

# ISOTeam Ltd

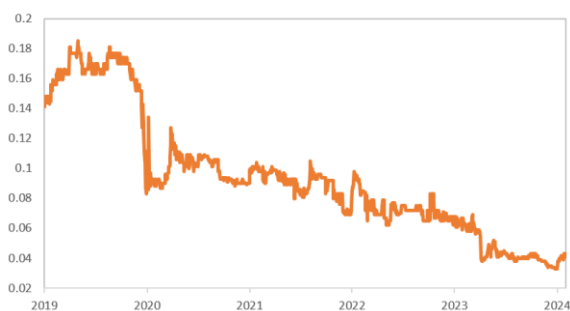
30 April 2024

## Non-Rated

<b>BBG</b>	ISO SP
<b>Market Cap</b>	S\$30.7m
<b>Price (30 Apr 2024)</b>	S\$0.044
<b>52-week range</b>	S\$0.033-0.073
<b>Shares Outstanding</b>	697.6m
<b>Free Float</b>	54.4%
<b>Major Shareholder</b>	ADD Investment Holding Pte Ltd 34.4% Taisei Oncho Co Ltd 9.0%

Source: Company Data, Bloomberg, SAC Capital

## SHARE PRICE



Source: Bloomberg, SAC Capital

## ANALYST

Ng Ming Ci, Daniel  
+65 9382 9657  
[dng@saccapital.com.sg](mailto:dng@saccapital.com.sg)

Matthias Chan  
+65 9687 9957  
[mchan@saccapital.com.sg](mailto:mchan@saccapital.com.sg)

## KEY FINANCIAL HIGHLIGHTS

Year ended Jun (S\$'m)	FY21	FY22	FY23	1H24
Revenue	99.0	96.5	110.4	62.7
EBIT	(15.2)	(13.2)	2.6	2.2
Net profit	(15.5)	(14.1)	1.1	1.3
EPS (S cents)	(4.2)	(2.7)	0.3	0.3
Net cash / (debt)	(29.9)	(22.9)	(37.3)	(27.9)

## Valuation

Gross profit margin (%)	0.5	4.6	10.0	13.3
Net profit margin (%)	(15.7)	(14.6)	1.0	2.0
EV/EBITDA (x)	(6.2)	(6.3)	10.8	15.4
P/E (x)	(1.0)	(1.7)	15.7	8.5
P/B (x)	0.4	0.6	0.6	0.8
ROE (%)	(44.2)	(67.4)	4.5	6.9

## Profitability Rebound

**1H2024's Strong Performance driven by Strategic Focus** - 1H2024 revenue came in at S\$62.7m, a 16.5% yoy increase, largely attributable to the Group's divestment of non-core businesses in December 2022 and its sharpened focus on its core construction-related segments. The key segments – Repair and Redecoration (“R&R”), Coating & Painting (“C&P”) and Addition and Alteration (“A&A”) experienced a 30.1% yoy increase in combined revenue to S\$52.7m. This substantial growth more than compensated for the 25.0% yoy decrease of S\$3.3m in the Others segments, further validating ISOTeam's strategic refocus. 1H2023 gross profit margin increased yoy to 13.3% from 9.3%, due to significant fewer low-margin pandemic projects. This has led to the improvement in net profit to S\$1.4m, a 34.0% yoy increase. It's noteworthy that ISOTeam's net profit for 1H2024 has already surpassed the net profit recorded for the entire FY2023, standing at S\$1.3m. This achievement underscores our optimism regarding ISOTeam's outlook for FY2024, anticipating a continuation of this upward trajectory.

**Strong Order Book** - ISOTeam's renewed focus on its core competencies in R&R and A&A has yielded tangible results, evident in its growth of its order book. As of April 2024, ISOTeam's order book stands at an impressive S\$184m, the highest since Jun 2021. As lower margin pre-Covid projects near completion, ISOTeam is poised to benefit from higher-margin projects tendered, supporting its operations until June 30, 2025. This anticipated increase in margin across ISOTeam's business segments is a promising indicator of future profitability. Furthermore, ISOTeam's strong balance sheet provides a solid foundation for its operational and expansion needs. The Group's cash and bank balances have seen a notable increase, rising to S\$11.3m from S\$6.8m over a year ago.

**Pioneering a New Era in Painting Technology** - ISOTeam's strategic investment in AI drone technology is a pivotal step towards operational excellence. The company is in its late stages of developing autonomous painting drones, which reduces reliance on labor and tackles rising manpower costs. Additionally, this technology could potentially become a new revenue stream when leased to external parties.

