

8 February 2024

Construction & Engineering | Construction

## ISOTeam (ISO SP)

**Buy** (Maintained)

### Earnings Turnaround Taking Shape; Maintain BUY

Target Price (Return): SGD0.05 (27.4%)  
 Price (Market Cap): SGD0.04 (USD19.7m)  
 ESG score: 3.1 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.03m/0.02m

- **Maintain BUY and SGD0.05 TP, 27% upside.** We remain positive on ISOTeam as its earnings turnaround is taking shape. 1HFY24 (Jun) earnings have shown sequential improvement. The growth outlook remains positive with a strong orderbook of SGD182m, tailwinds from strong construction GDP, and more public projects ahead of Singapore's next general election. Despite lowering our earnings by 10-12%, the stock still trades at a compelling 7x FY24F P/E. Our TP, based on 9x FY24F P/E, is consequently reduced from SGD0.054 to SGD0.048.
- **1HFY24 earnings below expectations.** 1HFY24 revenue grew 17% YoY to SGD63m while earnings grew 34% to SGD1.4m. Revenue growth was largely driven by the repairs & redecoration (R&R) segment, which grew 60% YoY to SGD26m. Otherwise, growth in the coating & painting (C&P) segment (50% YoY; SGD8m) was offset by the addition & alteration (A&A) business (-1% YoY; SGD19m) and others segment (-25% YoY; SGD10m). Gross margins improved to 13.3%, up sequentially (+2.5ppts) from 10.8% in 2HFY23. Older projects with lower margins (which previously experienced cost overruns) are being completed while newer projects (tendered at better margins) are now contributing. EBIT margin improved 1.7ppts to 4.2% sequentially on more efficient opex. Even though revenue has exceeded our expectations, overall margin improvement has yet to keep up with our forecast. This has led to lower-than-expected earnings.
- **Cut FY24F-26F's earnings by 10-12%.** Although an earnings turnaround is taking shape, margin recovery has not met our expectations. We now believe gross margin recovery may take slightly longer to recover and have hence lowered our margin assumptions to a milder recovery. Gross margins are trimmed to 13-15% from 15-17% while EBIT margins are cut to 5-6% from 6-7%. Our earnings are cut by 10-12% despite raising our topline forecast slightly to account for better-than-expected revenue traction going forward.
- **Outlook still positive.** The 1HFY24's orderbook continues to grow, standing at SGD182m (2HFY23: SGD176m). It is also the highest since 1HFY21. Based on the Trade and Industry Ministry's advanced estimates, construction GDP grew 9.1% YoY in 4QCY23 and momentum could continue well into 2024. With elections slated for no later than end 2025, we expect the Government to carry out more development and upgrading works ahead of the polls. These bode well for ISOTeam, as it is a leading player in carrying out upgrading and development works for public projects, which include facade enhancement and home improvement programmes, repainting and upgrading works at Housing & Development Board flats, town councils, neighbourhoods, hawker centres, parks, and government buildings. Its orderbook could be boosted by more of such projects. Key risk: As ISOTeam's ESG score is on par with the 3,1 country median, we impute a 0% discount/premium to our TP. Downside risk: A continuing rise in raw material and labour costs.

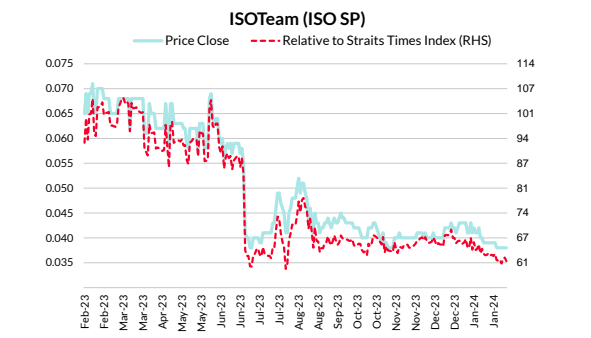
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.6)	(7.3)	(7.3)	(20.8)	(41.5)
Relative	(9.0)	(6.4)	(6.7)	(16.1)	(34.8)
52-wk Price low/high (SGD)				0.04	-0.07



Source: Bloomberg

#### Overall ESG Score: 3.1 (out of 4)

##### E: EXCELLENT

ISOTeam established the Green Procurement Guidelines that promotes environmental management across the entire supply chain to provide more environmentally responsible products. The guidelines allows the group to identify and differentiate products and methods that are more sustainable and environmentally friendly.

