

ISOteam (ISO SP)

Post pandemic recovery

Returned to profitability in 1H24

Isoteam bounced back to profitability in 1H24 with revenue rising 16.5% YoY to SGD62.7m and PATMI rising 34% YoY to SGD1.4m. Most importantly, management says the lower-margin or loss-making projects secured during the pandemic have all been completed. It's orderbook of SGD182.4m as of 28 Jun 2024 points to an improved outlook, according to management.

10-year high order book with improving margins

Isoteam announced contract wins worth SGD21.4m on 28 Jun 2024 which boosted its order book to SGD182.4m. With loss-making orders secured during the pandemic completed, margins have recovered steadily. Gross margin improved from 9.3% in 1H23 to 13.3% in 1H24 with management confident of a stronger trajectory ahead.

Interesting potential with drones

Isoteam has started deploying drones at more than 800 HDB blocks to conduct façade inspections. It is also launching its autonomous paint drone at the end of the year which is estimated to be 30-40% more cost effective than using traditional labour to paint due to the usage of fewer labour hours as well as gondolas and other heavy equipment.

Dividend policy in place

Isoteam has implemented a dividend policy of at least 25% of NPAT for FY24 and 30% of NPAT for FY25, with a capital reduction exercise of SGD25m being proposed to write-off its accumulated losses. Management is also confident of a rebound to profitability now that the low-margin legacy projects have been completely flushed out. Key risks include labour shortages as well as raw material and rising labour costs.

FYE Jun (SGD m)	FY19A	FY20A	FY21A	FY22A	FY23A
Revenue	137	92	99	96	110
EBITDA	4	(27)	(21)	(15)	(5)
Core net profit	6	(24)	(16)	(14)	1
Core EPS (cts)	2.2	(7.9)	(4.5)	(2.8)	0.2
Core EPS growth (%)	nm	nm	nm	nm	nm
Net DPS (cts)	0.4	0.0	0.0	0.0	0.0
Core P/E (x)	8.0	nm	nm	nm	16.8
P/BV (x)	0.9	0.7	1.0	1.4	0.7
Net dividend yield (%)	2.4	0.0	0.0	0.0	0.0
ROAA (%)	5.6	(19.9)	(13.3)	(13.5)	1.2
EV/EBITDA (x)	10.8	nm	nm	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash

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Not Rated

Share Price

SGD 0.06

Company Description

Isoteam is an established local maintenance and estate upgrading player with over 20 years of experience.

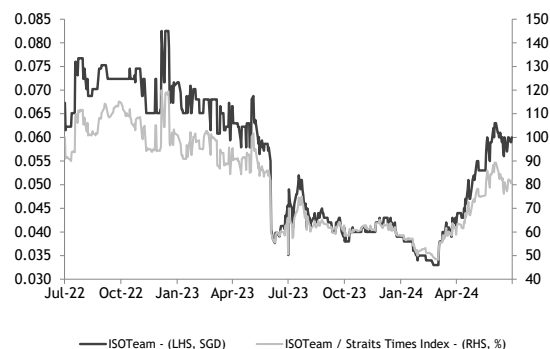
Statistics

52w high/low (SGD)	0.06/0.03
3m avg turnover (USDm)	0.2
Free float (%)	87.6
Issued shares (m)	699
Market capitalisation	SGD41.9M
	USD31M

Major shareholders:

Taisei Oncho Co., Ltd.	12.4%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	46	32
Relative to index (%)	(7)	39	24