**Favourable Dividend Policy** - The last 4 years have been an unprecedented period arising from the pandemic, which resulted in a pause in the group's dividend payout. Moving forward for FY2024 and FY2025, the company plans to distribute at least 25% of the net profit after tax for FY2024 and 30% for FY2025. This is a notable increase from the previous policy which targeted 20% of profit after tax, reflecting ISOTeam's positive outlook, supported by its strong order book and renewed profitability.

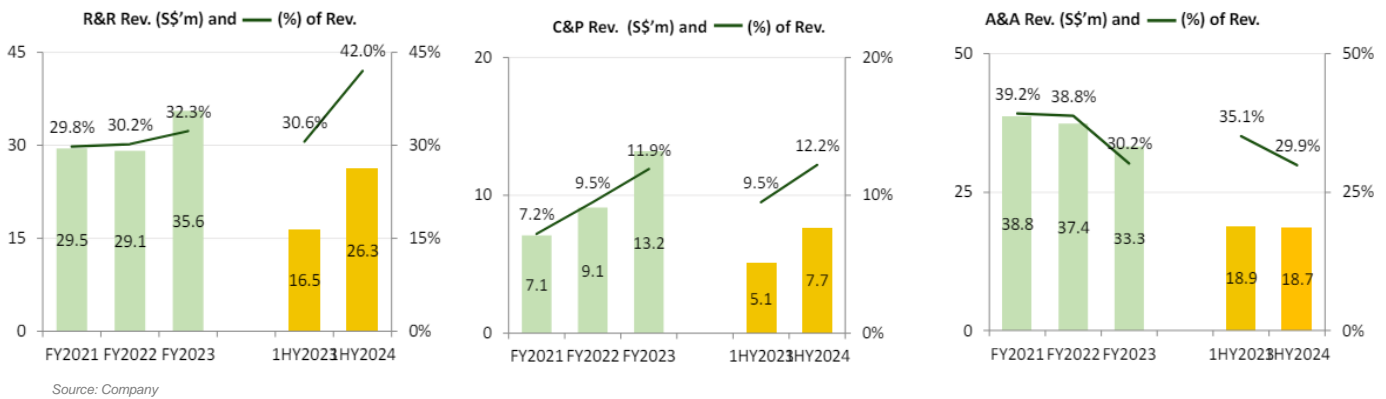
**Positive Industry Outlook** - ISOTeam finds itself well-positioned within the rebound in local construction and built environment, aligning with positive industry forecasts. According to BCA, a steady uptrend in construction demand is expected, with projections extending to 2028. The backlog of projects,

including neighborhood renewal programs, repair and refurbishment projects exacerbated by the disruptions of the Covid-19 pandemic, is now poised to fuel a surge in tender invitations. Additionally, ISOTeam believes that with the upcoming Singapore general elections, the Singapore Government is expected to carry out more infrastructure upgrades and development projects. As a key player in such upgrading works in public projects, ISOTeam stands to capitalise on these opportunities.

