

# ISOTeam (ISO SP)

Construction &amp; Engineering - Construction

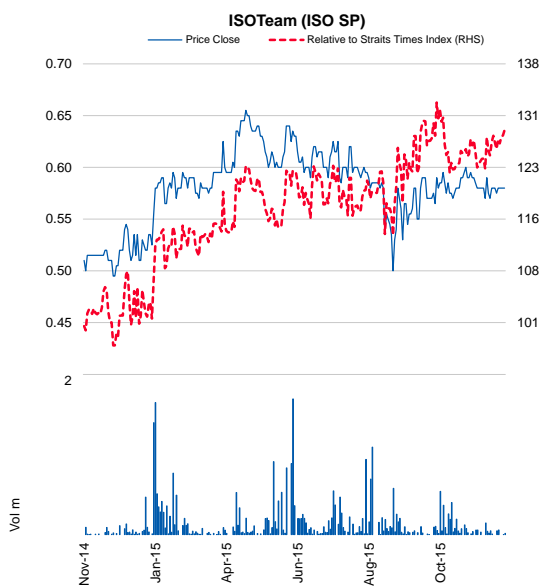
Market Cap: USD58.7m

**Buy** (Maintained)

 Target Price: **SGD0.82**

 Price: **SGD0.58**

## On Track For a Stellar FY16



Source: Bloomberg

Avg Turnover (SGD/USD)	0.04m/0.03m
Cons. Upside (%)	41.4
Upside (%)	41.4
52-wk Price low/high (SGD)	0.50 - 0.66
Free float (%)	32
Share outstanding (m)	143
<b>Shareholders (%)</b>	
ADD Investment	51.0
Singapore Tong Teik Pte Ltd	6.4

### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.5	(1.7)	0.0	(7.2)	13.7
Relative	26.5	4.6	2.9	9.3	28.1

ISOTeam has announced contract wins of SGD20.49m, comprising A&A and R&R works. The majority of jobs are from Singapore government bodies like town councils and the National Environment Agency. We understand that c.SGD30m-35m of contracts have been utilised YTD and it is on track to enjoy a stellar FY16 (Jun). With a steady orderbook of c.SGD80m-85m on top of a potential expansion to Myanmar in December, maintain BUY and a SGD0.82 TP (41% upside).

- ◆ **Bags SGD20.49m worth of contracts.** ISOTeam has won a total of SGD20.49m worth of contracts, mainly from different Singapore government bodies like the National Environment Agency as well as town councils for various areas like East Coast, Ang Mo Kio and Nee Soon. The contracts include works for both its additions and alternations (A&A) and repair and redecorate (R&R) segments and will likely contribute positively to earnings in FY16.
- ◆ **Strong orderbook.** ISOTeam has excelled in building up its orderbook especially with the general election confirmed in 2015. Its orderbook stands at an estimated SGD80m-85m, although about SGD30m-35m have been utilised in the first four months of FY16. These projects will progressively be realised over the next two years. We believe this provides good earnings visibility into 2016 and 2017, and is a reflection of the market's belief in its proven track record.
- ◆ **Expanding into Myanmar by 2015.** We understand that ISOTeam will be expanding into Myanmar with the help of its substantial shareholder and strategic partner, Nippon Paint, by the end of 2015. Currently, ISOTeam is the exclusive applicator for painting works in the Housing Development Board (HDB) and town council sector for both SKK and Nippon Paint Singapore. We think that there could be a high possibility of a similar arrangement overseas with Nippon Paint – which would be a key leap forward for ISOTeam's expansion out of Singapore.
- ◆ **Expect another stellar year.** We expect another stellar FY16 ahead, coupled with more contract wins to come in the near future. With that, we maintain BUY on the stock with an unchanged DCF-backed TP of SGD0.82.

