



IRIS Corporation Berhad

No Major Surprise

TP: RM0.34(+23.6%)

Last traded: RM0.275

BUY

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Tan Kam Meng, CFA

+603-2167-9605 ext:9605

kmtan@ta.com.my

www.taonline.com.my

Review

- IRIS Corporation's (IRIS) 1HFY14 earnings came in within our expectation at 46% of our full-year estimates.
- 1HFY14 net profit increased by 3.2% yoy to RM15mn, underpinned by higher delivery of e-IDs in Tanzania and maiden contribution from the waste-to-energy incinerator plant in Phuket. This was more than offset losses of RM11.5mn reported in the new division, ie: sustainable development, agro and food technology and IBS division, which has yet to achieve the critical mass.
- Interest expense increased by a significant 76% to RM9.8mn for 6MFY14. This was due to additional borrowings for the funding of the incinerator plant in Phuket as well as a newly set up food waste-to-fertilizer plant in Weinan, China. As at Sep-13, IRIS' net gearing increased to 0.64x from 0.32x a year ago. Overall, we are neutral on this as the energy and fertilizer plants are cash-generating now. Moreover, the company will receive approximately RM110mn from the placement of share to Federal Land Development (FELDA).

Impact

- We fine-tune our FY14-16 earnings lower by 0.5-3.9% to account for higher borrowings in association with the acquisition of Versatile Creative. We also consolidate Versatile Creative's estimated 4Q13 earnings into our forecast.

Outlook

- There have been major changes to IRIS' shareholder list in which FELDA had emerged as a single largest shareholder of IRIS in Oct-13. Recently, FELDA has increased its grip in IRIS further by acquiring 132mn shares in IRIS from Perbadanan Nasional Bhd in an off-market deal, paying as much as 26sen/share. This has boosted FELDA's stake in IRIS to 26.7%.
- YTD, IRIS secured new contracts worth RM872mn including ePasspost and associated services in Republic of Guinea (RM793mn) and two Sentuhan Kasih (SK) projects awarded by FELDA. We understand from management that the group is actively negotiating with the government and FELDA for the implement Rimbunan Kaseh (RK) and SK projects at 7 other different sites.
- In the case of general offer (GO) to takeover Versatile Creative, IRIS and joint offerors had collectively owned more than 74.89% stake in Versatile Creative on 25 November 2013, making the GO unconditional. IRIS has extended the offer period to 13 December 2013. We now factor in the success acquisition of Versatile Creative into our earnings forecast. We expect Versatile Creative to generate RM2mn operating profit in 2014-2015.

Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	1970.5
Market Cap (RMmn)	541.9
Par Value	0.15
52-wk Hi/Lo (RM)	0.29/0.155
12-mth Avg Daily Vol ('000 shrs)	9783.0
Estimated Free Float (%)	62.3
Beta	1.02
Major Shareholders (%)	
	FELDA - 26.7
	Datuk Tan Say Jim - 11.0

Forecast Revision

	FY14	FY15
Forecast Revision (%)	(3.9)	(3.4)
Net profit (RMmn)	31.4	54.5
Consensus	-	-
TA's / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	45.7	37.7
CFPS (sen)	(5.8)	1.9
Price/CFPS (x)	nm	14.4
ROE (%)	6.4	9.2
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	1.3	1.2

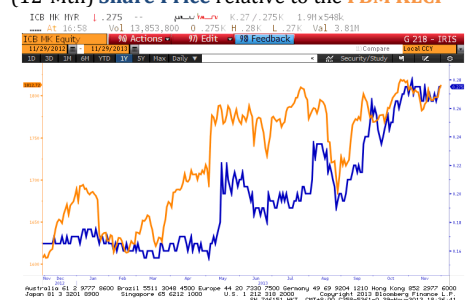
SCORECARD

	% of FY	
vs TA	46.0	Within
vs Consensus	-	

Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	0.0	0.1
3 mth	41.0	5.5
6 mth	31.0	2.5
12 mth	66.7	12.5

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



Source: Bloomberg

- Note that the acquisition of Versatile Creative is strategic play to complement IRIS' agro & food business as the former is involved in food packaging and processing business. Note that IRIS has completed eleven farms, including 2 RK and 1 SK projects, nationwide and each of this farm is expected to yield variety of foods (ie: fresh fruits, paddy, vegetables and fishes) worth RM5mn per year. As such, with the acquisition of Versatile Creative, the group can further process raw foods and label its under a new brand name to market to overseas for better return.

