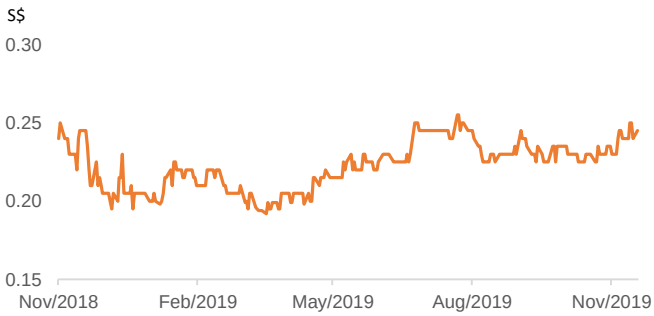
# ISOTeam Ltd.

Date: 19 November 2019

**BUY**
**(Maintained)**

**Target Price: S$0.325**
**(+32.7%)**

**ISOTeam (5WF.SI)**
**Price: S$0.245** **(as at 18 November 2019)**




| Share price | 1M | 3M | 6M | 1Y |
|---|---|---|---|---|
| ISOTeam Ltd. | 6.5% | 6.5% | 11.4% | 0.0% |
| Catalist Index | 7.3% | 1.3% | -3.3% | -16.0% |

| | | |
|---|---|---|
| **Market capitalisation** | S$69.8 million | |
| **Current price** | S$0.245 | |
| **Shares outstanding** | 285.1 million | |
| **Free Float** | 34.5% | |
| **Substantial shareholders** | ADD Investment Holding | 41.96% (1) |
| | Nippon Paint (Singapore) | 5.56% |
| **Recommendation of other brokers** | 2 - BUY | |

*Source: Annual Report, SGX StockFacts, Bloomberg, SAC Capital*

(1) Key management team


**Analyst**
Lam Wang Kwan
+65 6232 3237
lamwk@saccapital.com.sg

Terence Chua
+65 6232 3236
tchua@saccapital.com.sg


## ISOTeam off to a good start for FY2020

**ISOTeam Ltd, and together with its subsidiaries ("ISOTeam" or the "Company", or the "Group") announced a revenue of S$28.3 million for 1QFY20,** which represented a 3.7% increase as compared to the revenue of S$27.3 million recorded in the corresponding period a year ago. The increase was mainly driven by the increase in revenue from the R&R and C&P segments which was partially offset by weaker performance from the A&A and Others segments. In addition, other income rose while operational expenses decreased. As a result, ISOTeam's net profit attributable to equity holders for 1QFY20 surged by 44.3% to S$1.1 million.

**ISOTeam remained cautiously optimistic.** As at 31 October 2019, ISOTeam's order book stood at S$148.2 million which is expected to be progressively delivered over the next two years. Included is an A&A contract to supply, install, construction, completion and maintenance of architectural works to Lentor MRT station which represented the Group's first MRT project. ISOTeam is also expecting the proposed acquisition of Pure Group and asset transfer agreement with Mobike to be completed by 2019, which are expected to further boost the Group's overall business.

**Positive industry tailwinds.** With its strong capabilities and proven track records, ISOTeam is well-positioned to take advantage of the slew of projects that are progressively being rolled out. These include 1) government initiatives such as Neighbourhood Renewal Programme, Hawker Centre Upgrading Programme, Home Improvement Programme I & II and Round Island Route Programme; 2) opportunities from the integrated resorts' future plans and other private sector projects both domestically and regionally and; 3) green initiatives such as the SolarNova Programme, Offshore Floating Solar Farms and Land Transport Master Plan 2040.

**Maintained BUY.** In view of its strong FY19 performance, its potential for growth and its strong start to FY20, we have maintained our target price of S$0.325 per share backed by our DCF model (WACC: 4.8% and Terminal Growth: 1.2%).

**Key risk:** Uncertainty in job tendering.

## Key Financials

| Year ended 30 June | FY2017 (restated) | FY2018 (restated) | FY2019 | FY2020F | FY2021F |
|---|---|---|---|---|---|
| **Revenue** | 82,922 | 83,801 | 136,601 | 182,900 | 210,500 |
| **% Growth** | -11.9% | 1.1% | 63.0% | 33.9% | 15.1% |
| **Gross profit** | 21,636 | 12,963 | 21,635 | 29,264 | 33,680 |
| **Gross profit margin (%)** | 26.1% | 15.5% | 15.8% | 16.0% | 16.0% |
| **Profit attributable to owners** | 6,447 | 491 | 6,757 | 7,813 | 8,885 |
| **Profit before tax margin (%)** | 8.4% | -1.0% | 5.3% | 5.3% | 5.2% |
| **Profit after tax margin (%)** | 7.8% | 0.6% | 4.9% | 4.3% | 4.2% |
| **Basic EPS (S$ cents)** | 2.27 | 0.66 | 2.37(1) | 2.75 | 3.13 |
| **P/E (x)** | 10.4 | 35.6 | 9.9 | 8.5 | 7.5 |
| **P/B (x)** | 1.3 | 1.3 | 1.1 | 0.9 | 0.8 |
| **EV/EBITDA (x)** | 6.4 | 16.8 | 7.5 | 6.2 | 5.6 |
| **Net Debt/Equity** | 11.6% | 28.4% | 52.1% | 36.6% | 32.3% |

*Source: Annual Report, SAC Capital*

*(1) Based on the weighted average number of ordinary share in issue of 284,725,505 and 284,508,757 in FY2019 and FY2018 respectively*

# ISOTeam continued its growth as net profit rose 44.3% for 1QFY20

**Revenue (By Segment)**

| Revenue (S$million) | 1Q20 | 1Q19 | Change |
|---|---|---|---|
| R&R | **9.4** | 4.0 | 133.4% |
| A&A | **10.0** | 15.0 | (33.5)% |
| C&P | **4.3** | 2.8 | 54.3% |
| Others | **4.6** | 5.5 | (16.1)% |
| **Total** | **28.3** | **27.3** | **3.7%** |

*Source: Company Data, SAC Capital*

**Business Overview:**

ISOTeam Ltd. is an established and leading player in Singapore's building maintenance and estate upgrading industry. The Group also offers a full range of services and solutions comprising specialist Coating & Painting ("C&P") services as well as complementary niche services

**Summary: Ongoing Projects (FY19)**

| | Number | Value (S$'m) |
|---|---|---|
| R&R | 25 | 61.9 |
| A&A | 17 | 101.2 |
| C&P | 65 | 32.8 |
| Others | 47 | 39.5 |

*Source: Company Data, SAC Capital*

**ISOTeam announced a revenue of S$28.3 million for 1QFY20,** which represented a 3.7% increase as compared to the revenue of S$27.3 million recorded in the corresponding period a year ago. The topline increase was mainly driven by the increase in revenue from the R&R and C&P segments, which achieved a year-on-year revenue growth of 133.4% and 54.3% respectively. This was partially offset by weaker performance from the A&A and Others segments which were down 33.5% and 16.1% respectively from a year ago.