##### S: EXCELLENT

ISOTeam strives to create a positive working environment for staff and advocates fair employment practices that offer equal opportunities for all. Although the intensive physical nature of its industry tends to require and attract mostly younger male employees, ISOTeam neither discriminates by gender nor age. It also has a mix of both male and female employees of various ages in less physically demanding roles.

##### G: EXCELLENT

ISOTeam was ranked 351st in the 2022 Singapore Governance and Transparency Index or SGTI 2022 among listed companies in the republic, which were evaluated.

#### Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (SGDm)	100	110	122	128	135
Recurring net profit (SGDm)	(15)	(1)	3	5	5
Recurring net profit growth (%)	2.7	(95.1)	-	53.1	6.3
Recurring P/E (x)	na	na	7.21	5.14	4.83
P/B (x)	0.5	0.5	0.6	0.6	0.6
P/CF (x)	na	na	0.69	2.28	2.22
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	na	20.06	2.66	1.93	1.41
Return on average equity (%)	(33.8)	5.6	10.4	12.6	12.2
Net debt to equity (%)	108.8	145.0	net cash	net cash	net cash

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Singapore	Recurring EPS	-	0.04	0.00	0.01	0.01
Construction & Engineering	BVPS	0.07	0.07	0.06	0.06	0.07
ISOTeam	Return on average equity (%)	(33.8)	5.6	10.4	12.6	12.2
ISO SP						
Buy						
	<b>Valuation metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Recurring P/E (x)	na	na	7.21	5.14	4.83
	P/B (x)	0.5	0.5	0.6	0.6	0.6
	FCF Yield (%)	(70.8)	(55.6)	140.9	40.0	41.2
	EV/EBITDA (x)	na	20.06	2.66	1.93	1.41
	EV/EBIT (x)	na	na	4.29	2.69	1.90
	<b>Income statement (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Total turnover	99.9	110.4	121.7	127.9	134.7
	Gross profit	7.8	11.1	16.9	19.4	20.5
	EBITDA	(12.1)	2.4	7.4	9.1	9.2
	Depreciation and amortisation	(4.7)	(3.7)	(2.8)	(2.6)	(2.4)
	Operating profit	(16.8)	(1.3)	4.6	6.5	6.9
	Net interest	(1.7)	(2.3)	(2.3)	(2.3)	(2.3)
	Pre-tax profit	(11.8)	0.5	3.6	5.5	5.8
	Taxation	0.7	0.7	(0.2)	(0.3)	(0.3)
	Reported net profit	(10.0)	1.4	3.4	5.2	5.5
	Recurring net profit	(14.9)	(0.7)	3.4	5.2	5.5
	<b>Cash flow (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Change in working capital	(2.9)	(15.0)	24.0	(1.2)	(1.0)
	Cash flow from operations	(8.6)	(6.2)	35.2	11.6	11.9
	Capex	(0.8)	(1.1)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	4.4	(1.0)	(1.0)	(1.0)	(1.0)
	Dividends paid	0.0	0.0	(0.7)	(1.0)	(1.1)
	Cash flow from financing activities	(4.7)	2.6	9.6	(1.0)	(1.1)
	Cash at beginning of period	15.5	18.6	6.6	45.4	49.9
	Net change in cash	(8.8)	(4.6)	43.8	9.6	9.8
	Ending balance cash	2.7	10.0	46.4	50.9	55.7
	<b>Balance sheet (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Total cash and equivalents	18.7	6.7	45.5	50.0	54.7
	Tangible fixed assets	25.3	21.5	19.7	18.1	16.8
	Total investments	0.7	4.5	4.5	4.5	4.5
	Total assets	92.8	100.7	108.2	113.0	118.4
	Short-term debt	23.5	30.4	30.4	30.4	30.4
	Total long-term debt	18.0	13.5	13.5	13.5	13.5
	Total liabilities	71.9	75.0	69.5	70.2	71.2
	Total equity	20.9	25.7	38.7	42.8	47.2
	Total liabilities & equity	92.8	100.7	108.2	113.0	118.4
	<b>Key metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Revenue growth (%)	0.9	10.5	10.2	5.1	5.3
	Recurrent EPS growth (%)	2.1	(95.1)	0.0	40.3	6.3
	Gross margin (%)	7.8	10.0	13.9	15.2	15.2
	Operating EBITDA margin (%)	(12.1)	2.2	6.1	7.1	6.9
	Net profit margin (%)	(10.0)	1.3	2.8	4.0	4.1
	Capex/sales (%)	0.8	1.0	0.8	0.8	0.7
	Interest cover (x)	(9.77)	(0.55)	2.01	2.84	2.99

