



## IRIS Corporation Berhad

Strategic Acquisition of Versatile Creative

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**TP: RM0.285 (+18.8%)**

Green Last traded: RM0.24

**BUY**

### VGO to privatise Versatile Creative

IRIS Corporation (IRIS) has launched a conditional voluntary take-over offer (VGO) to acquire the remaining 75.1% share in Versatile Creative Berhad (VCB) not owned by IRIS and joint offerors Datuk Tan Say Jim and Dato' Lee Kwee Hiang. The offer price is fixed at RM0.50/share, which is at 8.7% premium to the last closing price of VCB on 20 September 2013 or 13.8% premium to the five-days VWAP of VCB ended 20 September 2013. The cash consideration for the 75.1% share in VCB works out to approximately RM41.6mn, to be funded via bank borrowings. Note that this acquisition is deemed as a related party transaction as Datuk Tan, the managing director of IRIS, and other directors of IRIS are also shareholders of VCB.

### Conditions of the VGO

The VGO is conditional upon the acceptance level which result in IRIS, in aggregate, holding more than 74.89% of the voting shares of VCB during the offer period. However, IRIS reserves the right to revise the acceptance condition to a lower acceptance level but not lower than 50% of the voting shares of VCB. Also, the VGO will require approvals from shareholders and lender of IRIS.

### Setting up a food distribution division

VCB is principally involved in i) manufacturing and trading of paper board packaging products, specializing in offset-printed boxed and offset-laminated cartons; ii) manufacturing and sale of plastic packaging products; iii) provision of colour separation and lithography services and printed materials. According to announcement, the rationale of the VGO is to facilitate IRIS' new business plan to set up a food distribution division to further process crops harvested from Rimbunan Kaseh (RK) and Sentuhan Kasih (SK) farms. This new division may also involved in distribution and marketing of processed food under a brand name.

### Strategic acquisition

We think this is a strategic acquisition that complements the group's agro & food division. Currently, IRIS has completed eleven farms, including 2 RK and 1 SK projects, nationwide. Each of this farm is expected to yield variety of foods (ie: fresh fruits, paddy, vegetables and fishes) worth RM5mn per year. Going forward, as we expect IRIS' agro & food division to grow strongly with the award of new SK sites from FELDA and RK sites from the government, contribution from this food distribution division is expected to be significant.

### Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	1576.4
Market Cap (RMmn)	378.3
Par Value	0.15
52-wk Hi/Lo (RM)	0.245/0.155
12-mth Avg Daily Vol ('000 shrs)	8124.0
Estimated Free Float (%)	83.6
Beta	0.97

### 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 (RMmn)	30.3	40.8
Consensus	-	-
TA's / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	

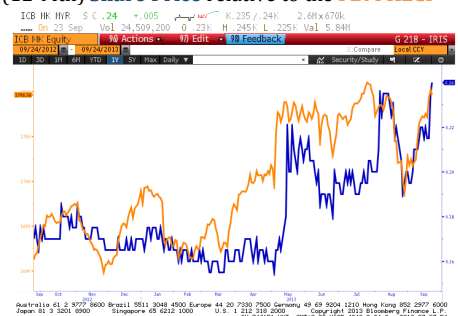
### Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	28.0	26.8
CFPS (sen)	(1.5)	0.3
Price/CFPS (x)	(15.6)	73.3
ROE (%)	6.3	7.3
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	1.2	1.1

### Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	14.3	4.4
3 mth	29.7	3.3
6 mth	45.5	10.4
12 mth	41.2	11.4

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



Source: Bloomberg

### Financial performance of VCB

VCB registered losses of RM6.2mn and RM1.0mn in FY11 and 6MFY13 respectively. It recorded a net profit of RM2.1mn in FY12 due to write backs of certain provisions no longer required as well as deferred tax write back. Apparently, VCB has weak earnings prospect but this is expected to change if IRIS were to utilize the company's spare capacity in packaging following the completion of the VGO.

Based on VCB's FY12 audited net asset per share and NTA per share of RM0.56 and RM0.43, the acquisition P/B and P/NTA work out to 0.9x and 1.15x respectively, which we think is fair for a company to set up a manufacturing plant and to acquire a management team.

### Forecast

No change to our FY14-16 earnings projections, pending the completion of VGO. Note that the acquisition will have a minimal impact on the group's net gearing, which is expected to increase to 0.28x from 0.27x. Meanwhile, the contribution from VCB to IRIS is expected to be insignificant in the near run until IRIS secures more RK and SK projects.

### Valuation

We maintain our target price at RM28.5sen/share based on 12x average CY14-16 EPS to reflect the potential long term benefit when FELDA emerges as the single largest shareholder. Maintain **Buy**.

### 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	67.2	85.9	106.4
Net profit	43.7	21.1	30.3	40.8	50.9
Core net profit	43.7	21.1	30.3	40.8	50.9
EPS (sen)	2.9	1.3	1.5	2.1	2.6
Diluted EPS (sen)	2.3	1.3	1.5	2.1	2.6
EPS growth (%)	17.6	(42.6)	15.1	34.6	24.8
PER (x)	10.3	18.0	15.6	11.6	9.3
GDPS (sen)	0.5	0.5	0.5	0.5	0.5
Div yield (%)	1.9	1.9	1.9	1.9	1.9
Core ROE (%)	9.3	5.1	6.3	7.3	8.6

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

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