The Group's gross profit remained stable at S$4.9 million while gross profit margin trimmed slightly to 17.4% as compared to 17.9% recorded in 1QFY19. Other income rose by 75.6% to S$0.3 million due to gain on disposal of plant and equipment and higher government grant received while operational expenses, on a whole, decreased due to higher efficiency from the consolidation of operations at the Group's new headquarters at Changi North. As a result, ISOTeam's net profit attributable to equity holders for 1QFY20 surged by 44.3% to S$1.1 million.

**ISOTeam remained cautiously optimistic.** As at 31 October 2019, ISOTeam's order book stood at S$148.2 million which is expected to be progressively delivered over the next two years. Included in the order book, is an A&A contract to supply, install, construction, completion and maintenance of architectural works to Lentor MRT station. This represented the first MRT A&A project secured by the Group. Through this opportunity and track record, ISOTeam hopes to continue to explore business opportunities for other MRT projects.

Previously, ISOTeam announced the proposed acquisition of Pure Group to strengthen its commercial and retail fitting-out capabilities, as well as project and management services across Singapore, the Philippines, China, Malaysia and Thailand. On top of that, the Group also entered into an asset transfer agreement with Singapore Mobike to enhance the Group's market share in the bike sharing industry amidst the Land Transport Master Plan 2040. ISOTeam is expecting these transactions to be completed by 2019.

**Positive industry tailwinds.** With its strong capabilities and proven track records, ISOTeam is well-positioned to take advantage of the slew of projects that are progressively being rolled out. These include government initiatives such as the repainting of external walls, Neighbourhood Renewal Programme, Hawker Centre Upgrading Programme, Home Improvement Programme I & II and Round Island Route Programme. On top of that, the Pure Group acquisition also put the Group in better position to capitalise on opportunities from the integrated resorts' future plans and other private sector projects both domestically and regionally. In addition, ISOTeam's commitment and experience in green solutions also put it in pole position to win contracts from green initiatives such as the SolarNova Programme, Offshore Floating Solar Farms and Land Transport Master Plan 2040.

**Maintained BUY.** Driven by positive industry sentiments and the Group's capabilities in winning and executing projects, we expect the Group to be able to continue securing more contracts. The Group's current order book of S$148.2 million as at 31 October 2019 is expected to be further boosted by opportunities arising through the acquisition of Pure Group and its recent venture into MRT projects. In view of the stellar FY19 performance, the strong start to FY20 and its potential for growth, we have maintained our target price of S$0.325 per share backed by our DCF model (WACC: 4.8% and Terminal Growth: 1.2%). The target price is 32.7% above the current share price of S$0.245 per share.

# Recent developments

## Acquisition of Pure Group

ISOTeam announced that it had entered into a conditional sale and purchase agreement to acquire Pure Group (Singapore) Pte. Ltd., Pure Projects (Philippines) Inc, Pure Projects Construction Advisory Shanghai Co Ltd, Pure Projects Management Sdn. Bhd., Pure Projects SEA Pte. Ltd. and Pure Projects SEA Ltd (together, "**Pure Group**") for an aggregate purchase consideration of S$24,000,000. The Group of companies principally engaged in the provision of project and construction management services, as well as commercial and retail fitting-out works in Singapore, Philippines, China, Malaysia and Thailand. S$12,000,000 of the purchase consideration will be paid in cash while the rest will be settled by the issuing of 47,393,365 non-listed transferable warrants, which will only be released to the seller upon fulfilment of the respective profit targets.

Under the agreement, 11,848,341 Consideration Warrants, which value is equivalent to approximately S$3,000,000 will be released from escrow to the Seller upon the Pure Businesses achieving an audited consolidated profit after tax of at least S$3,000,000 for FY2020 or if the FY2020 Earn-Out Payment is not achieved, the Seller has made full payment in cash for the shortfall and 35,545,024, which value is equivalent to approximately S$9,000,000 will be released from escrow to the Seller upon the Pure Businesses achieving an audited consolidated profit after tax of at least S$5,000,000 for FY2021 or if the FY2021 Earn-Out Payment is not achieved, the Seller has made full payment in cash for the shortfall. The proposed acquisition will expand ISOTeam's capability to offer the full suite of project and construction management services as well as offer an opportunity for the Group to leverage on the networks and capabilities of Pure Businesses as a project and construction manager. This is expected to result in increased business opportunities and growth for the Group.

On 1 November 2019, it was announced that the proposed acquisition had been extended to 31 December 2019 as mutually agreed by the parties.

## Asset transfer agreement with Singapore Mobike

ISOTeam announced that it had entered into an asset transfer agreement with Singapore Mobike Pte. Ltd. ("**Singapore Mobike**") for the proposed acquisition of a total of 25,000 bikes, along with their licenses, by 51% owned SG Bike Pte. Ltd. ("**SG Bike**"). The aggregate purchase consideration will be US$1,847,800 or approximately S$2,540,725. SG Bike will also assume the liabilities of Singapore Mobike to repay user deposits and prepayments in an aggregate amount not exceeding US$1,470,000 or approximately S$2,021,250.

On 30 October 2019, it was announced that the proposed acquisition had been extended to 30 November 2019 as mutually agreed by the parties

## SAC Advisors Forecast Summary

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Revenue by segment (S$'000)** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Repairs & Redecoration | 54,467 | 40,248 | 20,900 | 19,765 | 27,258 | 22,250 | 23,500 |
| Additions & Alterations | 17,403 | 24,390 | 32,385 | 36,236 | 67,674 | 77,400 | 80,000 |
| Coating & Painting | 3,550 | 11,750 | 14,317 | 9,895 | 14,350 | 21,350 | 23,000 |
| Others | 6,232 | 17,761 | 15,320 | 17,905 | 27,319 | 61,900 | 84,000 |
| **Total** | **81,652** | **94,149** | **82,922** | **83,801** | **136,601** | **182,900** | **210,500** |

