	48.2
AIRTAC INTERNATIONAL GROUP	1590 TT	TWD 669.00	5869	42.3	34.3	27.1	6.8	5.9	4.3	-11%	1.00	-	103.1	57.1
HIWIN TECHNOLOGIES CORP	2049 TT	TWD 339.50	5024	125.5	56.2	30.8	4.6	4.4	3.5	-19%	0.59	-	83.6	75.0
CHIEFTEK PRECISION CO LTD	1597 TT	TWD 80.30	303	35.4	25.5	-	3.2	3.0	2.6	-14%	-	0.0	54.6	20.8
TBI MOTION TECHNOLOGY CO LTD	4540 TT	TWD 50.50	227	-	-	-	1.6	-	1.6	-	-	-	63.6	40.0
Major Industrial Automation Players (Average)				57.1	54.6	30.9	6.5	5.6	4.2	0.1	1.4	64.5	74.1	19.1
KEYENCE CORP	6861 JP	JPY 45490.00	143529	58.6	57.7	45.6	6.2	5.8	4.6	22%	0.43	18.4	0.0	-53.7
SCHNEIDER ELECTRIC SE	SU FP	EUR 103.25	95443	25.2	25.8	20.7	2.9	2.7	1.9	7%	2.44	61.4	36.6	21.0
ABB LTD-REG	ABBN SW	CHF 23.90	78299	51.9	31.7	23.3	4.6	3.8	3.3	-20%	3.15	170.5	72.1	42.7
SMC CORP	6273 JP	JPY 59470.00	51976	37.1	38.3	29.4	3.1	3.0	2.2	7%	0.71	24.1	1.5	-43.3
FANUC CORP	6954 JP	JPY 19155.00	50178	62.1	61.9	37.6	2.8	2.7	2.8	10%	1.02	78.4	0.1	-38.9
ROCKWELL AUTOMATION INC	ROK US	USD 233.02	36859	30.1	30.9	29.5	35.1	28.1	16.7	-4%	1.74	66.1	558.4	296.6
COGNEX CORP	CGNX US	USD 67.10	15837	151.6	90.8	61.7	8.4	8.1	6.4	8%	0.35	17.2	1.3	-29.1
YASKAWA ELECTRIC CORP	6506 JP	JPY 3765.00	13026	69.1	63.1	35.6	4.4	4.3	3.6	43%	0.93	87.7	35.3	17.9
YOKOGAWA ELECTRIC CORP	6841 JP	JPY 1638.00	5708	28.1	19.4	17.0	1.5	1.4	1.7	5%	2.09	61.8	20.4	-14.4
NSK LTD	6471 JP	JPY 808.00	5779	-	-	19.8	0.8	0.8	1.2	12%	1.82	89.3	53.0	26.4
THK CO LTD	6481 JP	JPY 2424.00	4209	-	126.7	19.6	1.1	1.1	1.3	-16%	0.84	34.6	36.6	-14.6

Updated as of 18 August 2020

Source: Bloomberg, KGI Research

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