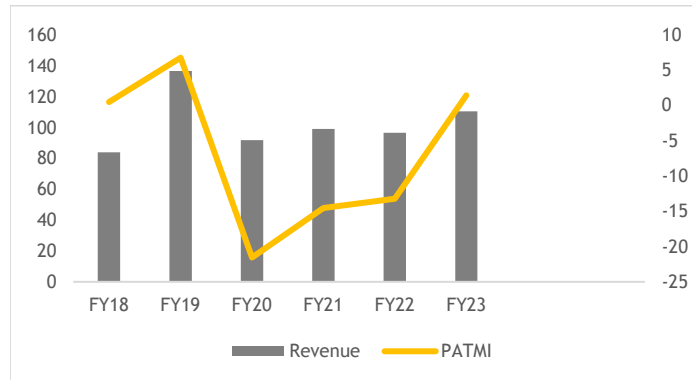
Source: FactSet

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Value Proposition

- With low margin projects secured before and during Covid-19 fully executed, management expects a turnaround.
- One of the market leaders in painting work for government housing.
- Gross and net margins trending upwards.
- Orderbook reached a 10-year high at SGD182.4m.
- Dividend policy is also in place for FY24 and FY25.
- Forefront of drone technology being used in painting and inspection which will lower labour costs.

Revenue and PATMI trend

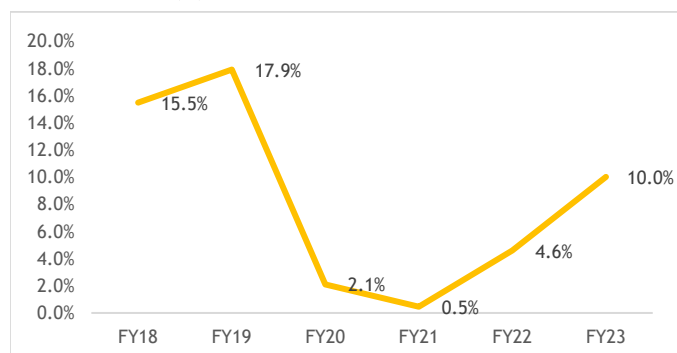


Source: Company

Financial Metrics

- Isoteam's performance appears to have turned around in FY23 and management sees a stronger FY24.
- Balance sheet is also strengthened due to a rights issue and increased profitability.
- Orderbook has also strengthened and quality of the orderbook in terms of margins appears to have improved.
- Positive operating cashflow.

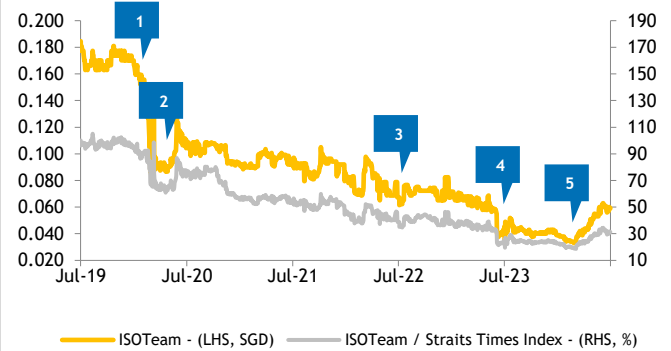
Gross margins (%)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Covid-19 hurt performance and project execution.
2. Circuit breaker lifted and work restarted.
3. Weak results leading to share price decline.
4. Rights issue announced in Jun 2023 at SGD0.03/sh.
5. Uplift in results and dividend policy announced.

Swing Factors

Upside

- Improving margins and higher revenue due to more projects won.
- Drone technology advancement could benefit the company in terms of labour cost savings.
- Turnaround play.
- Potential beneficiary of Singapore election in late 2024 or 2025.

Downside

- Margins may be squeezed if labour or raw material cost rises.
- Subjected to regulatory changes on foreign labour quota.
- Competitive tender process.

