

# ISOTeam Ltd

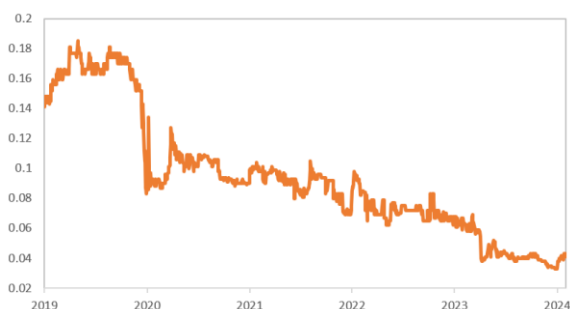
2 May 2024

## Non-Rated

<b>BBG</b>	ISO SP
<b>Market Cap</b>	S\$30.7m
<b>Price (2 May 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)
<b>Valuation</b>				
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.

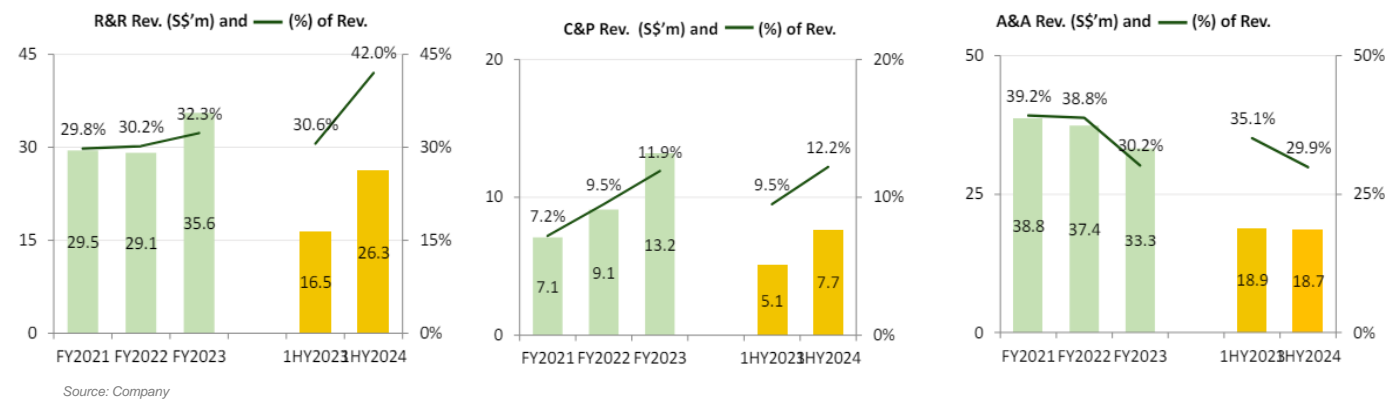
**Positive Industry Outlook** - ISOTeam finds itself well-positioned within the rebound in local construction and built environment, aligning with positive industry forecasts. According to BCA, a steady uptrend in construction demand is expected, with projections extending to 2028. The backlog of projects,

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.

