

Wednesday, 28 August, 2013 FBMKLCI: 1,701.24

Sector: Manufacturing

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IRIS Corporation Berhad

Getting More Exciting

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TP: RM0.285(+50.0%)

Last traded: RM0.19

BUY

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Review

- IRIS Corporation's (IRIS) 1QFY14 earnings came in within expectation, accounting for 25% of our full-year estimates.
- IRIS achieved a commendable growth in profit of 29.9% QoQ to RM7.7mn as the Agro, Food and IBS segment recorded lower losses in this quarter (RM3.5mn loss in 1QFY14 vs. RM22.2mn loss in 4QFY13). This new segment is expected to turnaround in 2HFY14 as: 1) profit margin will normalize and less distorted by pre-operating expenses; and 2) the first crops harvest at the two Rimbunan Kasih sites is expected to begin from 2QFY14 onwards.
- On a YoY basis, the change in earnings (-7.9%) YoY is not meaningful due to additional contribution from new segments, ie: Agro, Food & IBS and Renewable Energy. Typically, the Agro, Food and IBS segment will require some gestation period to breakeven.

Impact

No change to our FY14-16 earnings projections.

Outlook

- Yesterday, IRIS has received the green light from South African President Jacob Zuma to set up the like of Rimbunan Kaseh project in South African. We are positive and believe this "smart village" project can take off the ground to improve the living standard of villagers in South Africa. However, until a formal contract given by the government, we will not factor in smart village jobs from South Africa into our model.
- YTD, IRIS secured the second Sentuhan Kaseh project located in Chini, Pahang from FELDA for RM40mn. In addition, it has also received a letter of award for building five blocks of staff quarters in the same location amounting to RM22.5mn in July-13. These projects will contribute to IRIS' FY14 earnings.
- As far as the proposed private placement exercise is concerned, we think
 this is a win-win strategy for IRIS and FELDA. We believe, by having
 FELDA to be IRIS' major customer-cum-shareholder, will ensure steady
 flow of contracts in the future.

Valuation

 Using a 3-year average CY14-16 EPS as a base and pegging an unchanged PE multiple of 12x, we maintain our target price of 28.5sen/share. Given the potential upside of 50%, we reiterate our **Buy** recommendation on IRIS.

Share Information	
Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	1576.4
Market Cap (RMmn)	299.5
Par Value	0.15
52-wk Hi/Lo (RM)	0.245/0.155
12-mth Avg Daily Vol ('000 shrs)	7700.0
Estimated Free Float (%)	83.6
Beta	0.91
Major Shareholders (%)	

Datuk Tan Say Jim - 11.0 Perbadanan Nasional Bhd - 8.4

Forecast Revision			
	FY14	FY15	
Forecast Revision (%)	0.0	0.0	
Net profit (RMm)	31.2	42.6	
Consensus	-	-	
TA's / Consensus (%)	-	-	
Previous Rating	Buy (Maintained)		

Financial Indicators		
	FY14	FY15
Net Debt/Equity (%)	27.8	26.2
CFPS (sen)	(1.5)	0.4
Price/CFPS (x)	(12.8)	45.2
ROE (%)	6.5	7.6
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	0.9	0.9

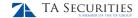
SCORECARD		
	% of FY	
vs TA	25.0	Within
vs Consensus	-	

Share Performance (%)		
Price Change	IRIS	FBM KLCI
1 mth	(7.3)	(5.9)
3 mth	(11.6)	(4.2)
6 mth	18.8	3.9
12 mth	5.6	3.3

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



Source: Bloomberg



Earnings Summary (RM'mn)

FYE March 31 (RMmn)	FY12*	FY13	FY14F	FY15F	FY16F
Revenue	483.8	537.1	629.9	735.5	811.7
EBITDA	84.9	71.7	116.5	133.7	142.4
EBITDA margin (%)	17.5	13.4	18.5	18.2	17.5
Pretax profit	58.1	34.0	68.5	88.5	107.7
Net profit	43.7	21.1	31.2	42.6	51.7
Core net profit	43.7	21.1	31.2	42.6	51.7
EPS (sen)	2.9	1.3	1.6	2.2	2.6
Diluted EPS (sen)	2.3	1.3	1.6	2.2	2.6
EPS growth (%)	17.6	(42.6)	18.6	36.4	21.5
PER (x)	8.2	14.2	12.0	8.8	7.2
GDPS (sen)	0.5	0.5	0.5	0.5	0.5
Div yield (%)	2.4	2.4	2.4	2.4	2.4
Core ROE (%)	9.3	5.1	6.5	7.6	8.7

10FV14 Recults Analysis (RMmn)

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

1QFY14 Results Analy	rsis (RMmn)							
YE Mar	1Q13	4Q13	1Q14	QoQ (%)	YoY (%)	3MFY13	3MFY14	YoY (%)
Revenue	102.5	187.3	133.9	(28.5)	30.7	102.5	133.9	30.7
EBITDA	14.3	14.2	16.0	13.1	12.3	14.3	16.0	12.3
Depr & Amor.	(1.2)	(2.6)	(1.7)	(33.9)	41.8	(1.2)	(1.7)	41.8
Interest Expenses	(2.5)	(3.8)	(5.5)	43.7	118.6	(2.5)	(5.5)	118.6
Associate	(0.1)	0.4	0.1	(74.9)	(171.1)	(0.1)	0.1	nm
Pre-tax Profit	10.4	8.2	9.0	9.7	(14.2)	10.4	9.0	(14.2)
Tax Expenses	(3.2)	(5.4)	(2.7)	(49.6)	(13.3)	(3.2)	(2.7)	(13.3)
MI	1.0	3.2	1.5	(54.1)	38.5	1.0	1.5	38.5
Net Profit	8.3	5.9	7.7	29.9	(7.9)	8.3	7.7	(7.9)
EPS (sen)	0.5	0.4	0.5	28.9	(7.5)	0.5	0.5	(7.5)
DPS (sen)	0.0	0.5	0.0	nm	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
EBITDA Margin (%)	13.9	7.6	12.0	4.4	(2.0)	13.9	12.0	(2.0)
Pre-tax Margin (%)	10.2	4.4	6.7	2.3	(3.5)	10.2	6.7	(3.5)
Net-Margin (%)	8.1	3.2	5.7	2.6	(2.4)	8.1	5.7	(2.4)
Effective tax rate (%)	30.2	66.4	30.5	(35.9)	0.3	30.2	30.5	0.3

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