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Revenue % (Y-Y)** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Repairs & Redecoration | 12.7% | -26.1% | -48.1% | -5.4% | 37.9% | 6.0% | 5.6% |
| Additions & Alterations | -14.6% | 40.1% | 32.8% | 11.9% | 86.8% | 6.0% | 3.4% |
| Coating & Painting | N/A | 231.0% | 21.8% | -30.9% | 45.0% | 6.8% | 7.7% |
| Others | 445.7% | 185.0% | -13.7% | 16.9% | 52.6% | 106.3% | 35.7% |
| **Total** | **16.9%** | **15.3%** | **-11.9%** | **1.1%** | **63.0%** | **27.0%** | **15.1%** |

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Revenue breakdown (%)** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Repairs & Redecoration | 66.7% | 42.7% | 25.2% | 23.6% | 20.0% | 12.2% | 11.2% |
| Additions & Alterations | 21.3% | 25.9% | 39.1% | 43.2% | 49.5% | 42.3% | 38.0% |
| Coating & Painting | 4.3% | 12.5% | 17.3% | 11.8% | 10.5% | 11.7% | 10.9% |
| Others | 7.6% | 18.9% | 18.5% | 21.4% | 20.0% | 33.8% | 39.9% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Gross profit** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Gross profit growth | 49.3% | 19.9% | -10.4% | -40.1% | 66.9% | 35.3% | 15.1% |
| Gross profit margin | 24.7% | 25.7% | 26.1% | 15.5% | 15.8% | 16.0% | 16.0% |
| **Gross Profit (S$'000)** | **20,153** | **24,156** | **21,636** | **12,963** | **21,635** | **29,264** | **33,680** |

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Operating profit**** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Operating Profit margin | 12.0% | 11.3% | 9.0% | N/A | 6.2% | 6.0% | 5.8% |
| Operating Profit growth y-y | 38.3% | 9.2% | -29.8% | -103.0% | N/A | 29.6% | 12.1% |
| **Operating Profit (S$'000)** | **9,771** | **10,674** | **7,488** | **-227** | **8,419** | **10,912** | **12,230** |

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Profit Growth (%) (Y-Y)** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Profit before tax | 41.9% | 8.1% | -32.0% | N/A | N/A | 32.4% | 13.7% |
| Profit after tax* | 34.1% | 13.6% | -30.1% | -92.4% | 1,276.2% | 15.6% | 13.7% |
| **Profit before tax (S$'000)** | **9,519** | **10,291** | **6,995** | **-797** | **7,255** | **9,606** | **10,924** |
| **Profit after tax* (S$'000)** | **8,124** | **9,227** | **6,447** | **491** | **6,757** | **7,813** | **8,885** |

| | Fiscal Year Ended 30 June | | | | | | |
|---|---|---|---|---|---|---|---|
| **Profit margin (%)** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Profit before tax | 11.7% | 10.9% | 8.4% | N/A | 5.3% | 5.3% | 5.2% |
| Profit after tax* | 9.9% | 9.8% | 7.8% | 0.6% | 4.9% | 4.3% | 4.2% |

*Source: Company data, SAC Capital*

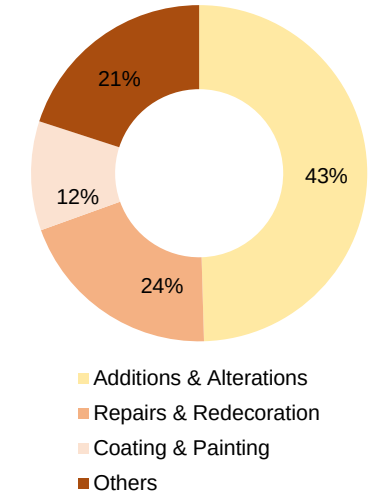
** Profit attributable to owners of the Company*

*** In-house estimate*

*N/A: Not Applicable*

# Company Background

**Revenue Breakdown (FY2019)**




*Source: Company data, SAC Capital*

Founded in 1998 and listed on Catalist of the Singapore Exchange Securities Trading Limited (Ticker: 5WF) on 12 July 2013, ISOTeam Ltd. is a building maintenance and estate upgrading company experienced in implementing eco-driven solutions through R&R and A&A services to the public and private sector. The Company has extensive experience in upgrading, retrofitting and maintenance of buildings and facilities in Singapore, and reshapes and rejuvenates public housing landscape, amenities and environment.

- The Group's core business can be categorised into 4 business segments:

(a) Additions & Alterations ("**A&A**")

(b) Repairs & Redecoration ("**R&R**")

(c) Coating & Painting ("**C&P**")

(d) Others









**Additions & Alterations**

- Neighbourhood renewal programme
- Hawker Centres Upgrading Programme
- Estate Upgrading Programme
- Electrical Load Upgrading projects

**Repairs & Redecoration**

- Repainting, repairs and redecoration
- Waterproofing and reroofing
- Improvement works
- Routine maintenance
- Term contract works

**Coating & Painting**

- New building painting
- Eco-friendly coating
- Architectural and protective coating
- Fireproofing coating
- Niche industrial coating

**Others**

- Landscaping (e.g. Punggol Waterways as shown above)
- Eco-friendly solutions
- SG Bike project
- Handyman services
- Mechanical & Electrical works

## History

Founded in 1998 and listed on Catalist of the Singapore Exchange Securities Trading Limited (Ticker: 5WF) on 12 July 2013, ISOTeam Ltd. is an established and leading player in Singapore's building maintenance and estate upgrading industry. With two decades of R&R and A&A experience, they have successfully undertaken approximately 422 refurbishment and upgrading projects for approximately 4,280 buildings since inception. ISOTeam also offers a full range of services and solutions comprising specialist Coating & Painting ("**C&P**") services as well as complementary niche services ("**Others**") through their specialist waterproofing, commercial interior design and home retrofitting ("**ID**"), landscaping, access equipment leasing, green solutions and mechanical and electrical works ("**M&E**") subsidiaries.

As an eco-conscious company, ISOTeam integrates green methodologies in its projects, and actively work with strategic partners and technology companies to develop and commercialise green solutions and products such as solar panels installation and floating solar technology for the marine environment. In addition, the Group also began offering an environmentally sustainable bike sharing service in 2017 which is backed by geostation docking technology. The Group's reputation for quality, speed and safety, together with a winning edge in eco-conscious innovations and capabilities as a maintenance solutions provider, has won the trust and confidence of its customers, allowing them to repeatedly secure tenders over the years. ISOTeam has a diverse clientele that include, amongst others, town councils, government bodies and private sector building owners. In Singapore, ISOTeam is the exclusive paint applicator for Nippon Paint Singapore and SKK Singapore for the public housing sector, and for SKK Singapore for Jurong Town Corporation.