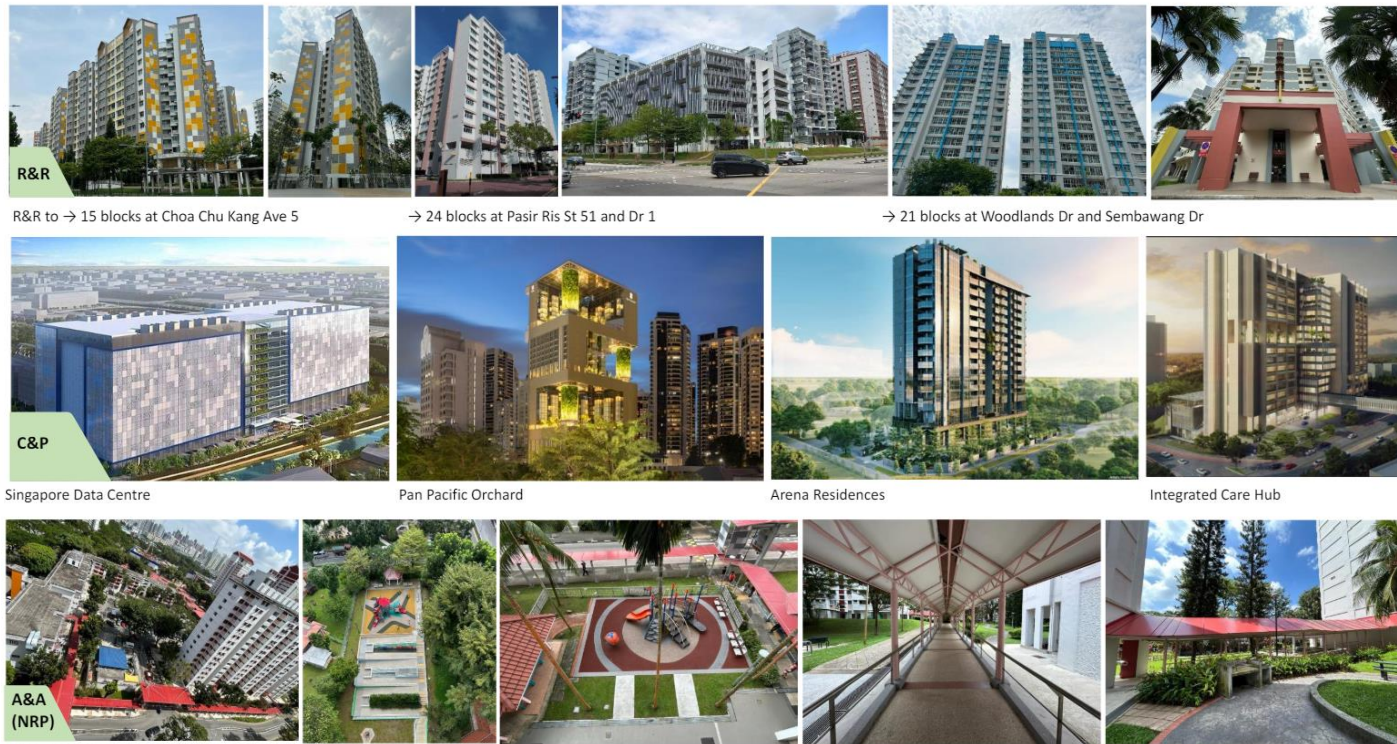
**Risks** - Rising manpower and material costs and current high interest rate environment may impact the cost of borrowing. However, ISOTeam has made concrete steps to tackle such issues. For example, to cope with future uncertainty in rises in manpower costs such as the recent reduction of foreign worker 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

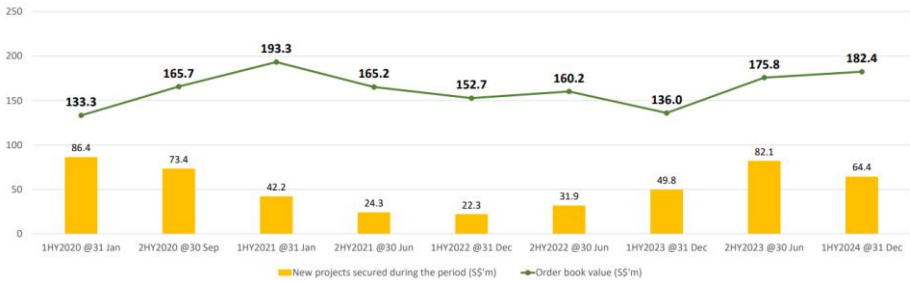
## AN EDGE & FOCUS ON CORE R&R AND A&A BUSINESS