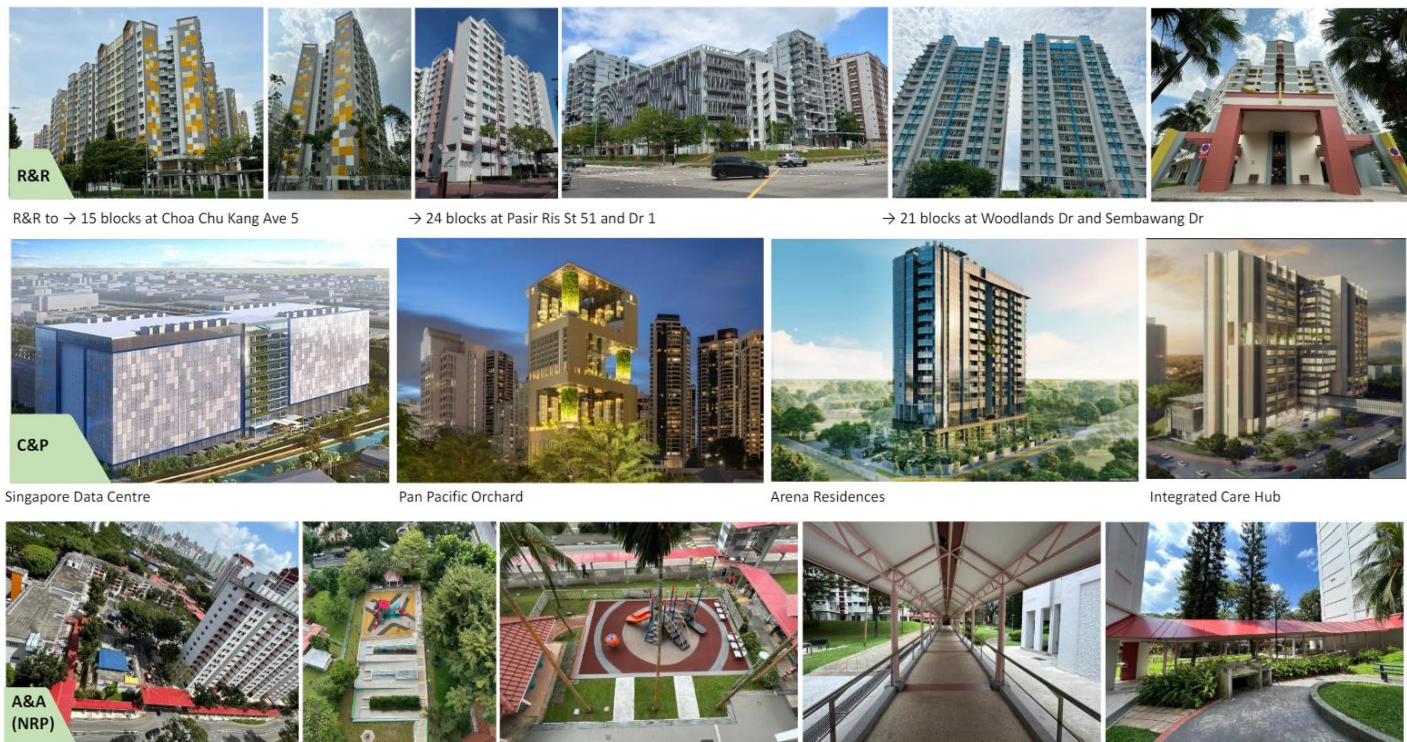
**Risks** - Rising manpower and material costs and current high interest rate environment may impact the cost of borrowing. However, ISOTeam has made concrete steps to tackle such issues. For example, to cope with future uncertainty in rises in manpower costs such as the recent reduction of foreign worker quota from 1:7 to 1:5 in the construction sector, ISOTeam's involvement in the development of autonomous painting drones reduces reliance on labor.

**Valuation** - The company is currently trading at 8.5x P/E and 0.8x P/B

### Performance of 3 Key Segments

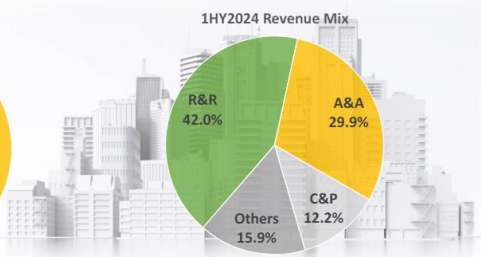
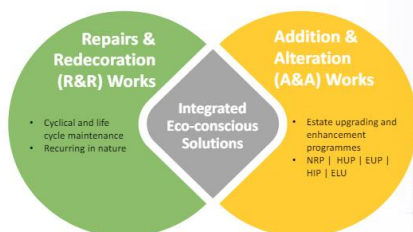


