

# ISOTeam Ltd

29 Aug 2024

## BUY (Maintained)

BBG	ISO SP
Market Cap	S\$44.5m
Price (29 Aug 2024)	S\$0.064
52-week range	S\$0.033-0.071
Target Price	S\$0.084
Previous Price	S\$0.073
Shares Outstanding	698.8m
Free Float	68.6%
Major Shareholder	ADD Investment Holding Pte Ltd 20.2% Taisei Oncho Co Ltd 9.0%

Source: Company Data, Bloomberg, SAC Capital



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## FY2024: Stellar Performance with Strong Growth Prospects

**FY2024 results.** ISOTeam delivered stellar performance in FY2024. Revenue grew 17.9% yoy to \$130.2m, in line with our forecasted revenue of S\$130.3m, fueled by strong growth in its R&R, A&A and C&P segments. Gross profit rose by 82.4% yoy to S\$20.2m, with gross profit margin recovering back to pre-covid levels at 15.5%, a significant improvement from 10.0% in FY2023. Net profit surged by 476.8% yoy to S\$6.6m, coming in at 153% of our net profit forecast. This was fueled by the rise in gross profit and a 24.0% increase in other income, primarily from a one-off subsidiary disposal gain and fair value gains on investments. Excluding the one-off gain, the group would have recorded a net profit of S\$3.3m. Marketing and distribution expenses fell 10.0% yoy to S\$0.7m due to reduced staff costs post-disposal, while general and administrative expenses grew 16.8% yoy to S\$13.2m, driven by higher staff compensation and professional fees. Finance costs increased 8.6% yoy to S\$2.5m, reflecting greater trade facility usage and higher interest expenses on borrowings.

**Investment Merits.** a) ISOTeam's order book stands at an impressive S\$193.1m as of 30 June 2024, providing visibility and revenue stability until FY2027. b) ISOTeam has a sustainable business model, where 70% of its business comes from Singapore government bodies, ensuring steady demand. c) ISOTeam's early adoption of AI and robotics positions them as a forward-looking player in the built environment sector, while reducing reliance on labor and enhancing efficiency. d) ISOTeam's favourable dividend policy, where it aims for a minimum dividend payout of 25% of net profit, underscores its commitment to delivering value to shareholders.

**Positive Outlook.** According to BCA, the Singapore's construction sector is expected to grow steadily until 2028, with public sector projects making up 55% of total demand. Government initiatives such as public sector programs and Green Plan 2030 are expected to increase demand for ISOTeam's services, including works such as mandatory façade checks, estate upgrading, expansion of cycling paths, increased green spaces and expansion of solar energy capacity.

**Risks.** a) Despite strides in automation, over-reliance on labor and evolving regulations remain challenges. b) ongoing cost inflation, supply chain disruptions, and regulatory compliance may impact margins. c) ISOTeam operates in a competitive market with other players also benefiting from public sector projects.

**Maintain BUY at revised TP of S\$0.084.** This is derived based on ISOTeam's forward EPS against the average PER of 5.5x of its peers, reflecting the strong performance and improved financial outlook for ISOTeam. This represents a 31.4% upside from current levels.

## KEY FINANCIAL HIGHLIGHTS

### Year ended Jun (S\$'m)

	FY23	FY24	FY25E	FY26E	FY27E
Revenue	110.4	130.2	154.0	178.1	204.8
EBIT	2.6	9.2	10.1	13.4	14.9
Net profit	1.1	6.6	8.5	11.5	12.0
EPS (S\$ cents)	0.3	0.95	1.22	1.65	1.72
Dividend per share (S\$ cents)	-	0.08	0.37	0.50	0.52
Net cash / (debt)	(41.8)	(27.1)	(21.7)	(11.7)	(1.2)

### Valuation

Gross profit margin (%)	10.0%	15.5%	16.8%	18.0%	18.0%
Net profit margin (%)	1.0%	5.1%	5.5%	6.5%	5.9%
EV/EBITDA (x)	13.8	5.7	5.0	3.3	2.4
P/E (x)	22.9	6.8	5.2	3.9	3.7
P/B (x)	0.9	1.0	0.9	0.7	0.7
Dividend yield (%)	-	1%	6%	8%	8%
ROE (%)	4.5%	15.4%	16.8%	19.3%	17.6%

