

ISOTeam Ltd

23 July 2024

BUY (Maintained)

BBG	ISO SP
Market Cap	S\$41.2m
Price (23 July 2024)	S\$0.059
52-week range	S\$0.033-0.065
Target Price	S\$0.073
Shares Outstanding	698.8m
Free Float	54.4%
Major Shareholder	ADD Investment Holding Pte Ltd 34.4% Taisei Oncho Co Ltd 9.0%

Source: Company Data, Bloomberg, SAC Capital



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KEY FINANCIAL HIGHLIGHTS

Year ended Jun (S\$m)

	FY22	FY23	FY24E	FY25E	FY26E
Revenue	96.5	110.4	130.3	154.0	178.1
EBIT	(13.2)	2.7	5.4	10.2	13.5
Net profit	(14.1)	1.2	4.3	8.5	11.6
EPS (S\$ cents)	(2.7)	0.3	0.62	1.22	1.65
Dividend per share (S\$ cents)	-	-	0.16	0.36	0.50
Net cash / (debt)	(27.9)	(41.8)	(25.4)	(19.6)	(10.4)

Valuation

Gross profit margin (%)	4.6%	10.0%	12.3%	16.8%	18.0%
Net profit margin (%)	-14.6%	1.1%	3.3%	5.5%	6.5%
EV/EBITDA (x)	(8.2)	13.0	8.1	4.6	3.0
P/E (x)	(2.2)	21.1	9.5	4.9	3.6
P/B (x)	0.8	0.8	1.1	0.9	0.8
Dividend yield (%)	-	-	3%	6%	8%
ROE (%)	-67.2%	4.9%	11.1%	18.8%	21.7%

H3 Dynamics Drone Incident: Negligible Impact on ISOTeam

H3 Dynamics Drone Incident. On 23 Jul 2024, the Civil Aviation Authority of Singapore (“CAAS”) suspended the drone operations of H3 Dynamics Holdings after its drone crash at One-North Residences. A full investigation is underway following preliminary findings of a positioning sensor malfunction.

Negligible Impact on ISOTeam. After discussions with the management, we agree that the impact on ISOTeam is negligible. ISOTeam started its collaboration with H3 Dynamics since Oct 2021 to conduct drone façade inspection projects. Since then, ISOTeam has obtained its own operator permit for façade inspection drones. Notably, the drone in question, Hexadrone TUNDRA 2, is not used in ISOTeam’s façade inspections. Therefore, despite the temporary suspension of H3 Dynamics Holdings, ISOTeam can continue its inspection services thanks to its own operator permit. Consequently, no significant interruption in its façade inspection services is expected.

Maintain BUY. Despite potential inconveniences from the development, we maintain a positive outlook on ISOTeam due to it being at the forefront of technological advancement in its sector and its strong track record in public sector projects in Singapore. We remain optimistic about the macroeconomic environment in which ISOTeam operates. Construction demand in Singapore is expected to steadily improve, ranging from S\$31b and S\$38b from 2025 to 2028, with the public sector contributing about 60% of the demand. Additionally, HDB upgrading cycles and neighbourhood renewal programs provide a consistent stream of income, complemented by a backlog of projects resulting from COVID-19 disruptions and anticipated infrastructure upgrades ahead of the upcoming Singapore general elections. Furthermore, ISOTeam was awarded the Enterprise Development Grant in Aug 2023 and the operator permit from the Civil Aviation Authority of Singapore in Sep 2023. These developments indicate strong support for ISOTeam’s technological initiatives.

Risks. Authorities may take a more prudent stance and require more stringent processes for drone operators. There is also a remote possibility that all drone activities are temporarily suspended. However, such a suspension is unlikely to last beyond months and would have a negligible impact on ISOTeam, as façade inspections account for only a small percentage of its revenue. Additionally, we forecast the highly anticipated autonomous AI-painting drones to only start its contribution in FY2025, and as such our current projections remain unchanged.

Income Statement

FYE Jun (\$S'm)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	96.5	110.4	130.3	154.0	178.1
Cost of sales	(92.1)	(99.3)	(114.3)	(128.1)	(146.0)
Gross profit	4.4	11.1	16.0	25.9	32.1
Other income	6.8	4.6	3.4	4.0	4.6
Marketing and Distribution expenses	(1.0)	(0.8)	(1.1)	(1.3)	(1.5)
General and Administrative expenses	(12.1)	(11.3)	(11.7)	(17.5)	(20.3)
Finance costs	(1.7)	(2.3)	(1.6)	(1.3)	(1.0)
Impairment loss on receivables and contract assets	(9.8)	(0.6)	(0.7)	(0.8)	(0.9)
Other operating expenses	(1.4)	(0.2)	(0.3)	0.0	(0.4)
Share of results of associate	0.0	-	-	-	-
Profit before tax	(14.7)	0.6	4.0	9.0	12.7
Tax Credit	0.7	0.7	0.3	(0.5)	(1.2)
Net income	(14.1)	1.2	4.3	8.5	11.6