### Segment Activities: A Glimpse into the Diverse Operations Across Each Business Unit



### Refocus on Core Competencies: Main revenue generators in 1H2024

## AN EDGE & FOCUS ON CORE R&R AND A&A BUSINESS



← Across Public and Private Sectors →

**>860 projects** | **>7,200 buildings**

Source: Company

### Order book at its highest since Jun 2021

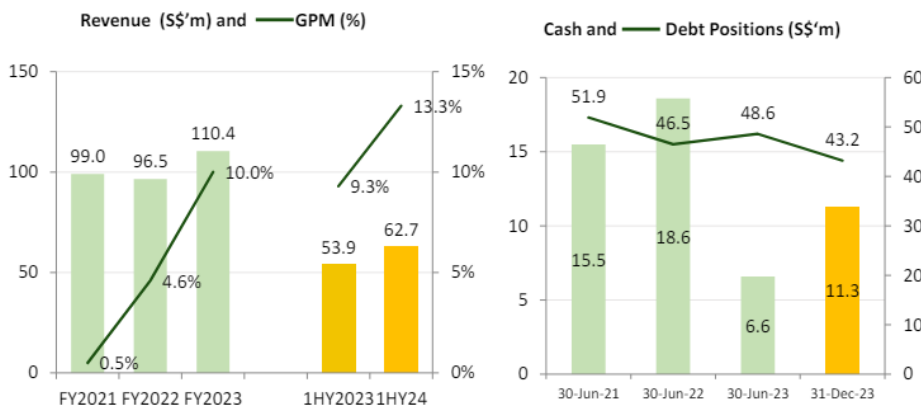
## ORDER BOOK TREND



• Order book of **\$S182.4 million** to be progressively delivered by FY2026

Source: Company

### Strong revenue and cash position



Source: Company

## Pioneering Development in Autonomous Painting Drones

### AUTONOMOUS PAINTING DRONE: DEVELOPMENT WORK CONTINUES TO BE UNDERWAY

**2022** Partnership with Acclivis

Development works starting from a washing drone

**2023** Manned Piloted Drone

Prototype and testing of the manned drone following development works

**End 2024<sup>1</sup>** Testbedding Autonomous Painting Drone

Testbedding Autonomous Painting Drone

ISO  
Team  
+ Drones

- 1. Enhance workplace safety & quality control
- 2. Counter rising costs of foreign labour
- 3. Reduce need of heavy equipment
- 4. Speed-up project completion time
- 5. Early adopter of autonomous painting drones
- 6. Environmentally friendly & sustainable

<sup>1</sup>Targeted timeline

Source: Company

## Investment Merits

TRACK RECORD	NETWORK	CAPABILITIES	TEAM	FUTURE
<ul style="list-style-type: none"> <li>• An industry leader with a 20+ year track record</li> <li>• Defensive business: 70% of business from Singapore government bodies</li> <li>• Largest market share in Town Council segment projects</li> </ul>	<ul style="list-style-type: none"> <li>• Established stakeholder relationships (TOC and Nippon Paint Singapore)</li> <li>• Exclusive applicator for Nippon Paint Singapore and SKK (S) Pte Ltd</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-disciplinary services</li> <li>• A green solutions provider</li> <li>• Turnkey capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• An experienced and professional management team</li> <li>• Industry leading operational team at the forefront of evolving market trends</li> </ul>	<ul style="list-style-type: none"> <li>• Construction sector recovery</li> <li>• Strong order book</li> <li>• Synergy across business units</li> <li>• Minimum dividend payout of 25% of net profit</li> <li>• SG Green Plan 2030</li> <li>• Build capabilities in untapped markets (JTC, LTA, MOE etc)</li> </ul>

Source: Company

## Company's Vision: Laying the Foundation for Future Growth

## FOCUS ON OUR CORE BUSINESS

Singapore's leading player in the building maintenance, estate upgrading and renewable solutions space with a green plus sustainable focus

**VISION GOAL**

- To consistently achieve annual revenue of at least S\$100 million each year
- To consistently grow our profitability

**PRUDENCE**

- Continue to build-up order book strength
- Protection of GPM: (i) focus on deliverables, (ii) enhance procurement strategies and (iii) transfer higher costs to tender price
- Prioritise cash conservation
- Enhance WSH management system to improve safety at work sites
- Continuous digitalisation effort to trim process and cost
- Continuous collaboration between BUs to serve customers better

**SUSTAINABILITY**

- Consolidation of business units:
  - 1) focus on core business
  - 2) harness synergy between business units
  - 3) streamline business units
  - 4) trim non-performing business
- Ride on SG Green Plan 2030
- Robotisation and A.I. drives: drone application
- Opportunity in build-tech: IOT application

**FOUNDATION**

- Strong order book visibility till FY2026
- Improving GPM

- Stabilising supply of migrant workers
- Post-pandemic recovery for the construction sector