## Corporate Structure

Internally, having expanded their capabilities so extensively since IPO, the Group has integrated and consolidated their back end operations to optimise cost and improve efficiency. They have also streamlined some of their subsidiaries. ITG-Green Technologies has been renamed ISOTeam Green Solutions to focus on sustainable solutions such as CnO. They also plan to merge ISO-Seal Waterproofing into Raymond Construction as both are in the waterproofing business. Industrial Contracts Marketing will be merged with ISOTeam C&P as both are in the coating and painting business.




*Source: Company data*

# Industry Overview

## HDB's latest SolarNova tender brings solar energy to over 2,400 HDB blocks.

The HDB has awarded its third solar leasing tender to Sembcorp Solar Singapore Pte Ltd and Kurihara Kogyo Co., Ltd (Consortium), under the SolarNova programme. Under this tender, solar photovoltaic (PV) panels will be installed at 848 HDB blocks and 27 government sites by 2Q 2020. This brings the total number of HDB blocks identified for solar PV installation to over 2,400 blocks.

**About SolarNova program**

Led jointly by HDB and the Singapore Economic Development Board (EDB), the SolarNova programme aggregates demand for solar energy across public sector agencies to enable those with smaller solar PV demand to enjoy solar energy at a lower cost due to economies of scale. This has accelerated solar adoption across the whole-of-government and in Singapore, and continues to contribute significantly to Singapore's national solar energy target of 350 megawatt-peak (MWp) by 2020, with more than 60 percent or 220MWp coming from HDB's solar initiatives and programmes.

The first tender under the SolarNova programme, comprising about 800 HDB blocks, was awarded in December 2015 to Sunseap Leasing Pte Ltd for a solar capacity of 76 MWp. Under the second tender awarded to Million Lighting Co Pte Ltd in June 2017, solar panels with a capacity of 40 MWp will be installed at 636 HDB blocks and 31 government sites.

**HDB driving solar demand**

HDB is currently the largest stakeholder in the installation of solar PV system in Singapore. Including the third SolarNova tender awarded, about 190 MWp of solar capacity has been procured for over 2,400 HDB blocks. This represents more than 85 percent of HDB's commitment to generate solar capacity of 220MWp under the SolarNova programme and other solar initiatives by 2020. Power generated by the solar energy harnessed could be used to power common services, such as lifts, pumps, and lighting in common areas in the daytime, potentially reducing carbon emissions by 132,500 tonnes each year.

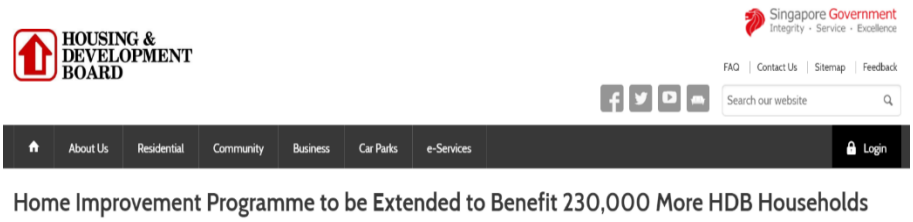
As of May 2018, about 1,130 HDB blocks have been installed with solar PV panels, covering an estimated area of about 400,000 square metres, or approximately the size of fifty football fields. Installation works for the remaining sites under the first two SolarNova tenders are underway and on track to be completed by 3Q 2019.

The installation of the solar PV systems under the third SolarNova tender is expected to begin in 3Q 2018 and complete by 2Q 2020. HDB targets to call the fourth SolarNova tender in 4Q 2019.

# Industry Overview

## More than $4 billion in spending to spruce up HDB Households

Prime Minister Lee Hsien Loong's announcement at the National Day rally last year that the government has extended the program to flats built between 1987 and 1997 vs. only flats up to 1986 previously. The move will see an additional 230,000 more HDB households benefit from the HIP program. The programme is also expected to see HDB flats upgraded twice during their 99-year lease – HIP I at 30 years old and HIP II at about 60 to 70 years old.




*Source: HDB*

The Government expects to spend more than $4bn on these projects. Introduced in 2007, the HIP was offered to HDB flats built up to 1986 that had not undergone the previous Main Upgrading Programme (MUP). There are about 320,000 flats eligible for the HIP under this 1986 age-band. Since its launch, the HIP has benefitted many Singaporeans and improved their quality of life. As of 1 Aug 2018, HIP has been announced for about 242,000 of the close to 320,000 eligible flats under the 1986 age-band. Of these, the upgrading works have been completed for more than half, or 122,000 flats, with work underway in the remaining flats. The announcement of HIP for all eligible flats in the 1986 age-band will be done by 2019.

The HIP focuses on improvements within the flat and helps flat owners address common maintenance problems related to ageing flats in a systematic and comprehensive manner. There are two main components of work under the HIP – Essential and Optional.

The Essential Improvements enhance public health and safety standards, and are fully paid for by the Government. They include repair of spalling concrete, replacement of waste/soil discharge stacks if damaged, replacement of pipe sockets with a new clothes drying rack, as well as upgrading of the electrical load.

Optional Improvements include items such as upgrading of the existing toilet/bathrooms, installation of a new decorative door and metal grille gate, and a new refuse chute hopper. Flat owners can choose the improvements they need in their flat, and pay only for those items selected.

The HIP will only proceed when at least 75% of a block's eligible Singapore Citizen households have voted in favour of it.

## Industry Overview

### Singapore's largest offshore floating solar panel system set to be built along Straits of Johor

Sunseap, a sustainable energy provider, announced that it is building an offshore floating photovoltaic (PV) system in Singapore. The five-hectare development will be located north of Woodlands Waterfront Park, along the Straits of Johor. Once completed, the five megawatt peak (MWp) floating solar energy system will generate about 6,388 megawatt hour (MWh) of renewable energy annually. This is equivalent to powering about 1,250 4-room flats, with a reduction in greenhouse gas emissions of about 2,600 tonnes every year, over the next 25 years and beyond.

***"We consulted about nine agencies and every time one of them brought up an issue, we had to restart the whole consultation process.."***

~Mr Frank Phuan, co-founder and chief executive officer of Sunseap Group



*Source: Sunseap*

Sunseap previously worked on the world's largest floating PV test-bed in Singapore at Tengeh Reservoir. Results have shown that the floating PV systems perform better than typical rooftop solar PV systems in Singapore, due to the cooler temperatures of the reservoir environment.

The project is supported by the Economic Development Board (EDB) and will be located north of the Woodlands Waterfront Park. Sunseap had previously participated in the world's largest floating solar panel test-bed in Singapore's Tengeh Reservoir. The test-bed was about 1ha in size. The approval of the process was especially difficult because of the number of agencies required to get this project going.