## Income Statement

FYE Jun (S\$'m)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>110.4</b>	<b>130.2</b>	<b>154.0</b>	<b>178.1</b>	<b>204.8</b>
Cost of sales	(99.3)	(110.0)	(128.1)	(146.0)	(167.9)
<b>Gross profit</b>	<b>11.1</b>	<b>20.2</b>	<b>25.9</b>	<b>32.1</b>	<b>36.9</b>
Other income	4.6	5.7	4.0	4.6	5.3
Marketing and Distribution expenses	(0.8)	(0.7)	(1.3)	(1.5)	(1.8)
General and Administrative expenses	(11.3)	(13.2)	(17.5)	(20.3)	(23.3)
Finance costs	(2.3)	(2.5)	(1.1)	(0.8)	(0.5)
Impairment loss on receivables and contract assets	(0.6)	(1.7)	(0.8)	(0.9)	(1.1)
Other operating expenses	(0.2)	(0.5)	0.0	(0.4)	(1.0)
Share of results of associate	-	-	-	-	-
<b>Profit before tax</b>	<b>0.5</b>	<b>7.3</b>	<b>9.1</b>	<b>12.7</b>	<b>14.5</b>
Tax Credit / (Loss)	0.7	(0.7)	(0.5)	(1.2)	(2.5)
<b>Net income</b>	<b>1.1</b>	<b>6.6</b>	<b>8.5</b>	<b>11.5</b>	<b>12.0</b>

## Balance Sheet

FYE Jun (S\$'m)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	21.5	20.0	18.3	16.4	14.2
Goodwill	1.7	1.7	1.7	1.7	1.7
Intangible assets	0.2	0.1	0.1	0.1	0.1
Other investments	3.5	4.7	4.7	4.7	4.7
Investment in associate	-	-	-	-	-
Deferred tax assets	1.1	0.8	0.8	0.8	0.8
<b>Total non-current assets</b>	<b>28.0</b>	<b>27.3</b>	<b>25.6</b>	<b>23.7</b>	<b>21.5</b>
Contract assets	36.1	42.2	41.4	40.5	39.5
Inventories	0.2	0.0	0.3	0.3	0.4
Trade and other receivables	29.9	27.9	38.4	44.5	51.1
Cash and bank balances	6.8	10.9	9.0	11.4	14.4
Tax recoverable	0.1	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>73.0</b>	<b>81.0</b>	<b>89.2</b>	<b>96.7</b>	<b>105.4</b>
<b>Total assets</b>	<b>101.0</b>	<b>108.3</b>	<b>114.8</b>	<b>120.4</b>	<b>126.9</b>
Borrowings	13.5	10.1	9.1	8.1	7.1
Deferred tax liabilities	0.1	0.1	0.1	0.1	0.1
Lease liabilities	3.3	2.6	2.6	2.1	1.9
<b>Total non-current liabilities</b>	<b>17.0</b>	<b>12.8</b>	<b>11.8</b>	<b>10.3</b>	<b>9.1</b>
Contract liabilities	2.3	1.6	1.6	1.6	1.6
Trade and other payables	24.3	25.4	31.2	35.5	40.8
Borrowings	30.6	24.1	18.1	12.0	6.0
Lease liabilities	1.2	1.2	1.0	0.8	0.6
Provision for taxation	0.0	0.3	0.3	0.3	0.3
<b>Total current liabilities</b>	<b>58.4</b>	<b>52.7</b>	<b>52.1</b>	<b>50.3</b>	<b>49.4</b>
<b>Total liabilities</b>	<b>75.3</b>	<b>65.4</b>	<b>63.9</b>	<b>60.6</b>	<b>58.5</b>
<b>Net assets</b>	<b>25.7</b>	<b>42.9</b>	<b>50.9</b>	<b>59.8</b>	<b>68.4</b>
Share capital	43.7	54.3	54.3	54.3	54.3
Treasury shares	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Accumulated (losses)/profits	(10.6)	(4.0)	3.9	12.9	21.5
Foreign currency translation reserve	0.0	0.0	0.0	0.0	0.0
Merger reserve	(7.3)	(7.3)	(7.3)	(7.3)	(7.3)
Other reserves	0.0	0.1	0.1	0.1	0.1
<b>Equity attributable to equity holders of the Company</b>	<b>25.8</b>	<b>42.9</b>	<b>50.9</b>	<b>59.9</b>	<b>68.5</b>
<b>Non-controlling interests</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>
<b>Total equity</b>	<b>25.7</b>	<b>42.9</b>	<b>50.8</b>	<b>59.8</b>	<b>68.4</b>