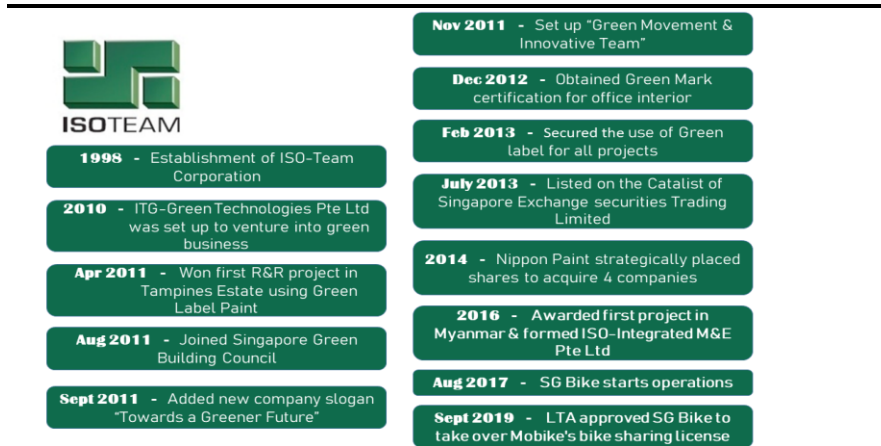
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1. Corporate information

1.1 A leading facilities maintenance specialist

ISOTeam is a leading facilities maintenance specialist in Singapore’s public sector. By consolidating subsidiary companies under a unified corporate parent, ISOTeam has sought to improve management efficiency and operational integration through eco-friendly green methods.

Fig 1: MPM’s milestones



Source: Company

1.2 Repair & Redecoration (R&R)

ISO-Team Corporation Pte Ltd is a wholly owned subsidiary of the ISOTeam group. Since its establishment in 1998, over 4,000 HDB blocks and private residential buildings have been restored via the utilization of green products and methods. Its works mainly include repainting, repairs & redecoration, waterproofing & reproofing, improvement works, routine maintenance, and term contract works. With the addition of a fleet of drones, ISOTeam is able to efficiently map out paths and counter the rising costs of foreign labour.

ISOTeam Ltd has been awarded the ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007 and bizSAFE Level Star.

Fig 2: Bishan Street 22 Repaint Project



Source: Company

Fig 3: Tiong Bahru Market project



Source: Company

1.3 Addition & Alteration (A&A)

ISOTeam has been a key player in Singapore's suburban development for over 20 years, significantly shaping the urban landscape. Specializing as one of the top A&A specialists and preferred contractors, it is committed to providing green solutions that align with environmentally friendly practices, meeting the expectations of its customers. ISOTeam's expertise extends to both public and private buildings, where it contributes to ongoing updates and renovations, aimed at maintaining a youthful, vibrant, and dynamic urban environment.

Fig 4: Yishun Ave 6 & 11 A&A



Source: Company

Fig 5: Golden Mile Food Centre A&A



Source: Company

1.4 Specialised Coating & Painting

ISOTeam C&P Pte Ltd, established in 1996, is a wholly owned subsidiary of ISOTeam Ltd. It provides different forms of coating such as new-build painting, eco-friendly coating, architecture and protective coating, fireproof coating, and niche industrial coating. In 2022, ISOTeam C&P participated in a pilot project by the Tampines Town Council where heat-reflective/cool painting was used on some 130 HDB blocks in Tampines to reduce ambient temperatures by up to 2° celcius. Following the success of this project, the company has been tasked by HDB to apply the cool coatings paint on several clusters of HDB blocks in Tampines West and the Central Divisions.

Fig 6: Fireproofing for structural steel - ISOTeam C&P



Source: Company

1.5 Architectural & Engineering Solutions

Since 1984, ISOTeam has been recognized as an award winning architectural and interior construction company. Leveraging its competency in architectural and construction knowledge, and expertise in solutions providing development, contracting services and interior construction, ISOTeam has fulfilled contract work from the transportation sector, carpentry works at commercial buildings, architectural works at Marina Bay Sands (MBS), corporate offices, restaurants and residential estates.

Fig 7: Carpentry works at commercial building at 182 Clemenceau Avenue Fig 8: Marquee Nightclub at MBS



Source: Company



Source: Maybank IBG Research

Fig 9: Lentor MRT Station



Source: Company

1.6 Interior decoration and retrofitting

Zara@ISOTeam, a leading Singapore-based interior design company, is a subsidiary of ISOTeam group. It is specialized in residential and commercial interior design, creating comprehensive designs that serve clients commercial and lifestyle needs. Entrusted with tenders as large as SGD40m, the company is spearheading the government's neighbourhood renewal projects from a holistic perspective to upgrade living conditions in Singapore.