In conjunction with this, ISOTeam has been awarded contracts worth $11.31 million contract to install Singapore's largest offshore floating solar farm. To be completed by September this year, the offshore floating solar farm project awarded by Sunseap Leasing involves the supply, design and installation of offshore grid-tied solar photovoltaic systems. We think this is a milestone project for ISOTeam because the successful completion of this project will allow ISOTeam to bid for more projects.

# Management



**DAVID NG CHENG LIAN**
Executive Chairman

Date of First Appointment: 12 Dec 2012
Date of Last Re-election: 27 Oct 2017

**Mr. David Ng, Executive Chairman**
With over 35 years of experience in the building refurbishment and estate upgrading industry, Mr Ng heads the Board, aids the CEO in the corporate and strategic development of the Group and also supports and advises senior management. One of his areas of expertise lies in occupational safety and health. Before he co-founded the Group in 1998, he was a director of ISO-Build Corporation Pte Ltd and a manager at D&C Builders Pte Ltd where he was in charge of work place safety and equipment management. Prior to that, Mr Ng managed the suspended scaffold rental business as a project executive of Safewell Equipment Pte Ltd. He was also a suspended scaffold technician with Selat Chemicals Pte Ltd where he was responsible for the repair and maintenance of site equipment. Mr Ng was awarded a Certificate in Construction Supervision by the Construction Industry Development Board of Singapore in 1994.



**ANTHONY KOH THONG HUAT**
Executive Director and Chief Executive Officer

Date of First Appointment: 12 Dec 2012
Date of Last Re-election: 27 Oct 2015

**Mr. Anthony Koh, Chief Executive Officer & Executive Director**
One of the co-founders of the Group, Mr Koh has around 30 years of experience in the building refurbishment and estate upgrading industry. An instrumental figure, he sets and implements the expansion plans and overall corporate and strategic development of the Group, 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 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.

**Mr. 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 the management and coordination of the Group's operations including business expansion and diversification; planning and policies updates; the management and supervision of its corporate business development plans; the administration of its key performance indicators whilst monitoring and managing its overheads. He is also in charge of corporate a*airs and investor relations, as well as responsible for the application and management of the Group's government grants. 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.

# Business Segments

## Additions & Alterations

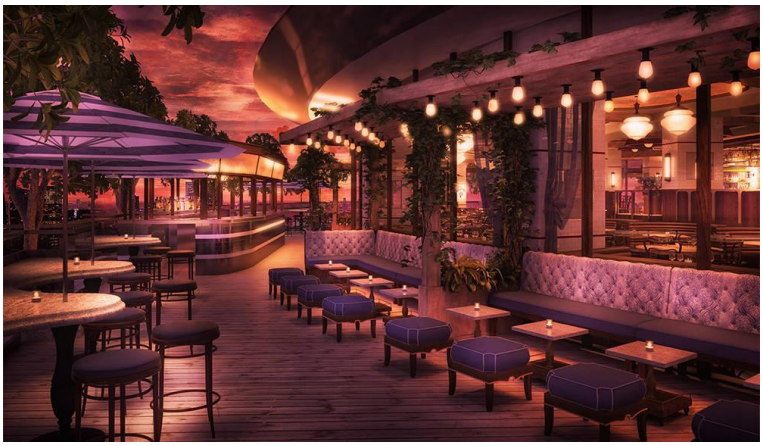
In FY2018, ISOTeam completed 14 A&A projects compared to 9 projects in FY2017. These projects comprised of 5 public sector jobs for approximately 78 blocks in Chua Chu Kang, Ang Mo Kio and Bishan-Toa Payoh town councils as well as Aloha Changi Resort - the second largest A&A project. The Group also completed 9 projects in the private sector that included restaurants at Marina Bay Sands and Resorts World Sentosa among other commercial contracts.

As at 30 June 2018, there are 14 ongoing A&A projects amounting to approximately $120.3 million with the expected completion date of September 2019. This includes 7 Neighborhood Renewal Projects for approximately 140 blocks, 1 HIP project for 19 blocks, and the first park connector project at Tanjong Rhu. In the private segment, there is an ongoing project for a leading resort in Singapore worth approximately $46.5 million as well as some private residences. The A&A projects typically last for 18-24 months.

## Private sector projects

An indicator for ISOTeam that their projects within this sector is increasing in scale and achieving a higher profile is the completion of a commercial interior design project for Lavo Singapore at Marina Bay Sands in FY2018. In addition to the interior design work, the project engaged their mechanical and electrical engineering expertise, specialist coating and painting services. The restaurant was launched with extensive media coverage, which effectively showcased the work done at the establishment. The success of these projects strongly affirmed the Group's strategy to diversify and transform the business from a regular R&R and A&A player into a multi-disciplinary provider of total maintenance solutions, which is in line with market demands.

With the increasingly competitive landscape and tightening margins, the Group's management is increasingly convinced that such change is absolutely necessary in order to maintain a business that is sustainable and relevant to customers because it offers them a unique value proposition.



** Image credit: Facebook/LAVO Singapore*

# Business Segments

## Repairs & Redecoration

A total of eight R&R projects were completed for 49 HDB blocks located in Pasir Ris-Punggol, Tanjong Pagar and Holland-Bukit Panjang town councils in FY2018 compared to 13 projects and 132 HDB blocks in FY2017. Under the Hawker Upgrading Project ("**HUP**") scheme, there are 2 completed markets and food centres, Tiong Bahru Market and Food Centre and Tekka Centre, which raised the total number of completed HUP projects to 38. Along with many R&R jobs for residential properties, ISOTeam also completed 3 commercial R&R projects that included The Supreme Court Building, Saint James' Church and Mimosa Park in FY2018.

R&R accounted for 23.6% of their total revenue in FY2018. With eight completed projects, their revenue from this segment decreased by $1.1 million or 5.4% from $20.9 million in FY2017 to $19.8 million in FY2018. This was due to a combination of factors that included fewer project completions during the year, intensified competition, and also some categorisation of R&R jobs under our A&A division as they were part of NRP projects.




*Source: Company Data*

This segment however, is seeing a recovery. As at 30 June 2018, there are 18 on-going R&R projects worth around $32.2 million that are expected to complete by June 2019. These comprise mainly public sector contracts including paint jobs for around 117 HDB blocks and 2 market and food centres for several housing estates and building tradesmen and repair works. The R&R projects typically last for 12 months.

