

24 October 2024

Construction & Engineering | Construction

ISOTeam (ISO SP)

Buy (Maintained)

Strong Orderbook To Support Growth; Maintain Buy

Target Price (Return): SGD0.07 (27.3%)
 Price (Market Cap): SGD0.06 (USD30.1m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 0.28m/0.22m

- **Maintain BUY with higher SGD0.07 TP from SGD0.048, 27% upside, c4% FY25F (Jun) yield.** We remain positive on ISOTeam's earnings outlook, raising our FY25F-26F's PATMI by 63% and 62% - this was after FY24's earnings outpaced our expectations on better margins. The stock should benefit and ride on more government projects ahead of parliamentary elections due by the end of 2025. Our new TP is based on 6x FY25F P/E from 9x previously and pegged at a discount to peers.
- **Maintain our positive outlook.** The group's orderbook stood at SGD202.4m as at 6 Sep 2024 (FY24: SGD193.1m). 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 - these 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.
- **Raise FY25F and FY26F earnings by 63% and 62%.** We are now more positive on ISOTeam's earnings outlook, as its recovery is stronger than expected. FY24's earnings of SGD6m has markedly outperformed our estimate of SGD3m. Due to its stronger earnings base in FY24, we raise our FY25F and FY26F's earnings by 63% and 62% to SGD8m and SGD9m. We raise our FY25F and FY26F revenue assumption by 10% and 9% to account for a strong orderbook and project traction. We also bump our operating margin projections to 9% on better operating efficiency.
- **FY24 earnings above expectations.** FY24's earnings of SGD6m outperformed our SGD3m estimate. Revenue was in line at SGD130m (+18% YoY), led by broad-based growth from the repairs & redecoration (R&R), (+42% YoY, SGD50m), addition & alteration (A&A) (35% YoY; SGD45m), and coating & painting (C&P) (32% YoY; SGD17m) segments. The others segment saw a 39% YoY decline to SGD17m. Gross margins improved by 5.5ppts to 15.5%, above our 14% expectations. This has also resulted in better-than-expected EBIT of SGD12m and EBIT margin of 8.9%. FY24 saw a marked reversal of project margins from FY23. With projects tendered at better margins in FY24, it reversed FY23's low-margin projects, which previously experienced cost overruns.
- **Downside risk** includes a continuing rise in raw material and labour costs. As ISOTeam's ESG score is in line with our 3.1 country median, we impute a 0% premium/discount to its intrinsic value to derive our new TP.

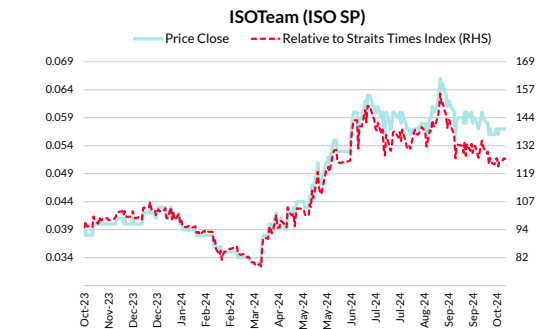
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	32.6	(3.4)	(3.4)	32.6	46.2
Relative	21.5	(2.4)	(7.4)	22.6	28.3
52-wk Price low/high (SGD)				0.03	-0.07



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

ISOTeam has established the Green Procurement Guidelines, which promotes environmental management across the entire supply chain to provide more environmentally responsible products. The guidelines allow 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, the group neither discriminates by gender nor age and has a mix of both male and female employees of various ages in less physically demanding roles.

G: EXCELLENT

ISOTeam was ranked 224th in the 2023 Singapore Governance and Transparency Index (351st in 2022) among listed companies in Singapore that were evaluated.

Note:

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

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (SGDm)	110	130	135	141	146
Recurring net profit (SGDm)	(3)	8	8	9	9
Recurring net profit growth (%)	(65.4)	-	4.8	5.1	5.0
Recurring P/E (x)	na	4.94	4.71	4.49	4.27
P/B (x)	1.1	0.9	0.8	0.7	0.6
P/CF (x)	na	6.23	10.87	3.89	3.71
Dividend Yield (%)	na	1.4	4.2	4.5	4.7
EV/EBITDA (x)	13.27	3.92	3.78	3.19	2.61
Return on average equity (%)	5.6	19.0	18.2	16.6	15.3
Net debt to equity (%)	145.0	54.2	44.7	25.9	10.7

