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ISDN keeps focus on China and diversification strategy amid pandemic

It also sees growth opportunity for disinfectant products and solutions.

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Mr Teo says some 40 per cent of ISDN's 913 employees are 'on the ground' engineers, which he says allows the company to react more quickly to market trends. PHOTO: ISDN HOLDINGS

Singapore

WHILE the Covid-19 pandemic continues to hamper economic activity and business sentiment, ISDN Holdings' president Teo Cher Koon said that the company has been fortunate enough to have registered "good growth" this year.

ISDN sells systems incorporating components such as monitors and industrial computing units, assembles and manufactures special purpose motors and gears, and also provides hardware and software solutions to clients.

For the first nine months of 2020, ISDN's net profit more than doubled to S\$15.1 million.

Revenue for the period increased 24.7 per cent to S\$264 million, which the company attributed to "continued strong demand for industrial automation" across its key markets.

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ISDN added that the prudent management of operating costs had helped increase its net profit margin to 7.5 per cent, from 6.3 per cent in the year earlier period.

CGS-CIMB analyst William Tng said in a Jan 6 report that ISDN is on track to deliver a five-year record high in terms of revenue and net profit in 2020.

One reason for ISDN's resilient performance, said Mr Teo, is its ability to tap demand from different markets.

"We are able to target different industries. As long as they require semi-automated or fully automated solutions, we have a part in it," said Mr Teo in an interview with The Business Times.

Back in 2005, more than 55 per cent of ISDN's turnover came from its semiconductors segment.

But upon realising the cyclical nature of the industry, Mr Teo opted to diversify into different business segments.

Today, the semiconductor segment constitutes about 25 per cent of the group's turnover as ISDN has further diversified into industrial automation and special purpose machine tools.

Collectively, these three segments contribute about 60 to 70 per cent of the group's turnover.

"When a company only targets one industry, there will be a chance that you are quite badly hit by the sentiment of the market," he said, adding that ISDN can now switch between industries according to demand.

Riding the Industry 4.0 wave

ISDN's diversification strategy has allowed it to tap the Industry 4.0 wave - a reinvention of manufacturing processes through digitalisation.

Its "wider scope" of business, said Mr Teo, means the company provides operational technologies (OT) and information technologies (IT) to its customers. The convergence of these two, he added, is a key objective of every digital transformation project.

For example, ISDN offers software allowing companies to gather information in an organised and timely manner. Firms can then use the data to support lean business work processes and improve overall business performance.

In April last year, ISDN announced a cooperation with A*Star's Singapore Institute of Manufacturing Technology to commercialise a laser-aided additive manufacturing system for the fabrication of corrosion-resistant metal structures and components. These 3D-printed products can be used in heavy industries such as oil and gas, offshore and marine, and even aerospace.

Some 40 per cent of ISDN's 913 employees are "on the ground" engineers, which Mr Teo said allows the company to react more quickly to market trends.

"The more our engineers understand the market requirements, the more effective and efficient our engineering solutions will be," he added.

With the Covid-19 pandemic, some companies are moving out of China to locations closer to home while others are reducing their reliance on the Chinese market.

Mr Teo believes the economic growth potential of China is "tremendous", and so ISDN is looking to maintain or grow its business instead of backing out. In particular, the healthcare segment is looking promising as the demand for medical equipment such as insulin pumps, MRI machines and CT scanners continues to climb.

"China's living standard is rising every year, so the demand for good healthcare is progressing steadily," said Mr Teo, adding that China is also looking to export these types of medical equipment to third-world countries.

Since 2011, China has contributed about 60 per cent of the group's revenue each year. In 2019, the country accounted for about 70 per cent of ISDN's core engineering business.

Looking ahead, Mr Teo remains optimistic about how the company will continue to thrive there. He said the barriers to entry for the medical equipment space remain fairly high, as companies would need to get a number of certifications before setting up shop there.

At the same time, ISDN remains diversified across geographies to avoid relying on any one country.

Apart from China, the firm operates in Singapore, Malaysia, Vietnam, the Philippines, Thailand, Taiwan and Hong Kong. With the pandemic, he says more companies are likely to reorganise their supply chains. This may result in more manufacturing plants coming up in South-east Asia.

ISDN is looking at broadening its range of offerings to tap the rising demand in different industries in Asian countries, and maintain or improve its competitiveness.

The firm is planning to use its industrial software platform to offer data driven waste management services and support indoor farms.

Last May, ISDN announced that it was taking a 51 per cent stake in a joint venture with German company ERST Project to bring two types of disinfectant products and solutions to Asia-Pacific markets. These are water-based disinfectant Waterliq, and antibacterial and antiviral clear coating solution Erstotizer.

Pandemic opportunities

Mr Teo envisions that this will become a "significant business" for ISDN, as he believes there will be demand for disinfectant products amid the pandemic.

Over the next five years, Mr Teo says mergers and acquisitions, and research and development will remain on the mind of the company.

But the company will also actively keep a tight rein on its costs, especially in a challenging and uncertain economic climate.

CIMB's Mr Tng recently upped his core earnings per share estimate for ISDN to 5 Singapore cents, from 4.4 cents in November last year. He has also raised his target price for the counter, from 64.8 cents to 72 cents, on the back of a stronger-than-expected demand outlook.

ISDN's shares closed at 56.5 Singapore cents on Friday, giving them a price-to-earnings ratio of 21.9 times. The company now has a market capitalisation of S\$246 million.

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