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

While ISOTeam does not emit high or intensive carbon emissions, it is committed to lower its emissions. Its primary sources of greenhouse gas emissions are from energy use; direct emissions (Scope 1) are from fuel consumption by its vehicular fleet and equipment; and indirect emissions (Scope 2) are from electricity usage at its offices.

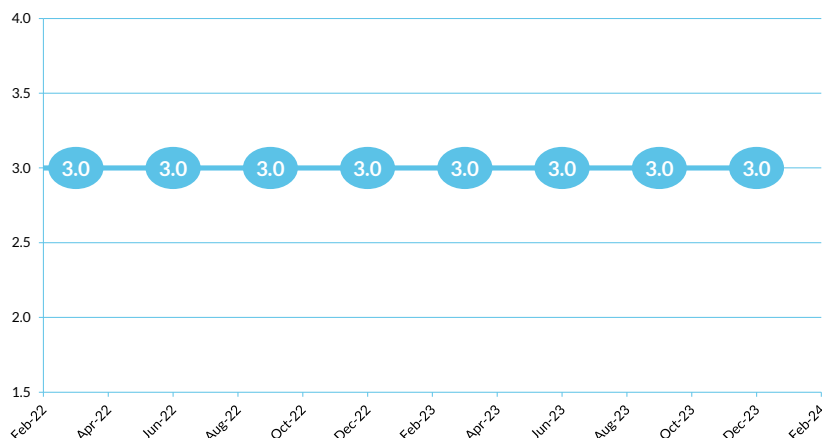
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	na	1,311	1,257
Scope 2	na	19	81
Scope 3	na	-	-
Total emissions	na	1,330	1,338

Source: Company data, RHB

## Latest ESG-Related Developments

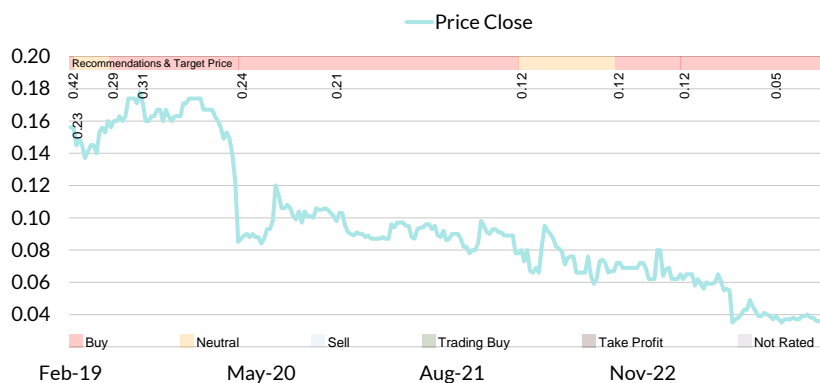
- ISOTeam offers greener and more sustainable products and solutions including heat-reflective paint that can cool building interiors and offset carbon emissions.
- In FY23, it has applied heat-reflective paint to 39 Housing & Development Board blocks in Tampines West and the Central Division.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-09-29	Buy	0.05	0.04
2023-02-20	Buy	0.12	0.07
2022-09-14	Buy	0.12	0.07
2022-01-23	Neutral	0.12	0.08
2020-11-04	Buy	0.21	0.11
2020-03-20	Buy	0.24	0.09
2020-02-18	Buy	0.31	0.15
2020-02-17	Buy	0.31	0.16
2020-01-28	Buy	0.31	0.16
2019-11-18	Buy	0.31	0.18
2019-09-25	Buy	0.31	0.16
2019-08-29	Buy	0.31	0.17
2019-07-25	Buy	0.31	0.18
2019-05-15	Buy	0.29	0.16
2019-02-18	Neutral	0.23	0.15

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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