Forecasts and Valuations	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total turnover (SGDm)	48	70	82	103	119
Reported net profit (SGDm)	6.0	6.1	8.1	10.1	11.6
Recurring net profit (SGDm)	2.1	6.1	8.1	10.1	11.6
Recurring net profit growth (%)	(3.1)	186.9	33.5	24.7	14.5
Recurring EPS (SGD)	0.02	0.05	0.06	0.08	0.09
DPS (SGD)	0.01	0.01	0.01	0.01	0.02
Recurring P/E (x)	32.2	11.2	9.0	7.2	6.3
P/B (x)	4.66	2.65	1.75	1.45	1.23
P/CF (x)	na	10.1	4.3	na	6.2
Dividend Yield (%)	1.7	1.7	1.7	1.7	3.4
EV/EBITDA (x)	25.2	7.7	3.5	3.8	2.7
Return on average equity (%)	44.9	30.1	24.0	21.9	21.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Jarick Seet +65 6232 3891

[jarick.seet@rhbgroup.com](mailto:jarick.seet@rhbgroup.com)

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15F</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
Total turnover	48	70	82	103	119
Cost of sales	(40)	(56)	(61)	(82)	(95)
<b>Gross profit</b>	<b>8</b>	<b>13</b>	<b>20</b>	<b>21</b>	<b>24</b>
Gen & admin expenses	(5)	(6)	(9)	(8)	(9)
Selling expenses	(1)	(1)	(1)	(1)	(1)
<b>Operating profit</b>	<b>2</b>	<b>6</b>	<b>10</b>	<b>11</b>	<b>13</b>
Operating EBITDA	2	7	12	12	14
Depreciation of fixed assets	(0)	(0)	(2)	(1)	(1)
<b>Operating EBIT</b>	<b>2</b>	<b>6</b>	<b>10</b>	<b>11</b>	<b>13</b>
Other recurring income	1	1	0	0	0
Interest expense	(0)	(0)	(0)	(0)	(0)
Other non-recurring income	4	-	-	-	-
<b>Pre-tax profit</b>	<b>6</b>	<b>7</b>	<b>10</b>	<b>11</b>	<b>13</b>
Taxation	(0)	(1)	(1)	(1)	(1)
<b>Profit after tax &amp; minorities</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>12</b>
<b>Reported net profit</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>12</b>
<b>Recurring net profit</b>	<b>2</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>12</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15F</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
<b>Operating profit</b>	<b>2</b>	<b>6</b>	<b>10</b>	<b>11</b>	<b>13</b>
Depreciation & amortisation	0	0	2	1	1
<b>Change in working capital</b>	<b>(3)</b>	<b>0</b>	<b>5</b>	<b>(12)</b>	<b>(1)</b>
Other operating cash flow	2	1	1	0	0
<b>Operating cash flow</b>	<b>1</b>	<b>8</b>	<b>18</b>	<b>1</b>	<b>13</b>
Interest received	0	0	0	-	-
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(1)	(1)	(1)	(1)	(1)
<b>Cash flow from operations</b>	<b>(0)</b>	<b>7</b>	<b>17</b>	<b>(1)</b>	<b>12</b>
Capex	(0)	(1)	(2)	(1)	(1)
Other investing cash flow	6	0	1	-	-
<b>Cash flow from investing activities</b>	<b>6</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
Dividends paid	(1)	(1)	(1)	(1)	(3)
Proceeds from issue of shares	-	6	7	-	-
Increase in debt	0	0	(2)	1	1
Other financing cash flow	(2)	(2)	(0)	-	-
<b>Cash flow from financing activities</b>	<b>(3)</b>	<b>3</b>	<b>3</b>	<b>(1)</b>	<b>(2)</b>
Cash at beginning of period	4	7	16	32	30
<b>Total cash generated</b>	<b>3</b>	<b>9</b>	<b>19</b>	<b>(2)</b>	<b>9</b>
Forex effects	-	-	(3)	-	-
<b>Implied cash at end of period</b>	<b>7</b>	<b>16</b>	<b>32</b>	<b>30</b>	<b>39</b>