Fig 10: Residential interior design



Source: Company

Fig 11: Aloha resort design



Source: Company

1.7 Landscaping and horticultural services

ISO-Landscape is a subsidiary of ISOTeam group. Since being founded in April 2017, ISO-Landscape has responded to the government's call for a greater and cleaner country. It has since embarked on a mission to preserve nature and showcase sustainability in the context of human comfort in over 100 projects. Some notable projects include the iconic Floating Wetlands at Punggol Waterway, rooftop gardens and plant maintenance. With accreditations such as ISO 9001:2015, ISO 14001:2015, ISO 45001:2018 and bizSAFE Level Star, ISO-Landscape has striven to achieve workplace safety and environmental consciousness.

Fig 12: Man-made Floating Wetlands at Punggol Waterway



Source: Company

Fig 13: Rooftop garden



Source: Company

Fig 14: Plant maintenance



Source: Company

1.8 Others

Other services include reroofing and waterproofing, handyman services, and home painting services. To enhance cost competitiveness, ISOTeam manufactures its own precast components for secondary roofing systems, and is one of the first companies in Singapore to offer green roofing solutions. ISOTeam Homecare is a fully-owned subsidiary of ISOTeam Limited that is involved in R&R works, such as electrical works, plumbing works and more. Involved in R&R works with sister company, ISO-Team Corporation Pte Ltd, it has been involved in over 5,000 buildings. Furthermore, ISOTeam also offers quality home painting services. This service caters more towards private home properties.

Fig 15: Green Label waterproofing membrane at NUS



Source: Company

Fig 16: Rooftop garden



Source: Company

Fig 17: Private home painting



Source: Company

2. Risks

Supply chain disruptions

As a result of the Russia-Ukraine war and China's zero Covid-19 policy, raw material costs were high in FY22 due to supply chain disruptions. For instance, steel prices increased by approximately 50%. Ultimately, profit margins decreased and expenditure increased.

Labour shortages and costs

ISOTeam's projects are labour intensive, which means rising inflation would likely lead to higher labour costs and affect its margins. In addition, stricter immigration policies have exacerbated labour shortages, and increased labour costs. In 2022, the construction sector faced a 12.1% YoY increase in labour costs.

Pandemic

During the Covid-19 pandemic, Singapore's construction sector contracted 35.9% in 2Q20, as reported by the Ministry of Trade and Industry. Border controls remained highly restrictive during the pandemic, resulting in an inability to replace foreign workers. Additionally, price hikes for raw materials increased, and hiring costs increased, resulting in ISOTeam suffering a loss of SGD14.5m. This significant downturn underscored the sector's vulnerability to economic shocks

Regulatory changes

All companies are subject to government regulations. In 2021, the Singapore government introduced the Singapore Green Plan 2030, which mandates more stringent environmental standards and regulations for buildings. Compliance with these new regulations increases project costs as green materials are harder and more expensive to make. According to the World Green Building Council, green buildings can add up to 20% to initial construction costs.

Environmental risk

According to a study, construction projects in Singapore face an average delay of 10-20% due to weather-related disruptions, with climate change expected to exacerbate these issues. The cost of implementing additional measures to counteract these risks can also increase project expenses by up to 15%.

3. Key Management

Anthony Koh Thong Huat
Executive Director & CEO

One of the co-founders of the Group, Mr Koh has over 32 years of experience in the building refurbishment and estate upgrading industry. He sets and implements the Group's expansion plans and overall corporate and strategic development, as well as oversees key functions such as marketing and tendering strategies, budget and cost controls, and resource planning and allocation. Before he co-founded the Group in 1998, Mr Koh was a director of ISO-Build Corporation Pte Ltd where he managed its projects and contracts and controlled the budget and costs. He worked at D&C Builders Pte Ltd from 1989 to 1994 where he moved up the ranks from a site supervisor, to project coordinator and subsequently to project manager. Prior to that, he was the site supervisor for Hongplast General Contractor Pte Ltd for a year. Mr Koh obtained a Diploma in Building from the Singapore Polytechnic in 1988 and a Diploma in Marketing Management from Ngee Ann Polytechnic in 1994.



