



IRIS Corporation Berhad

Distorted by Pre-operating Expenses

TP: RM0.205(+28.1%)

Last traded: RM0.16

BUY

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Review

- Iris' 9M13 net profit came in below expectation. The variance was largely due to lower-than-expected margin of Rimbunan Kaseh project and fewer new jobs secured for FY13.
- 9M13 PBT slipped 37.0% YoY to RM25.9mn despite a revenue growth of 4.7% during the period. The PBT margin contracted by 5%-pts to 7.4% mainly due to some pre-operating expenses incurred on Rimbunan Kaseh projects, while the recognition of revenue in certain sites is pending the letter of award from the relevant authority. Also, there was a drop in revenue from the digital solution business as the Tanzanian government postponed the launch of national ID project.
- Sequentially, 3Q13 PBT declined 64.7% to RM4.0mn due to those pre-operation expenses as mentioned above. Also, there was an increase in depreciation charges (part of COGS) following the completion of the power plant in Phuket. All these have contributed to lower PBT margin of 3.3% vs. 9.2% in 2QFY13.

Impact

- We reduce our FY13/14/15 earnings by 50.1%/34.0%/19.8% respectively after: 1) adjusting our gross margin assumptions to 15% and 20% for Rimbunan Kaseh and Sentuhan Kaseh projects; 2) a reduction in our new jobs assumptions to RM80mn from RM160mn previously.

Outlook

- Iris has secured approximately RM80mn new jobs from 2 Rimbunan Kaseh projects each in Pahang and Melaka and 1 Sentuhan Kasih project in Johor. The group is confident in securing additional Sentuhan Kasih projects in Terengganu in later part of FY13. However, we are conservatively pushing these jobs to early-FY14 due to the concern of General Election, which may slow down new job awards.
- As far as the litigation between Iris and Stamford College. We understand that the acquisitions of 51% stake in Stamford College PJ and Stamford College Malacca have been halted after the due diligence process. We believe the group may have identified certain liabilities, which were not supposed to be recorded under the balance sheets. Nevertheless, we like to stress the impact to Iris is immaterial as the acquisition would cost only RM2.5mn. Moreover, we believe the company may have a strong case against the misrepresentation after the due diligence process.

Share Information

Bloomberg Code	ICBMK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	1576.4
Market Cap (RMmn)	252.2
Par Value	0.15
52-wk Hi/Lo (RM)	0.195/0.16
12-mth Avg Daily Vol ('000 shrs)	4651.0
Estimated Free Float (%)	83.6
Beta	1.14
Major Shareholders (%)	
	Perbadanan Nasional Bhd -8.4
	Versatile Paper Boxes S/B - 8.02

Forecast Revision

	FY13	FY14
Forecast Revision (%)	(50.1)	(34.0)
Net profit (RMmn)	22.9	32.0
Consensus	-	-
TAs / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY13	FY14
Net Debt/Equity (%)	(1.7)	(3.9)
CFPS (sen)	4.8	1.2
Price/CFPS (x)	3.3	13.9
ROE (%)	5.5	7.3
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	0.9	0.8

SCORECARD

	% of FY	
vs TA	33.0	Below
vs Consensus	-	

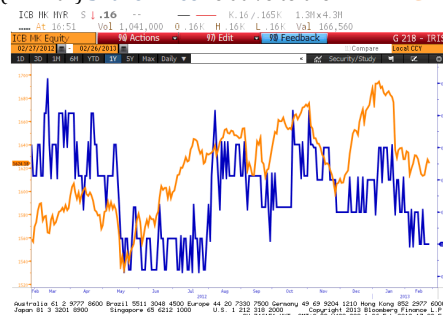
Share Performance (%)

Price Change	IRIS	FBM KLCI
1mth	(3.0)	(0.8)
3mth	(5.9)	1.6
6mth	(11.1)	(1.5)
12mth	(11.1)	4.2

Valuation

- Given the change in our earnings estimates, we cut our target price to RM0.205/share, based on 10x FY14 earnings. We continue to like Iris and believe the group is a strong contender for the ticketing solution system for LRT extensions as well as KVMRT project in Malaysia given its involvement in the ticketing system for Kelana Jaya Line and Ampang Line. Maintain **BUY**.

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary (RM'mn)

FYE March 31 (RMmn)	FY10#	FY12*	FY13F	FY14F	FY15F
Revenue	366.1	483.8	460.2	494.1	497.0
EBITDA	72.5	84.9	62.3	76.8	87.9
EBITDA margin (%)	19.8	17.5	13.5	15.6	17.7
Pretax profit	42.6	58.1	34.8	48.8	59.3
Net profit	28.0	43.7	22.9	32.0	38.9
Core net profit	28.0	43.7	22.9	32.0	38.9
EPS (sen)	1.8	2.8	1.5	2.0	2.5
Diluted EPS (sen)	1.8	2.4	1.2	1.7	2.1
EPS growth (%)	79.9	33.9	(47.6)	40.0	21.6
PER (x)	9.0	6.7	12.8	9.2	7.5
GDPS (sen)	0.5	0.5	0.5	0.5	0.5
Div yield (%)	2.8	2.8	3.1	3.1	3.1
Core ROE (%)	8.1	8.7	5.5	7.3	8.2

* comprising 15-month earnings from Jan-11 to March-12

ended December

3QFY13 Results Analysis (RMmn)

YE Mar	Oct-Dec/11	2Q13	3Q13	QoQ (%)	YoY (%)	9M12	9M13	YoY (%)
Revenue	135.4	124.5	122.8	(1.4)	(9.3)	334.1	349.8	4.7
EBITDA	17.1	15.8	10.0	(37.1)	(41.9)	53.8	40.0	(25.5)
Depr & Amor.	(1.2)	(1.2)	(1.2)	1.6	(0.1)	(3.7)	(3.7)	0.4
Interest Expenses	(2.9)	(3.1)	(3.9)	27.4	35.9	(8.3)	(9.5)	14.6
Associate	(0.3)	(0.1)	(0.8)	518.4	190.6	(0.8)	(1.0)	31.9
Pre-tax Profit	12.8	11.4	4.0	(64.7)	(68.4)	41.0	25.9	(37.0)
Tax Expenses	(1.7)	(4.9)	(2.1)	(57.3)	23.3	(11.3)	(10.2)	(10.3)
MI	0.8	(0.3)	(1.3)	324.3	(254.7)	1.2	(0.5)	(147.3)
Net Profit	11.9	6.2	0.6	(89.6)	(94.6)	30.9	15.2	(50.9)
EPS (sen)	0.8	0.4	0.0	(89.7)	(95.0)	2.1	1.0	(54.5)
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
EBITDA Margin (%)	12.7	12.7	8.1	(4.6)	(4.6)	16.1	11.4	(4.6)
Pre-tax Margin (%)	9.4	9.2	3.3	(5.9)	(6.1)	12.3	7.4	(4.9)
Net-Margin (%)	8.8	5.0	0.5	(4.4)	(8.3)	9.2	4.3	(4.9)
Effective tax rate (%)	13.3	43.1	52.1	9.0	38.7	27.6	39.3	11.7

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