Source: Company data, RHB

## Financial Exhibits

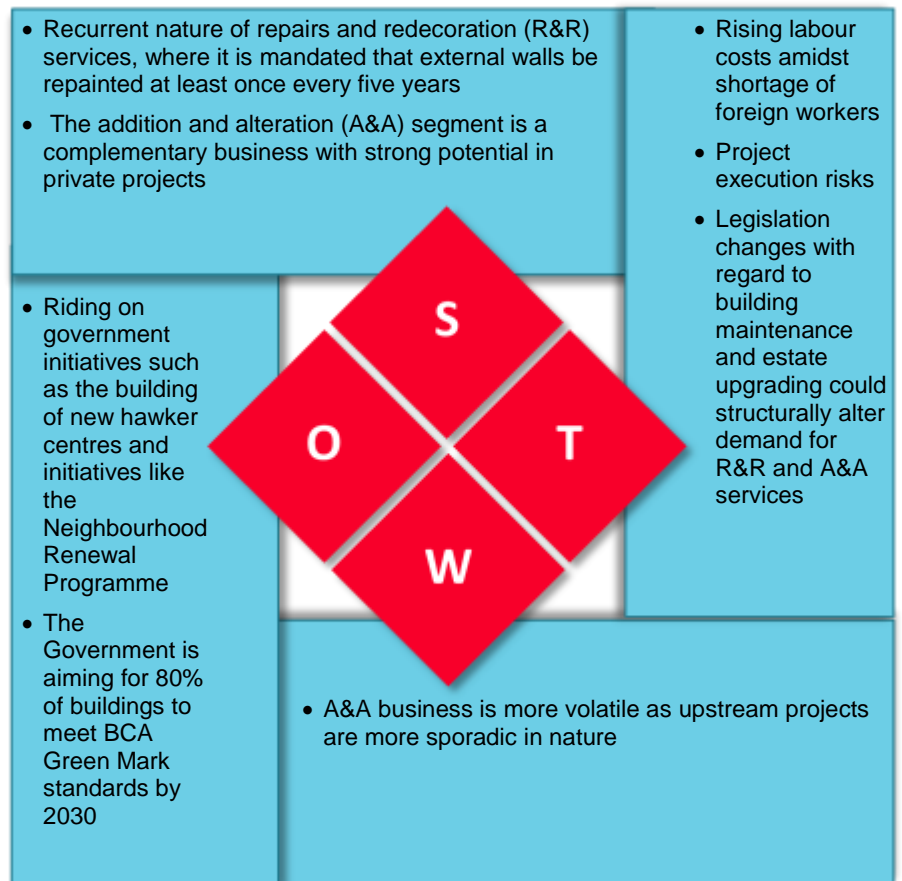
<b>Balance Sheet (SGDm)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15F</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
Total cash and equivalents	8	18	32	30	39
Accounts receivable	20	26	29	42	48
Other current assets	-	0	0	0	0
<b>Total current assets</b>	<b>28</b>	<b>44</b>	<b>61</b>	<b>72</b>	<b>88</b>
Total investments	0	0	0	0	0
Tangible fixed assets	4	5	10	9	9
Total non-current assets	5	6	10	10	9
<b>Total assets</b>	<b>33</b>	<b>49</b>	<b>71</b>	<b>82</b>	<b>97</b>
Short-term debt	4	4	2	3	4
Accounts payable	12	18	23	24	30
Other current liabilities	2	1	2	2	2
<b>Total current liabilities</b>	<b>18</b>	<b>23</b>	<b>27</b>	<b>29</b>	<b>36</b>
Other liabilities	1	0	2	2	2
<b>Total non-current liabilities</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities</b>	<b>18</b>	<b>24</b>	<b>29</b>	<b>31</b>	<b>38</b>
Share capital	10	16	30	30	30
Retained earnings reserve	12	17	24	33	42
Other reserves	(7)	(7)	(12)	(12)	(12)
<b>Shareholders' equity</b>	<b>15</b>	<b>26</b>	<b>42</b>	<b>50</b>	<b>59</b>
Minority interests	-	0	0	0	0
Other equity	-	(0)	0	0	0
<b>Total equity</b>	<b>15</b>	<b>26</b>	<b>42</b>	<b>51</b>	<b>60</b>
<b>Total liabilities &amp; equity</b>	<b>33</b>	<b>49</b>	<b>71</b>	<b>82</b>	<b>97</b>