Anders Teoh Kok Ann
Chief operating Officer

Mr Teoh was appointed COO of ISOTeam in Jan 2021 and is responsible for its daily operations. In 2002, he joined the Group's specialized coating and painting subsidiary, ISOTeam C&P. He has over two decades of experience in the R&R industry and was Managing Director of Goodwood Development Group Pty Ltd for two years prior to joining the Group. From 2002 to 2014, Mr Teoh established specialist painting and coatings firm Accom Pte Ltd ("Accom") and was its Executive Director. When Accom was acquired by ISOTeam in 2014 and subsequently renamed ISOTeam C&P, he was its Managing Director until 2019 where he spearheaded its numerous projects. These included R&R work for HDB blocks for the various Town Councils; public buildings such as churches, schools, community centres and libraries; MCST of commercial buildings, condominiums, industrial properties; as well as hotels and private residential properties. Mr Teoh holds a Bachelor of Building (Honours) from the University of South Australia and a Diploma in Building Management (with Merit) from Ngee Ann Polytechnic.

Chan Chung Khang
General Manager

Mr Chan, who joined the Group in 2002 as a Project Supervisor, has been the Group's General Manager since 2012. He is in charge of business expansion and diversification; planning and policy updates; and the management and supervision of the Group's corporate business development plans. He oversees corporate affairs and investor relations and is also responsible for the application and management of the Group's government grants. Mr Chan has spearheaded the Group's renewable energy installation businesses and related activities since 2016 and was appointed Managing Director of ISOTeam Renewable Solutions in 2021. He graduated from Singapore Polytechnic in 1999 with a Diploma in Building and Property Management and from Royal Melbourne Institute of Technology in 2008 with a Bachelor of Business (Economics and Finance) with Distinction.