Balance Sheet

FYE Jun (\$S'm)	FY22	FY23	FY24E	FY25E	FY26E
Non-current assets					
Property, plant and equipment	25.3	21.5	20.1	18.5	16.6
Goodwill	1.7	1.7	1.7	1.7	1.7
Intangible assets	0.5	0.2	0.1	0.1	0.1
Other investments	-	3.5	3.5	3.5	3.5
Investment in associate	-	-	-	-	-
Deferred tax assets	0.7	1.1	1.1	1.1	1.1
Total non-current assets	28.2	28.0	26.5	24.8	22.9
Current assets					
Contract assets	23.6	36.1	35.4	34.6	33.7
Asset held for sale	-	-	-	-	-
Inventories	0.3	0.2	0.3	0.3	0.3
Trade and other receivables	22.1	29.9	32.5	38.4	44.5
Cash and bank balances	18.6	6.8	17.8	15.2	15.4
Tax recoverable	0.1	0.1	0.1	0.1	0.1
Total current assets	64.6	73.0	86.1	88.6	94.0
Total assets	92.8	101.0	112.5	113.4	116.9
Non-current liabilities					
Borrowings	18.0	13.5	12.5	11.5	10.5
Deferred tax liabilities	0.6	0.1	0.1	0.1	0.1
Lease liabilities	3.7	3.3	2.3	2.3	1.5
Total non-current liabilities	22.3	17.0	14.9	13.9	12.2
Current liabilities					
Contract liabilities	2.6	2.3	2.3	2.3	2.3
Trade and other payables	22.2	24.3	27.8	31.2	35.5
Borrowings	23.5	30.6	27.5	20.6	13.8
Lease liabilities	1.3	1.2	0.8	0.3	0.0
Total current liabilities	49.6	58.4	58.4	54.4	51.5
Total liabilities	71.9	75.3	73.3	68.3	63.7
Net assets	20.9	25.7	39.2	45.1	53.2
Share capital and reserves					
Share capital	43.7	43.7	54.0	54.0	54.0
Treasury shares	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Accumulated (losses)/profits	(12.0)	(10.6)	(7.3)	(1.4)	6.7
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	(0.1)	0.0	0.0	0.0	0.0
Equity attributable to equity holders of the Company	24.3	25.8	39.3	45.3	53.3
Non-controlling interests	(3.3)	(0.1)	(0.1)	(0.1)	(0.1)
Total equity	20.9	25.7	39.2	45.1	53.2

Cash Flow Statement

FYE Jun (\$S'm)	FY22	FY23	FY24E	FY25E	FY26E
Cash flows from operating activities					
Profit/(loss) before tax	(14.8)	0.5	4.0	9.0	12.7
Adjustments for:					
Amortisation and Depreciation	4.7	3.7	2.7	3.1	3.6
Gains and Losses on Disposal	(3.9)	(2.5)	(0.0)	0.0	0.0
Impairments and Write-offs	11.0	0.7	0.7	0.8	0.9
Interest income	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Interest expense	1.7	2.2	1.6	1.3	1.0
Investments and Equity	0.0	0.1	0.0	0.0	0.0
Other adjustments	(1.1)	0.0	2.9	(1.9)	(2.4)
Operating profit/loss	(2.5)	4.7	11.7	12.1	15.6
Changes in working capital	(2.9)	(14.8)	1.0	(2.3)	(1.1)
Cash used in operations	(5.3)	(10.1)	12.8	9.9	14.5
Interest received	0.1	0.1	0.2	0.2	0.2
Tax paid	(0.0)	(0.0)	0.3	(0.5)	(1.2)
Net cash used in operating activities	(5.2)	(10.0)	13.3	9.5	13.5
Cash flows from investing activities					
Additions to intangible assets	(0.0)	(0.1)	0.0	0.0	0.0
Purchases of property, plant and equipment	(0.8)	(1.1)	(1.2)	(1.4)	(1.6)
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	0.5	0.1	0.0	0.0	0.0
Proceeds from disposal of other investments	11.8	0.0	0.0	0.0	0.0
Proceeds from disposal of associates	0.4	0.0	0.0	0.0	0.0
Net cash inflow from disposal and derecognition of subsidiaries	4.3	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
Net cash generated from investing activities	16.1	(1.1)	(1.2)	(1.4)	(1.6)
Cash flows from financing activities					
Proceeds from issue of share capital	0.0	0.0	10.4	0.0	0.0
Transaction costs related to issue of share capital	0.0	0.0	(0.1)	0.0	0.0
(Placement)/withdrawal of fixed deposits pledged to bank	0.5	(2.5)	0.0	0.0	0.0
Drawdown of borrowings	27.5	43.7	0.0	0.0	0.0
Repayment of borrowings	(32.2)	(41.1)	(4.1)	(7.9)	(7.9)
Repayment of lease liabilities	(1.9)	(1.3)	(1.4)	(0.5)	(0.5)
Purchase of treasury shares	(0.1)	0.0	0.0	0.0	0.0
Due to directors (non-trade)	(0.1)	0.1	0.0	0.0	0.0
Interest paid	(1.6)	(2.1)	0.2	0.2	0.2
Dividends paid to equity owners	0.0	0.0	(1.1)	(2.5)	(3.5)
Net cash used in financing activities	(7.9)	(3.2)	3.9	(10.7)	(11.6)
Net (decrease)/increase in cash and cash equivalents	3.0	(14.3)	16.0	(2.6)	0.2
Cash and cash equivalents at beginning of financial year	13.2	16.1	1.8	17.8	15.2
Cash and cash equivalents at end of financial year	16.1	1.8	17.8	15.2	15.4

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