# Business Segments

## Coating & Painting

For FY2018, ISOTeam completed 20 C&P projects compared to 10 projects in the previous year. The Group increased market share in the education and healthcare institution segment with the completion of works for Hwa Chong Institution, Singapore Management University, the Australian International School and the Assisi Hospice. ISOTeam is also active in its efforts to continue expanding on the industrial segment with a slew of contracts for factories and data centres in Singapore. In Myanmar, they have completed 2 C&P projects as well.

As at 30 June 2018, there are 41 ongoing C&P projects, 10 of which are in Myanmar, valued at approximately $17.7 million that are due for completion by June 2019, compared to 41 projects in FY2017. Significant projects include the National Centre for Infectious Diseases, Tampines Town Hub, the New State Court Building, Outram Community Hospital, Sengkang Community Hospital's SOC Building and Micron Semiconductor. There are also 4 infrastructure projects on hand for Changi Airport Terminal 1 and Bedok Town Park MRT station among others.

**Some C&P Features:**

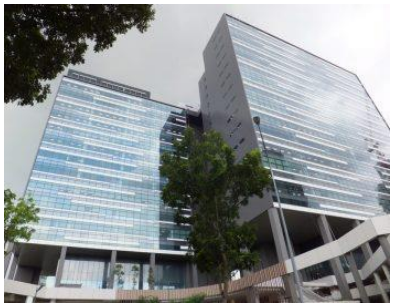


*Source: Company data*

**Internal & External Wall Painting**
Internal Emulsion or External Emulsion paint with algae and fungus resistant. The products are generally Green Label Certified due to its low VOC content.

**Anti-Bacteria / Anti-Microbial / Mosquitoes Repellent**
Paints that offer protection from harmful bacteria or against MRSA, E-Coli and Staphylococcus Aureus or Mosquitoes repellent properties.

**Dirt Resistance**
Paint that has a higher dirt resistance performance due to its tougher and harder finish such as silicon resin based paint.



*Source: Company data*

**Polyurethane (PU)**
It can be a single or two component polyurethane resin based paint that is similar to liquid plastic when wet and it exhibits excellent weather resistance, light fastness and UV protection.

**Heat Shield / Solar Reflect Wall Paint**
Paint that has capabilities to reflect heat away from the building thereby reduce heating up in the building and aids in the conserving of energy consumption.

## Corporate Developments

The Group recently announced that they have won a slew of contracts worth S$21.98 million in new orders which included the installation of Singapore's largest offshore floating solar panel system. The announcement follows on the heels of their announcement last week that they have secured their second HIP from the Housing Development Board worth S$26.3 million.

The HIP project covers the following precincts:

(i) 12 blocks at Tampines Street 11 and 22;
(ii) 10 blocks at Tampines Street 21;
(iii) 11 blocks at Jalan Bukit Merah and Silat Avenue; and
(iv) 2 blocks at Kim Tian Place.

The abovementioned HIP contract awarded is expected to be completed by June 2020 and is expected to have a positive impact on the earnings per share and net tangible assets per share of the Group for the current financial year ending 30 June 2019. The recent HIP follows the completion of their first HIP from the HDB worth S$17.5 million.

The latest contract win includes a S$11.31 million contract to install Singapore's largest offshore floating solar farm. Together with three other R&R projects worth S$9.8 million and two fireproofing projects worth $0.87 million, ISOTeam's order book has hit yet another record to reach a new high of S$142.98 million, the highest since the Group's inception more than two decades ago.

To be completed by September 2019, the offshore floating solar farm project awarded by Sunseap Leasing Pte Ltd, involves the supply, design and installation of Offshore Grid-tied Solar Photovoltaic Systems. Supported by the Singapore Economic Development Board, the five megawatt-peak system is expected to generate about 6,388 megawatt-hours of renewable energy annually once completed.

The three R&R project wins is a welcome boost to their R&R segment, which has taken a hit in recent years. The R&R project include works to 18 blocks at Kim Tian Place, Kim Tian Road and Jalan Bukit Merah, 44 blocks at Pasir Ris Street 1 and 44 blocks at Holland Avenue, Holland Drive, Holland Close, Commonwealth Crescent and Commonwealth Drive, all which are expected to be completed between January and June 2020. The two Fireproofing projects are expected to be completed by August 2019. ISOTeam expects this latest round of contract wins to impact the earnings per share and net tangible assets per share of the Group positively for the current financial year ended 30 June 2019.

ISOTeam expects this latest round of contract wins to impact the earnings per share and net tangible assets per share of the Group positively for the current financial year ended 30 June 2019.

# Corporate Developments

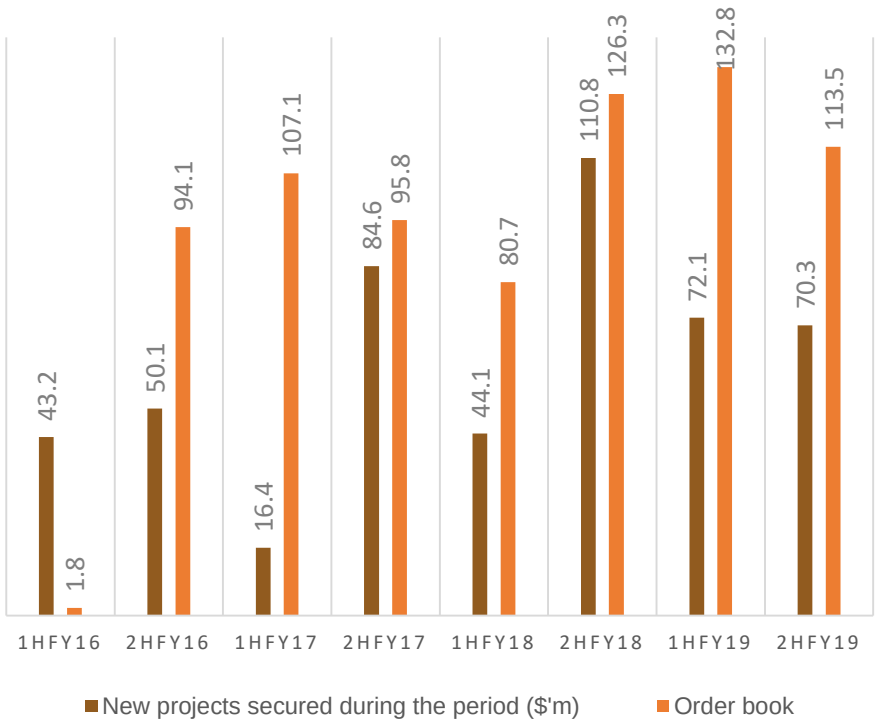
## Centralisation and streamlining of operations

ISOTeam recently integrated and consolidated their back-end operations to optimise cost and improve efficiency. They have also centralised their various departments and functions and recently moved into their new headquarters in Changi, which boast a space of 5,421 square metres. Specifically, the Group expects cost savings that they will enjoy as a result of shared functions such as finance and administration, in addition to savings on venue rental and dormitory costs. The Group is currently in the process of building a worker's dormitory, which will lead to further cost savings moving forward. Such reductions in operational and administrative expenses are expected to be reflected in their next set of full year results.