FYE 30 Jun	FY19A	FY20A	FY21A	FY22A	FY23A
Key Metrics					
P/E (reported) (x)	7.9	nm	nm	nm	29.6
Core P/E (x)	8.0	nm	nm	nm	16.8
P/BV (x)	0.9	0.7	1.0	1.4	0.7
P/NTA (x)	0.4	0.3	0.3	0.4	0.2
Net dividend yield (%)	2.4	0.0	0.0	0.0	0.0
FCF yield (%)	nm	5.9	nm	nm	nm
EV/EBITDA (x)	10.8	nm	nm	nm	nm
EV/EBIT (x)	5.0	nm	nm	nm	nm
INCOME STATEMENT (SGD m)					
Revenue	136.6	91.7	99.0	96.5	110.4
EBITDA	4.0	(27.4)	(21.1)	(14.8)	(4.9)
Depreciation	3.8	4.5	5.0	4.3	3.4
Amortisation	0.8	0.8	0.4	0.4	0.3
EBIT	8.7	(22.1)	(15.6)	(10.1)	(1.3)
Net interest income / (exp)	(1.2)	(1.8)	(1.5)	(1.7)	(2.3)
Associates & JV	0.0	(0.1)	(0.0)	0.0	0.0
Exceptionals	(3.4)	(1.9)	(5.7)	(9.8)	(0.6)
Other pretax income	3.1	1.6	6.3	6.8	4.6
Pretax profit	7.3	(24.3)	(16.5)	(14.8)	0.5
Income tax	(1.0)	0.3	1.0	0.7	0.7
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	6.3	(24.0)	(15.5)	(14.1)	1.1
Core net profit	6.3	(24.0)	(15.5)	(14.0)	1.1
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	9.0	12.6	15.5	18.6	6.8
Accounts receivable	65.7	54.3	51.8	45.7	65.9
Inventory	1.9	1.5	0.7	0.3	0.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	30.2	28.7	29.0	25.3	21.5
Intangible assets	2.1	2.5	2.3	0.5	0.2
Investment in Associates & JVs	0.4	0.4	0.0	0.0	0.0
Other assets	13.6	18.8	15.3	2.5	6.3
Total assets	123.0	118.8	114.5	92.8	101.0
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	22.0	25.2	28.1	22.2	24.3
Insurance contract liabilities	0.3	1.2	1.5	2.6	2.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	41.0	45.0	52.0	47.0	49.0
Total Liabilities	63.4	71.2	82.1	71.9	75.3
Shareholders Equity	57.4	48.9	34.7	24.3	25.8
Minority Interest	2.1	(1.3)	(2.3)	(3.3)	(0.1)
Total shareholder equity	59.6	47.6	32.4	20.9	25.7
Total liabilities and equity	123.0	118.8	114.5	92.8	101.0
CASH FLOW (SGD m)					
Pretax profit	7.3	(24.3)	(16.5)	(14.8)	0.5
Depreciation & amortisation	(4.6)	(5.3)	(5.5)	(4.7)	(3.7)
Adj net interest (income)/exp	1.1	1.7	1.5	1.7	2.2
Change in working capital	(23.9)	10.6	1.1	(2.9)	(14.8)
Cash taxes paid	(1.0)	(0.5)	0.9	(0.0)	(0.0)
Other operating cash flow	2.7	9.4	5.3	6.0	(1.7)
Cash flow from operations	(10.8)	2.7	(2.9)	(5.2)	(10.0)
Capex	(1.4)	(0.6)	(1.1)	(0.8)	(1.2)
Free cash flow	(12.2)	2.1	(4.1)	(6.0)	(11.2)
Dividends paid	(0.5)	(1.2)	0.0	0.0	0.0
Equity raised / (purchased)	(0.3)	11.9	0.0	(0.1)	0.0
Change in Debt	9.7	3.1	3.9	(6.6)	1.4
Other invest/financing cash flow	(0.7)	(12.9)	5.1	15.7	(4.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(4.1)	3.0	4.9	3.0	(14.3)

FYE 30 Jun	FY19A	FY20A	FY21A	FY22A	FY23A
Key Ratios					
Growth ratios (%)					
Revenue growth	63.0	(32.9)	8.0	(2.5)	14.4
EBITDA growth	nm	nm	nm	nm	nm
EBIT growth	nm	nm	nm	nm	nm
Pretax growth	nm	nm	nm	nm	nm
Reported net profit growth	nm	nm	nm	nm	nm
Core net profit growth	nm	nm	nm	nm	nm
Profitability ratios (%)					
EBITDA margin	3.0	nm	nm	nm	nm
EBIT margin	6.4	nm	nm	nm	nm
Pretax profit margin	5.3	nm	nm	nm	0.4
Payout ratio	19.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	4.6	nm	nm	nm	1.0
Revenue/Assets (x)	1.1	0.8	0.9	1.0	1.1
Assets/Equity (x)	2.1	2.4	3.3	3.8	3.9
ROAE (%)	na	na	na	na	na
ROAA (%)	5.6	(19.9)	(13.3)	(13.5)	1.2
Liquidity & Efficiency					
Cash conversion cycle	80.7	147.8	99.5	85.1	98.4
Days receivable outstanding	143.6	235.6	192.9	181.7	182.0
Days inventory outstanding	3.8	6.8	4.0	1.8	0.8
Days payables outstanding	66.7	94.6	97.4	98.5	84.4
Dividend cover (x)	5.3	nm	nm	nm	nm
Current ratio (x)	1.6	1.2	1.1	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	1.7	1.4	1.3	1.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	7.5	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	1.0	0.7	1.1	0.8	1.1
Net debt/ (net cash)	(9.0)	(12.6)	(15.5)	(18.6)	(6.8)

Source: Company; Maybank IBG Research

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