Source: Company

# Order book at its highest since Jun 2021

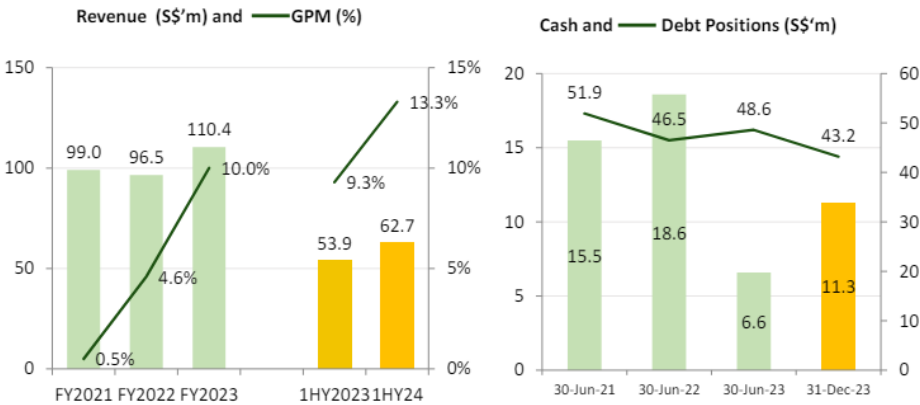
## ORDER BOOK TREND



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

Source: Company

# Strong revenue and cash position

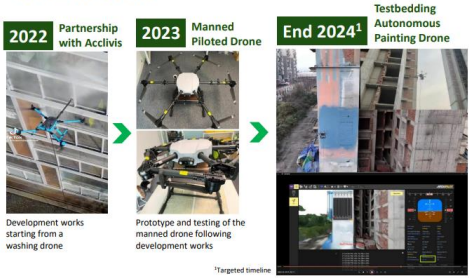


Source: Company



Pioneering Development  
in Autonomous Painting  
Drones

AUTONOMOUS PAINTING DRONE:  
DEVELOPMENT WORK CONTINUES TO BE  
UNDERWAY



- ISOTeam + 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

Source: Company

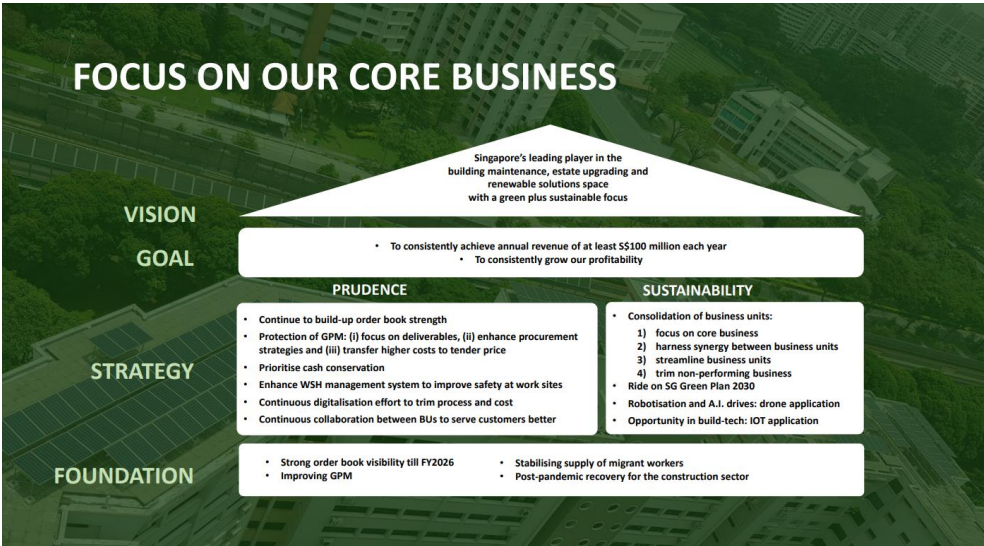
Investment Merits

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



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>

## DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited ("**SAC Capital**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. Such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report ("**Other Services**"). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

For services rendered in the production and distribution of this Research report, SAC Capital will receive monetary compensation payable by the subject company. The quantum of which was pre-determined prior to the writing and publication of the report and is not dependent on or affected by the recommendation made herein. The future performance of the security will not have a bearing on compensation payable for the purpose of the production of this report.

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

<b>Analyst name</b>	<b>Quantum of position</b>
Nil	Nil

**ANALYST CERTIFICATION/REGULATION AC**

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.