In the meantime, they are assessing the possibility of closing down or streamlining certain business units because of duplication in capabilities. They are also exploring avenues to improve productivity through job redesign and retraining, as well as investing in talent by upgrading the skills of workers who have performed well.

## Order Book

Following their most recent contract wins of S$31.0 million worth of public and private sector projects, ISOTeam's order book stands at S$148.2 million as at 31 October 2019. According to management, most of theses projects are expected to be progressively recognised over the next two years.




*Source: Annual Report, SAC Capital*

## Key Risks

**Uncertainties in job tendering**
ISOTeam's scope of work relies significantly on the tendering of contracts from government bodies. The competitiveness of their bid and past track record determine their success in winning these contracts

**Rapidly advancing technologies**
ISOTeam's efforts to remain relevant is seen through its pursuit to expand its eco-solutions.

# Future Plans

## Focus on existing competitive advantages while building new capabilities



*Source: Company data*

1. Strengthening capabilities in the renewable energy installation segment

ISOTeam is an early mover and leading contractor in the renewable energy installation segment. In FY17, the Group had secured their largest renewal energy installation project to-date worth S$6.3 million. The project was awarded by Sunseap Group (where they have a stake in) and involved installation work for grid-tied solar photovoltaic system to 150 blocks. We think ISOTeam will continue to work closely with partners such as HDB and Sunseap to harness innovative technology. The installation of the solar PV systems under the third SolarNova tender is expected to begin in 3Q 2018 and complete by 2Q 2020. HDB targets to call the fourth SolarNova tender in 4Q 2019.



*Source: TODAYonline*

2. Enhance market share in the R&R segment

The Group's FY17 performance was affected largely by a decline in the number of R&R projects from the HDB. Specific to their challenges in the R&R segment, they have worked hard and the recent contract wins are a testament to their ability to regain ground and to turnaround their performance for the coming financial year and beyond. They have reviewed and revised their tendering strategy to be more competitive and to secure more R&R projects to maintain their market share/

3. Unlocking value through the sale of their two properties

With their new premises in Changi, they now have the opportunity to unlock the value of certain assets. These include the possible sale of two properties at Kaki Bukit and Serangoon, which they are considering.

4. Further investments in new initiatives and expansion overseas

Their bike sharing operations has been gaining momentum. As at August 2018, they have mobilised around 2,000 bikes, comprising mainly version 2 bikes which are lighter and easy for riders handle, and target to raise the fleet size to 3,000 by October 2018. In FY2018, they partnered with telco provider M1 as part of their efforts to improve their geostation technology and have approximately 3,000 stations to date. Moreover, they are the first shared bike company to apply for a full licence to operate dockless bicycle rental services under the LTA's new licencing regime. Their Cockroaches and Odour Remover ("**CnO**") has also made some progress with the NEA, who has cleared the first set of data for the approval of CnO as a botanical pesticide, bringing them closer to market commercialisation.

We think the Company will proceed cautiously in their overseas expansion. Their joint ventures in both Myanmar and Malaysia have stabilised and are starting to be revenue generative. In Myanmar, they expanded our scope beyond R&R to also cover residential ID to home owners. They are also likely to explore the possibility of extending their water- and fire-proofing services to Myanmar and their R&R services to Malaysia.

## Income Statement (S$'000)

| (S$'000 ) | Fiscal Year Ended 30 June 2017 | 2018 (restated) | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| **Revenue** | **82,922** | **83,801** | **136,601** | **182,900** | **210,500** |
| Cost of sales | (61,286) | (68,914) | (114,966) | (153,636) | (176,820) |
| **Gross profit** | **21,636** | **14,887** | **21,635** | **29,264** | **33,680** |
| Other income | 2,662 | 1,860 | 3,109 | 1,860 | 1,860 |
| Marketing and distribution expenses | (1,375) | (1,813) | (1,173) | (1,829) | (2,105) |
| General and administrative expenses | (15,083) | (13,664) | (14,762) | (17,376) | (19,998) |
| Other operating expenses | (352) | (438) | (409) | (1,008) | (1,208) |
| Finance costs | (493) | (570) | (1,164) | (1,306) | (1,306) |
| **Profit before income tax** | **6,995** | **262** | **7,255** | **9,606** | **10,924** |
| Income tax expense | (260) | 520 | (952) | (1,633) | (1,857) |
| **Profit for the year** | **6,735** | **782** | **6,303** | **7,973** | **9,067** |
| | | | | | |
| **Profit/(loss) attributable to:** | | | | | |
| Owners of the Company | 6,447 | 1,889 | 6,757 | 7,813 | 8,885 |
| Non-controlling interests | 288 | (1,107) | (454) | 159 | 181 |
| | | | | | |
| **Earnings per share attributable to owners of the Company (Cents)** | | | | | |
| **Basic** | **2.27** | **0.66** | **2.37[1]** | **2.75** | **3.13** |
| **Diluted** | **2.27** | **0.66** | **2.37[1]** | **2.75** | **3.01** |

*[1] Based on the weighted average number of ordinary share in issue of 284,725,505 and 284,508,757 in FY2019 and FY2018 respectively*

*The number of diluted shares is calculated assuming the exercise of 11,848,341 warrants for FY2021 in association with the Pure Group acquisition*

## Cash Flow Statement (S$'000)

| (S$'000) | Fiscal Year Ended 30 June 2017 | 2018 (restated) | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| **Profit before tax** | **6,995** | **(797)** | **7,255** | **9,606** | **10,924** |
| | | | | | |
| Depreciation & amortisation | 3,972 | 5,132 | 4,637 | 4,351 | 4,668 |
| Change in working capital | (16,269) | (7,759) | (20,922) | 3,752 | (6,259) |
| Others | 1,100 | 443 | 960 | 1,187 | 1,187 |
| Interest and taxes | (1,338) | (466) | (1,942) | (2,820) | (3,044) |
| **Net Cash (used in)/ from operations** | **(5,540)** | **(3,447)** | **(11,723)** | **16,075** | **7,475** |
| | | | | | |
| Purchase of PPE | (14,400) | (5,686) | (1,392) | (4,395) | (3,955) |
| Others | (6,779) | 3,215 | 193 | (12,000) | 0 |
| **Net Cash (used in)/ from investing** | **(21,179)** | **(2,471)** | **(1,136)** | **(16,395)** | **(3,955)** |
| | | | | | |
| Net change in equity | (1,626) | (322) | (322) | 0 | 0 |
| Net change in debt | 10,893 | 5,310 | 9,648 | 12,000 | 0 |
| Dividends paid | (2,135) | (1,972) | (527) | (1,400) | (2,367) |
| Others | 550 | (1,111) | (50) | 0 | 0 |
| **Net Cash (used in)/ from financing** | **7,682** | **1,905** | **8,749** | **10,600** | **(2,367)** |