Valuation

- Using a 3-year average CY14-16 EPS as a base and pegging an unchanged PE multiple of 12x, we revise our target price to RM0.34/share (from RM0.345/share). Given the potential upside of 23.6%, we reiterate our **Buy** recommendation on IRIS.

Earnings Summary (RM'mn)

FYE March 31 (RMmn)	FY12*	FY13	FY14F	FY15F	FY16F
Revenue	483.8	537.1	739.9	933.4	972.9
EBITDA	84.9	71.7	120.7	167.6	175.0
EBITDA margin (%)	17.5	13.4	16.3	18.0	18.0
Pretax profit	58.1	34.0	69.1	107.9	131.0
Net profit	43.7	21.1	31.4	54.5	66.7
Core net profit	43.7	21.1	31.4	54.5	66.7
EPS (sen)	2.9	1.3	1.6	2.8	3.4
Diluted EPS (sen)	2.3	1.3	1.6	2.8	3.4
EPS growth (%)	17.6	(42.6)	19.4	73.5	22.4
PER (x)	11.8	20.6	17.2	9.9	8.1
GDPS (sen)	0.5	0.5	0.5	0.5	0.5
Div yield (%)	1.6	1.6	1.6	1.6	1.6
Core ROE (%)	9.3	5.1	6.4	9.2	10.3

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

2QFY14 Results Analysis (RMmn)

YE Mar	2Q13	1Q14	2Q14	QoQ (%)	YoY (%)	6MFY13	6MFY14	YoY (%)
Revenue	124.5	133.9	131.4	(1.9)	5.5	227.0	133.9	(41.0)
EBITDA	15.8	16.0	15.3	(4.5)	(3.2)	30.1	16.0	(46.7)
Depr & Amor.	(1.2)	(1.7)	(1.6)	(8.2)	28.1	(2.4)	(1.7)	(29.7)
Interest Expenses	(3.1)	(5.5)	(4.3)	(20.4)	41.9	(5.6)	(5.5)	(1.8)
Associate	(0.1)	0.1	0.2	125.0	(272.8)	(0.3)	0.1	nm
Pre-tax Profit	11.4	9.0	9.6	7.2	(15.7)	21.8	9.0	(59.0)
Tax Expenses	(4.9)	(2.7)	(3.1)	12.2	(37.6)	(8.1)	(2.7)	(66.1)
MI	(0.3)	1.5	0.8	(47.1)	(352.6)	0.7	1.5	95.0
Net Profit	6.2	7.7	7.3	(4.8)	18.2	14.5	7.7	(47.1)
EPS (sen)	0.4	0.5	0.5	(6.1)	17.9	0.9	0.5	(46.7)
DPS (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
				%-pts	%-pts			%-pts
EBITDA Margin (%)	12.7	12.0	11.7	(0.3)	(1.0)	13.3	12.0	(1.3)
Pre-tax Margin (%)	9.2	6.7	7.3	0.6	(1.8)	9.6	6.7	(2.9)
Net-Margin (%)	5.0	5.7	5.6	(0.2)	0.6	6.4	5.7	(0.7)
Effective tax rate (%)	43.1	30.5	31.9	1.4	(11.2)	36.9	30.5	(6.4)

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

This report has been prepared by TA SECURITIES HOLDINGS BERHAD for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and will be compensated to undertake the scheme. TA SECURITIES HOLDINGS BERHAD has produced this report independent of any influence from the CBRS or the subject company.

For more information about CBRS and other research reports, please visit Bursa Malaysia's website at:
<http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>

for TA SECURITIES HOLDINGS BERHAD(14948-M)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)
 Kaladher Govindan – Head of Research