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Singapore	Recurring EPS	(0.01)	0.01	0.01	0.01	0.01
Construction & Engineering	DPS	-	0.00	0.00	0.00	0.00
ISOTeam	BVPS	0.05	0.06	0.07	0.08	0.09
ISO SP	Return on average equity (%)	5.6	19.0	18.2	16.6	15.3
Buy						
Valuation basis	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Based on FY25F P/E of 6x	Recurring P/E (x)	na	4.94	4.71	4.49	4.27
	P/B (x)	1.1	0.9	0.8	0.7	0.6
Key drivers	FCF Yield (%)	(41.0)	13.1	6.7	23.2	24.5
i. Contract wins;	Dividend Yield (%)	-	1.4	4.2	4.5	4.7
ii. M&A;	EV/EBITDA (x)	13.27	3.92	3.78	3.19	2.61
iii. Margins improvements.	EV/EBIT (x)	66.98	5.03	4.80	4.05	3.31
Key risks	Income statement (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
A continuing rise in raw material and labour costs.	Total turnover	110	130	135	141	146
	Gross profit	11	20	21	22	23
	EBITDA	5	15	15	16	16
	Depreciation and amortisation	(4)	(3)	(3)	(3)	(3)
	Operating profit	1	12	12	12	13
	Net interest	(2)	(2)	(2)	(2)	(2)
	Pre-tax profit	0	7	9	10	10
	Taxation	1	(1)	(1)	(1)	(1)
	Reported net profit	1	7	8	9	9
	Recurring net profit	(3)	8	8	9	9
Company Profile	Cash flow (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
ISOTeam is an established player in the building maintenance and estate upgrading industry in Singapore. Being an early adopter of eco-conscious methods with over 15 years of R&R and A&A experience, public and private sector clients have the advantage of having access to its eco-expertise as well as its mainstream R&R and A&A capabilities to achieve cost-effective and eco-conscious R&R and A&A for their buildings and estates.	Change in working capital	(15.0)	(4.0)	(8.1)	(2.1)	(2.2)
	Cash flow from operations	(10.6)	6.4	3.7	10.2	10.7
	Capex	(1.1)	(1.2)	(1.0)	(1.0)	(1.0)
	Cash flow from investing activities	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
	Dividends paid	0.0	0.0	(1.7)	(1.8)	(1.9)
	Cash flow from financing activities	6.0	(3.6)	(1.7)	(1.8)	(1.9)
	Cash at beginning of period	18.6	6.6	10.9	11.9	19.4
	Net change in cash	(5.6)	1.7	1.0	7.5	7.9
	Ending balance cash	9.0	4.3	7.9	15.4	23.2
	Balance sheet (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	7	11	12	19	27
	Tangible fixed assets	22	20	18	15	13
	Total investments	4	5	5	5	5
	Total assets	101	108	118	126	135
	Short-term debt	30	24	24	24	24
	Total long-term debt	14	10	10	10	10
	Total liabilities	75	65	68	69	70
	Total equity	26	43	50	57	65
	Total liabilities & equity	101	108	118	126	135
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	14.4	17.9	4.0	4.0	4.0
	Recurrent EPS growth (%)	(65.5)	0.0	4.8	5.1	5.0
	Gross margin (%)	10.0	15.5	15.5	15.5	15.5
	Operating EBITDA margin (%)	4.1	11.3	11.2	11.2	11.2
	Net profit margin (%)	1.3	5.0	6.2	6.3	6.4
	Dividend payout ratio (%)	0.0	8.6	20.0	20.0	20.0
	Capex/sales (%)	1.0	0.9	0.7	0.7	0.7
	Interest cover (x)	0.39	4.62	4.81	5.00	5.20