## Balance Sheet (S$'000)

| (S$'000) | Fiscal Year Ended 30 June 2017 (restated) | 2018 (restated) | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| PPE | 29,725 | 34,238 | 30,247 | 33,951 | 33,934 |
| Goodwill | 2,658 | 2,658 | 2,658 | 2,658 | 2,658 |
| Investment property | 0 | 0 | 911 | 895 | 878 |
| Intangible assets | 4,650 | 2,923 | 2,075 | 1,567 | 889 |
| Other non-cuurent assets | 6,462 | 6,048 | 8,181 | 22,269 | 22,269 |
| **Total non-current assets** | **43,495** | **45,867** | **44,072** | **61,340** | **60,628** |
| Cash and cash equivalents | 14,830 | 12,200 | 9,029 | 18,655 | 19,808 |
| Trade and other receivables | 23,661 | 27,665 | 33,523 | 50,806 | 58,472 |
| Asset held for sale | 0 | 0 | 2,330 | 2,330 | 2,330 |
| Inventories | 271 | 486 | 1,877 | 1,536 | 1,768 |
| Due from customers for contract work-in-progress | 12,437 | 15,661 | 32,151 | 32,922 | 37,890 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| **Total current assets** | **51,199** | **56,012** | **78,910** | **106,249** | **120,268** |
| **Total assets** | **94,694** | **101,879** | **122,982** | **167,589** | **180,896** |
| Finance leases | 1,752 | 2,478 | 2,764 | 3,018 | 3,018 |
| Bank borrowings | 11,701 | 12,101 | 9,927 | 11,249 | 11,249 |
| Other non-current liabilities | 2,175 | 1,160 | 898 | 1,160 | 1,160 |
| **Total non-current liabilities** | **15,628** | **15,739** | **13,589** | **15,427** | **15,427** |
| Due to customers for contract work-in-progress | 0 | 0 | 0 | 5,377 | 6,189 |
| Bank borrowings | 6,408 | 11,699 | 25,922 | 30,920 | 30,920 |
| Trade and other payables | 19,691 | 19,583 | 22,570 | 38,409 | 44,205 |
| Finance leases | 972 | 1,150 | 1,283 | 1,299 | 1,299 |
| Other current liabilities | 158 | 140 | 375 | 140 | 140 |
| **Total current liabilities** | **27,229** | **32,572** | **50,150** | **76,145** | **82,753** |
| **Total liabilities** | **42,857** | **48,311** | **63,739** | **91,572** | **98,180** |
| Share capital | 29,618 | 29,618 | 29,618 | 29,618 | 32,618 |
| Treausry shares | (562) | (256) | (578) | (172) | (172) |
| Accumulated profits | 29,418 | 28,066 | 34,309 | 46,548 | 53,193 |
| Foreign currency translation reserve | 8 | 22 | 44 | 16 | 16 |
| Merger reserve | (7,338) | (7,338) | (7,338) | (7,338) | (7,338) |
| Other reserve | (4) | 1,065 | 1,065 | 5,286 | 2,286 |
| **Equity attributable to owners of the Company** | **51,140** | **51,177** | **57,120** | **73,958** | **80,603** |
| Non-controlling interests | 697 | 2,391 | 2,123 | 2,058 | 2,113 |
| **Total equity** | **51,837** | **53,568** | **59,243** | **76,017** | **82,716** |
| **Total equity and liabilities** | **94,694** | **101,879** | **122,982** | **167,589** | **180,896** |

## Ratios

| | Fiscal Year Ended 30 June 2017 | 2018 | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| **Profitability (%)** | | | | | |
| Gross profit margin | 26.1% | 15.5% | 15.8% | 16.0% | 16.0% |
| Operating profit margin | 9.0% | -0.3% | 6.2% | 6.0% | 5.8% |
| Profit before tax margin | 8.4% | -1.0% | 5.3% | 5.3% | 5.2% |
| Profit after tax margin | 7.8% | 0.6% | 4.9% | 4.3% | 4.2% |
| | | | | | |
| **Liquidity (x)** | | | | | |
| Current ratio | 1.9 | 1.7 | 1.6 | 1.4 | 1.5 |
| Quick ratio | 1.9 | 1.7 | 1.6 | 1.4 | 1.5 |
| Interest coverage ratio | 15.2 | -0.4 | 7.2 | 8.4 | 9.4 |
| Net Debt to Equity | 12% | 28% | 52% | 37% | 32% |
| | | | | | |
| **Valuation (x)** | | | | | |
| P/S | 0.8 | 0.8 | 0.5 | 0.4 | 0.3 |
| P/E | 10.4 | 35.6 | 9.9 | 8.5 | 7.5 |
| P/E (ex-cash) | 8.1 | 112.0 | 8.6 | 6.2 | 5.3 |
| P/B | 1.3 | 1.3 | 1.1 | 0.9 | 0.8 |
| EV/EBITDA | 6.4 | 16.8 | 7.5 | 6.2 | 5.6 |
| | | | | | |
| **Cash Conversion Cycle** | | | | | |
| Trade receivable days | 94 | 112 | 132 | 101 | 101 |
| Inventory days | 2 | 3 | 4 | 4 | 4 |
| Trade payable days | 122 | 101 | 96 | 91 | 91 |
| CCC days | (27) | 13 | 40 | 14 | 14 |
| | | | | | |
| **Returns** | | | | | |
| Return on equity | 12.3% | 1.0% | 12.5% | 11.4% | 11.5% |
| Return on capital employed | 11.9% | -0.3% | 11.8% | 12.7% | 12.9% |
| Dividend payout ratio | 28.5% | 27.2% | 28.4% | 28.4% | 28.4% |

*Sources: Company Data, SAC Capital*

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| **Party** | **Quantum of position** |
|---|---|
| Nil | Nil |

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|---|---|
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(ii) The report was produced independently by him/her;

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