Source: Company

## Income Statement

FYE Jun (\$\$m)	FY21A	FY22A	FY23A	1H24A
<b>Revenue</b>	<b>99.0</b>	<b>96.5</b>	<b>110.4</b>	<b>62.7</b>
Cost of sales	(98.5)	(92.1)	(99.3)	(54.4)
<b>Gross profit</b>	<b>0.5</b>	<b>4.4</b>	<b>11.1</b>	<b>8.3</b>
Other income	6.3	6.8	4.6	0.6
Marketing and Distribution expenses	(0.8)	(1.0)	(0.8)	(0.4)
General and Administrative expenses	(12.6)	(12.1)	(11.3)	(5.6)
Finance costs	(1.5)	(1.7)	(2.3)	(1.3)
Impairment loss on receivables and contract assets	(5.7)	(9.8)	(0.6)	(0.1)
Other operating expenses	(2.6)	(1.4)	(0.2)	(0.3)
Share of results of associate	(0.0)	0.0	-	-
<b>Profit before tax</b>	<b>(16.5)</b>	<b>(14.8)</b>	<b>0.5</b>	<b>1.3</b>
Tax Credit	1.0	0.7	0.7	0.0
<b>Profit for the period</b>	<b>(15.5)</b>	<b>(14.1)</b>	<b>1.1</b>	<b>1.3</b>
EPS (\$\$ cents)	(4.2)	(2.7)	0.3	0.3

## Balance Sheet

FYE Jun (\$\$m)	FY21A	FY22A	FY23A	1H24A
<b>Non-current assets</b>				
Property, plant and equipment	29.0	25.3	21.5	20.3
Goodwill	6.9	1.7	1.7	1.7
Intangible assets	2.3	0.5	0.2	0.1
Other investments	8.0	-	3.5	3.5
Investment in associate	0.0	-	-	-
Deferred tax assets	-	0.7	1.1	1.0
<b>Total non-current assets</b>	<b>46.2</b>	<b>28.2</b>	<b>28.0</b>	<b>26.5</b>
<b>Current assets</b>				
Contract assets	22.5	23.6	36.1	33.1
Asset held for sale	0.3	-	-	-
Inventories	0.7	0.3	0.2	0.2
Trade and other receivables	34.4	22.1	29.9	41.5
Cash and bank balances	15.5	18.6	6.8	11.3
Tax recoverable	0.1	0.1	0.1	0.1
<b>Total current assets</b>	<b>73.4</b>	<b>64.6</b>	<b>73.0</b>	<b>86.3</b>
<b>Total assets</b>	<b>119.6</b>	<b>92.8</b>	<b>101.0</b>	<b>112.8</b>
<b>Non-current liabilities</b>				
Borrowings	16.9	18.0	13.5	11.5
Deferred tax liabilities	0.6	0.6	0.1	-
Lease liabilities	4.7	3.7	3.3	2.9
<b>Total non-current liabilities</b>	<b>22.2</b>	<b>22.3</b>	<b>17.0</b>	<b>14.4</b>
<b>Current liabilities</b>				
Contract liabilities	3.5	2.6	2.3	3.8
Trade and other payables	28.6	22.2	24.3	28.4
Borrowings	28.5	23.5	30.6	27.7
Lease liabilities	1.8	1.3	1.2	1.0
<b>Total current liabilities</b>	<b>62.3</b>	<b>49.6</b>	<b>58.4</b>	<b>60.9</b>
<b>Total liabilities</b>	<b>84.6</b>	<b>71.9</b>	<b>75.3</b>	<b>75.4</b>
<b>Net assets</b>	<b>35.1</b>	<b>20.9</b>	<b>25.7</b>	<b>37.4</b>
<b>Share capital and reserves</b>				
Share capital	43.7	43.7	43.7	54.0
Treasury shares	(0.0)	(0.2)	(0.2)	(0.2)
Accumulated (losses)/profits	1.3	(12.0)	(10.6)	(9.2)
Foreign currency translation reserve	(0.0)	0.0	0.0	0.0
Merger reserve	(7.3)	(7.3)	(7.3)	(7.3)
Other reserves	(0.1)	(0.1)	0.0	0.2
Equity attributable to equity holders of the Company	37.6	24.3	25.8	37.7
Non-controlling interests	(2.5)	(3.3)	(0.1)	(0.3)
<b>Total equity</b>	<b>35.1</b>	<b>20.9</b>	<b>25.7</b>	<b>37.4</b>