## Cash Flow Statement

FYE Jun (S\$'m)	FY23	FY24	FY25E	FY26E	FY27E
<b>Cash flows from operating activities</b>					
Profit/(loss) before tax	0.5	7.3	9.1	12.7	14.5
Adjustments for:					
Amortisation and Depreciation	3.7	3.2	3.1	3.6	4.1
Gains and Losses on Disposal	(2.5)	(3.3)	0.0	0.0	0.0
Impairments and Write-offs	0.7	1.9	0.8	0.9	1.1
Interest income	(0.1)	(0.3)	(0.1)	(0.1)	(0.2)
Interest expense	2.2	2.2	1.1	0.8	0.5
Investments and Equity	0.1	0.3	0.0	0.0	0.0
Other adjustments	0.0	(1.2)	1.3	(2.4)	(2.0)
Operating profit/loss	4.7	10.1	15.3	15.4	18.1
Changes in working capital	(14.8)	(4.1)	(4.3)	(0.8)	(0.3)
Cash used in operations	(10.1)	6.0	11.0	14.7	17.7
Interest received	0.1	0.3	0.1	0.1	0.2
Tax paid	(0.0)	(0.0)	(0.5)	(1.2)	(2.5)
<b>Net cash used in operating activities</b>	<b>(10.0)</b>	<b>6.2</b>	<b>10.5</b>	<b>13.6</b>	<b>15.4</b>
<b>Cash flows from investing activities</b>					
Additions to intangible assets	(0.1)	(0.0)	0.0	0.0	0.0
Purchases of property, plant and equipment	(1.1)	(1.0)	(1.4)	(1.6)	(1.9)
Proceeds from disposal of investment property	0.0	0.0	0.0	0.0	0.0
Proceeds from disposal of property, plant and equipment and asset held for sale	0.1	0.1	0.0	0.0	0.0
Proceeds from disposal of other investments	0.0	0.0	0.0	0.0	0.0
Proceeds from disposal of associates	0.0	0.0	0.0	0.0	0.0
Net cash inflow from disposal and derecognition of subsidiaries	0.0	(0.0)	0.0	0.0	0.0
Net cash outflow for acquisition of a subsidiary	0.0	0.0	0.0	0.0	0.0
<b>Net cash generated from investing activities</b>	<b>(1.1)</b>	<b>(0.9)</b>	<b>(1.4)</b>	<b>(1.6)</b>	<b>(1.9)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital	0.0	10.4	0.0	0.0	0.0
Transaction costs related to issue of share capital	0.0	(0.1)	0.0	0.0	0.0
(Placement)/withdrawal of fixed deposits pledged to bank	(2.5)	1.0	0.0	0.0	0.0
Drawdown of borrowings	43.7	49.7	0.0	0.0	0.0
Repayment of borrowings	(41.1)	(56.7)	(7.0)	(7.0)	(7.0)
Repayment of lease liabilities	(1.3)	(1.4)	(0.2)	(0.2)	(0.2)
Purchase of treasury shares	0.0	0.0	0.0	0.0	0.0
Due to directors (non-trade)	0.1	(0.2)	0.0	0.0	0.0
Interest paid	(2.1)	(2.2)	0.1	0.1	0.2
Dividends paid to equity owners	0.0	0.0	(0.6)	(2.6)	(3.5)
<b>Net cash used in financing activities</b>	<b>(3.2)</b>	<b>0.5</b>	<b>(7.7)</b>	<b>(9.6)</b>	<b>(10.5)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(14.3)</b>	<b>5.8</b>	<b>1.4</b>	<b>2.3</b>	<b>3.0</b>
<b>Cash and cash equivalents at beginning of financial year</b>	<b>16.1</b>	<b>1.8</b>	<b>7.6</b>	<b>9.0</b>	<b>11.4</b>
<b>Cash and cash equivalents at end of financial year</b>	<b>1.8</b>	<b>7.6</b>	<b>9.0</b>	<b>11.4</b>	<b>14.4</b>

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