

Issuer: ISOTEAM LTD.
Security: ISOTEAM LTD.

Meeting details:

Date: 25 Oct 2016

Time: 10:00H

Venue: Empress Ballroom 1, Level 2, Carlton Hotel, 76 Bras Basah Road, Singapore 189558

Company Description:

ISOTeam Ltd. operates as a building maintenance and estate upgrading company in Singapore. It operates through Repair and Redecoration (R&R), Addition and Alteration (A&A), and Others segments. The company is involved in the non-structural construction, improvements, and routine maintenance works, as well as focuses on structural works and infrastructure works. It offers waterproofing and reroofing, improvement works, and routine maintenance services, as well as repainting, repair, and redecoration services; neighborhood renewal, hawker centers upgrading, estate upgrading, home improvement, and electrical load upgrading services; and interior design and fitting out, green building conceptualization, designing and building, home retrofit and fit-out, and property maintenance and enhancement services. The company also provides thermal insulating plasters, anti-slip clear coatings, nano-titanium dioxide, photocatalytic coatings, and composite timber decking; and vertical gardens, horticultural, floating plantings, and niche landscaping services. In addition, it offers eco-friendly coating, architectural and protective coating, fireproofing coating, and industrial coating services; and handyman solutions comprising home painting, plumbing, electrical, and other general maintenance works services, as well as rents and sells boom lifts, scissor lifts, personnel lifts, telehandlers, and forklifts. Further, the company provides handyman portal services comprising home care and upgrading, and general repairs and maintenance services; and rents and sells boom lifts, scissor lifts, personnel lifts, telehandlers, and forklifts. It primarily serves town councils, government bodies, and building owners. ISOTeam Ltd. was founded in 1998 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5WF)

1. The group has done exceptionally well over the past 5 years. As can be seen in the “Financial Highlights” (page 14 of the annual report), the cumulative annual growth rate (“CAGR”) for revenue, gross profit and net attributable profit has been 39%, 56% and 45% respectively for FY12 to FY16. Since the listing, profit margin has increased from 19.3% in FY14 to 25.7% in FY16 but net attributable profit margin has hovered just under 10% in FY15 and FY16. Similarly, return on equity and return on assets showed some small decreases. **As the group broadens its services and geographical reach, can shareholders expect the same quality of earnings? Has the board set certain targets for management?**

2. The company has a proven track record of close to 20 years in Singapore’s building maintenance and estate upgrading industry. The group now has eyes on overseas markets, including Indonesia, Malaysia and Myanmar. **While these markets offer huge potential, are these markets structurally very different from the Singapore market where demand is supported by government initiatives and regulatory requirements? What is management’s strategy to enter and grow in these three new markets? What would be the focus areas in these markets? As the group enjoys economies of scale in the local market, how will it adapt as it tries to establish a foothold in these new markets?**

3. The group acquired four subsidiaries in January 2015 which were strategic in expanding the range of the group’s capabilities. In January 2016, the group added TMG Projects Pte Ltd. In the joint Chairman and CEO Message, it was disclosed that the group is still “on the lookout for other potential acquisition targets to further widen our capabilities to include providing mechanical and electrical, as well as conservancy cleaning services”.

(i) What has the company learnt from the acquisitions and subsequent integration in the past two years?

(ii) There was a write-off of \$0.6 million in goodwill in FY2015 for the acquisitions done in the year. What guidance does the board give to the management to ensure that the group does not overpay for acquisitions?

(iii) Lastly, how does the company ensure that the ISOTeam “DNA” is not diluted as the group makes more acquisitions?