## Cash Flow Statement

FYE Jun (\$\$m)	FY21A	FY22A	FY23A	1H24A
<b>Profit/(loss) before tax</b>	<b>(16.5)</b>	<b>(14.8)</b>	<b>0.5</b>	<b>1.3</b>
Adjustments for:	0.0	0.0	0.0	0.0
Amortisation of intangible assets	0.4	0.4	0.3	0.1
Depreciation of property, plant and equipment	5.0	4.3	3.4	1.5
Depreciation of investment property	0.0	0.0	0.0	0.0
(Gain)/loss on disposal of property, plant and equipment (net)	(0.0)	0.1	(0.0)	(0.0)
Gain on disposal of asset held for sale	(2.2)	0.0	0.0	0.0
Gain on disposal of investment property	(0.0)	0.0	0.0	0.0
Allowance for impairment on receivables and contract assets (net)	0.0	0.0	0.0	0.1
Impairment loss on receivables and contract assets	5.7	9.8	0.8	0.0
Interest income	(0.2)	(0.1)	(0.1)	(0.2)
Interest expense	1.5	1.7	2.2	1.1
Property, plant and equipment written off	0.1	0.1	-	-
Share of results of associate	0.0	(0.0)	-	-
Net fair value gain of other investments	(0.7)	0.0	0.0	-
Bargain purchase from acquisition of a business	-	(0.0)	-	-
Impairment loss on goodwill	2.3	0.0	0.0	-
Impairment loss on intangible assets	-	0.6	-	-
Receivables written off	0.1	0.0	0.0	-
Intangible assets written off	0.0	0.5	-	-
Bad debts written back	(0.0)	(0.0)	(0.0)	(0.0)
Inventories written off	0.1	0.1	-	-
Gain on distribution from other investments	(0.9)	0.0	0.0	-
Gain on disposal of other investments	-	(3.8)	-	-
Gain on lease modification	(0.0)	(0.1)	-	-
Equity-settled share-based payments	-	0.1	0.1	0.2
Loss on disposal of associates, net	-	0.0	-	-
Gain on disposal of subsidiaries	-	(0.2)	(2.4)	-
Gain on derecognition of a subsidiary	-	(1.0)	-	-
Operating profit/(loss) before working capital changes	(5.1)	(2.5)	4.7	4.1
Changes in working capital:				
Contract assets	2.0	(5.4)	(12.6)	2.9
Contract liabilities	0.3	(0.9)	1.5	1.5
Trade and other receivables	(4.5)	4.9	(14.5)	(11.7)
Trade and other payables	2.6	(1.7)	10.9	4.3
Inventories	0.7	0.3	(0.0)	0.0
Cash used in operations	(4.0)	(5.3)	(10.1)	1.1
Interest received	0.2	0.1	0.1	0.2
Tax paid	0.9	(0.0)	(0.0)	-
<b>Net cash used in operating activities</b>	<b>(2.9)</b>	<b>(5.2)</b>	<b>(10.0)</b>	<b>1.3</b>
<b>Cash flows from investing activities</b>				
Additions to intangible assets	(0.2)	(0.0)	(0.1)	(0.0)
Purchases of property, plant and equipment	(1.0)	(0.8)	(1.1)	(0.3)
Proceeds from disposal of investment property	0.9	-	-	-
Proceeds from disposal of property, plant and equipment and asset held for sale	4.7	0.5	0.1	0.1
Proceeds from disposal of other investments	-	11.8	-	-
Proceeds from disposal of associates	-	0.4	-	-
Net cash inflow from disposal and derecognition of subsidiaries	-	4.3	-	-
Net cash outflow for acquisition of a subsidiary	-	(0.0)	-	-
<b>Net cash generated from investing activities</b>	<b>4.5</b>	<b>16.1</b>	<b>(1.1)</b>	<b>(0.2)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital	-	-	-	10.4
Transaction costs related to issue of share capital (Placement)/withdrawal of fixed deposits pledged to bank	1.0	0.5	(2.5)	-
Drawdown of borrowings	26.8	27.5	43.7	26.4
Repayment of borrowings	(21.3)	(32.2)	(41.1)	(30.4)
Repayment of lease liabilities	(1.6)	(1.9)	(1.3)	(0.6)
Purchase of treasury shares	-	(0.1)	-	0.0
Due to directors (non-trade)	(0.0)	(0.1)	0.1	(0.2)
Interest paid	(1.4)	(1.6)	(2.1)	(1.1)
Net cash used in financing activities	3.4	(7.9)	(3.2)	4.3
Net (decrease)/increase in cash and cash equivalents	4.9	3.0	(14.3)	5.4
Cash and cash equivalents at beginning of financial year	8.2	13.2	16.1	1.8
<b>Cash and cash equivalents at end of financial year</b>	<b>13.2</b>	<b>16.1</b>	<b>1.8</b>	<b>7.1</b>

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