Source: Company data, RHB

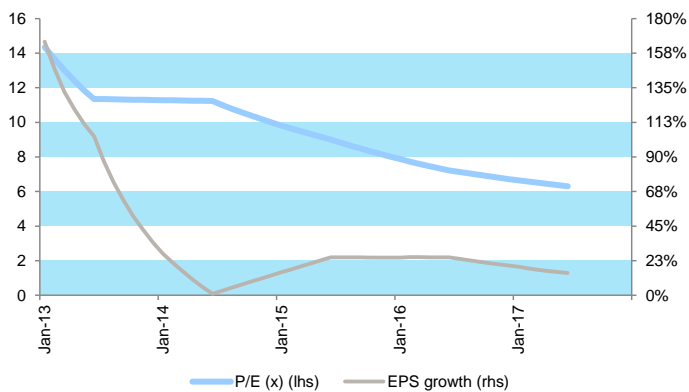
<b>Key Ratios (SGD)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15F</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
Revenue growth (%)	36.2	44.8	16.9	25.9	15.5
Operating profit growth (%)	(16.1)	214.3	48.0	15.3	15.2
Net profit growth (%)	103.4	1.0	33.5	24.7	14.5
EPS growth (%)	103.4	1.0	24.7	24.7	14.5
BVPS growth (%)	20.7	75.9	51.4	21.0	17.8
Operating margin (%)	4.3	9.3	11.8	10.8	10.7
Net profit margin (%)	12.5	8.7	9.9	9.8	9.8
Return on average assets (%)	20.0	14.8	13.5	13.2	12.9
Return on average equity (%)	44.9	30.1	24.0	21.9	21.1
Net debt to equity (%)	(29.2)	(51.9)	(71.6)	(53.9)	(60.1)
DPS	0.01	0.01	0.01	0.01	0.02
Recurrent cash flow per share	(0.00)	0.06	0.14	(0.01)	0.09

Source: Company data, RHB

## SWOT Analysis

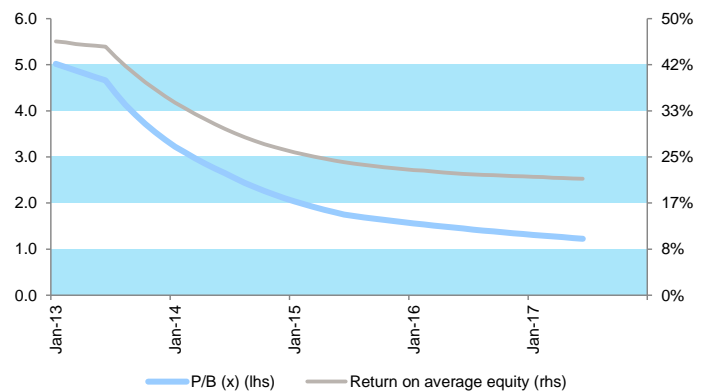


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Founded in 1998, 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.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-28	Buy	0.82	0.57
2015-06-03	Buy	0.82	0.61
2014-08-29	Buy	0.77	0.46
2014-06-30	Buy	0.52	0.43

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

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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a) -

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**Kuala Lumpur**

**RHB Research Institute Sdn Bhd**  
Level 11, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur  
Malaysia  
Tel : +(60) 3 9280 2185  
Fax : +(60) 3 9284 8693

**Hong Kong**

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : +(852) 2525 1118  
Fax : +(852) 2810 0908

**Singapore**

**RHB Research Institute Singapore  
Pte Ltd (formerly known as DMG & Partners Research  
Pte Ltd)**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +(65) 6533 1818  
Fax : +(65) 6532 6211

**Jakarta**

**PT RHB Securities Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710, Indonesia  
Tel : +(6221) 2783 0888  
Fax : +(6221) 2783 0777

**Shanghai**

**RHB (China) Investment Advisory Co. Ltd.**  
Suite 4005, CITIC Square  
1168 Nanjing West Road  
Shanghai 20041  
China  
Tel : +(8621) 6288 9611  
Fax : +(8621) 6288 9633

**Bangkok**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +(66) 2 862 9999  
Fax : +(66) 2 862 9799