

ISOTeam Ltd

9 September 2021

Ceased coverage

BBG	ISOT SP
Market cap	S\$43.2m
Price (8 Sep 2021)	S\$0.124
52-week range	S\$0.101 – S\$0.152
Target Price	Ceased coverage
Shares Outstanding	348.4m
Free Float	58.9%
Major Shareholder	ADD Investment Holdings 34.4% Taisei Oncho 17.9%
P/BV (06/21)	1.2x
Net Debt to EBITDA (06/21)	Negative EBITDA

Source: Company data, Bloomberg, SAC Capital

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Ceasing coverage

Due to reallocation of resources, we are ceasing coverage on ISOTeam. Our previous call and price target can no longer be relied upon for your investment decision as business dynamics have shifted.

ISOTeam booked 7.6% yoy higher revenue and halved EBITDA loss to S\$5m, despite weathering a full-year COVID disruption to the sector. Revenue in 2H21 rebounded to S\$62m, only marginally below record S\$64m achieved in 1H20 pre-COVID.

Demand for repair and refurbishment public work remains unabated, but higher costs - raw materials, labour shortage and resultant wage inflation, reduced productivity - slashed gross margin to 0.5% (FY19: 15.8%). Net loss included further provisions for Pure Group (S\$5.4m) and doubtful collections (S\$2.7m). Net gearing is 0.9x.

-Half of the S\$165m orders on hand were secured before COVID, which might be too costly to execute. Some 10-15% of its sub-contractors had gone bust, ceased operations, or broke contracts, due to spike in costs and insufficient manpower. Replacement of supplier/subcontractor will raise costs and exacerbate the problem.

A silver lining is it performs mainly public sector jobs where collections are more assured. The authority has engaged with contractors to look into ways to mitigate. From September, foreign workers are scheduled to return to Singapore by batches. We are hopeful that the contract terms could be improved, such as sharing of incremental costs, relaxation of terms, etc. to ease margin pressure.

ISOTeam is cutting salary to reduce fixed overheads, bringing down G&A expenses from current S\$12.6m. At pre-pandemic EBITDA margin of 9%, breakeven revenue would be S\$140m.

The insolvency of main contractor Greatearth group has knocked on effect for the entire value chain. We expect new job tenders to be delayed while the authorities sort out the disrupted on-going projects. And contractors will hesitate to bid for work with rising costs.

Albeit the gloomy outlook, this is an opportune time for contractors with strong execution capability to take stakes in development projects. Developers could then have more certainty with regards to construction cost, completion schedule and cash flows.

YE 30 Jun (S\$m)	FY17A	FY18A	FY19A	FY20A	FY21A
Revenue	82.9	83.8	136.6	91.7	99.0
EBIT	7.5	(0.2)	8.4	(22.5)	(15.0)
Net profit	6.4	0.5	6.8	(21.6)	(14.5)
EPS (S cents)	2.3	0.2	2.4	(6.2)	(4.2)
DPS (S cents)	0.7	0.2	0.4	-	-
Net cash / (debt)	(3.3)	(11.7)	(26.8)	(28.3)	(29.1)
Valuation					
EBIT margin (%)	9.0	(0.3)	6.2	(24.5)	(15.2)
ROIC (%)	16.4	1.5	12.0	(41.2)	(34.0)
EV/EBITDA (x)	3.4	9.6	5.2	(6.9)	(14.4)
P/E (x)	5.5	72.0	5.2	-	-
Dividend yield (%)	5.2	1.5	3.4	-	-

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