Source: Company data, RHB

Figure 1: Peer comparison

Company	Market cap (USDm)	Px Last	P/E (Act)	P/E (Yr1)	P/E (Yr2)	ROE (%)	Operating margin (%)	Net margin (%)	Dividend yield (%)	Net gearing (x)
ISOTeam	30	0.06	4.9x	4.7x	4.5x	18%	11%	6%	4.2	54.2%
BRC Asia	499	2.39	7.4x	8.4x	7.4x	21%	7%	4.7%	4.8%	45.9%
Hong Leong Asia	496	0.87	7.8x	8.3x	7.9x	9%	4%	1.6%	1.1%	Cash
Wee Hur	301	0.43	2.1x	n/a	n/a	32%	7%	43.8%	1.4%	14.5%
Pan-United Corp	279	0.53	9.4x	8.6x	7.7x	17%	6%	4.4%	4.8%	Cash
Soilbuild Construction	99	0.08	8.7x	n/a	n/a	29%	5%	3.0%	1.3%	170.4%
Lum Chang	87	0.31	n/a	n/a	n/a	4%	3%	1.5%	4.9%	9.9%
OKP	78	0.34	1.8x	n/a	n/a	13%	33%	27.8%	2.1%	Cash
Koh Brothers Eco Engineering	58	0.03	n/a	n/a	n/a	(12%)	(6%)	(8.6%)	n/a	Cash
Ley Choon	54	0.05	6.5x	n/a	n/a	20%	9%	8.4%	5.7%	Cash
BBR	30	0.12	5.9x	n/a	n/a	6%	6%	2.7%	2.5%	78.1%
CSC	27	0.01	n/a	n/a	n/a	(22%)	(4%)	(6.6%)	n/a	112.2%
Alpina	24	0.17	n/a	n/a	n/a	1%	2%	(0.4%)	n/a	40.7%
Keong Hong	20	0.11	n/a	n/a	n/a	(67%)	(19%)	(28.1%)	n/a	35.9%
Hor Kew	17	0.44	n/a	n/a	n/a	13%	12%	7.1%	n/a	41.4%
Average			6.2x	8.4x	7.7x	4%	4.7%	4.3%	3.2%	55.5%

Source: Bloomberg, 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.

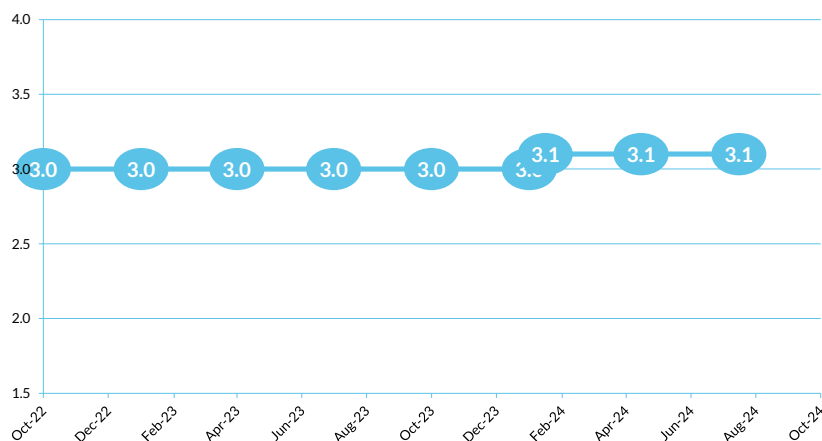
Emissions (tCO2e)	Jun-22	Jun-23	Jun-24
Scope 1	1,311	1,257	1,631
Scope 2	19	81	82
Scope 3	-	-	-
Total emissions	1,330	1,338	1,713

Source: Company data, RHB

Latest ESG-Related Developments

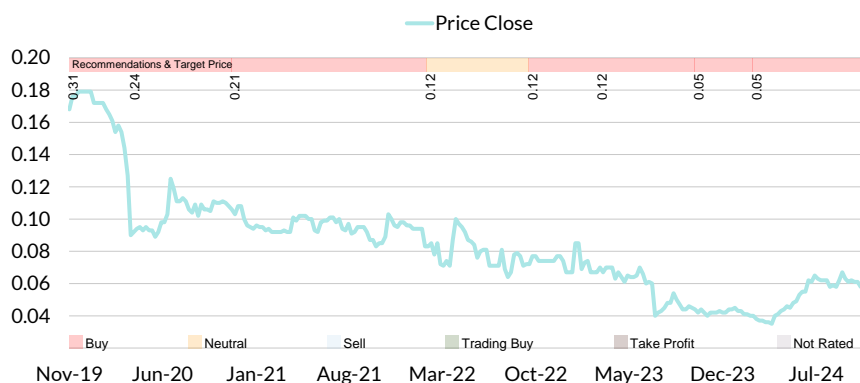
- ISOTeam offers greener and more sustainable products and solutions including heat-reflective paint that can cool buildings' interior and offset carbon emissions.
- In FY23, it has applied heat-reflective paint to 39 Housing & Development Board blocks in Tampines West and the Central Division.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-08	Buy	0.05	0.04
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
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