



IRIS Corporation Berhad

Embarking on Nautilus City Eco Resort Development

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TP: RM0.65 (+18.2%)

Last traded: RM0.55

BUY

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ILSB obtains 30.0% stake in PPRL

IRIS Land Sdn Bhd (ILSB) entered into an agreement with UK Investment Holdings Limited to acquire a 30% stake in Palau Peleliu Resorts Limited (PPRL) for US\$2.0mn (RM6.6mn). Under the agreement, ILSB will have all development rights to develop a land known as Orange Beach (75ha) and Bosoa Land (21ha) situated in Palau District.

Nautilus City: Eco Resort

Nicknamed Nautilus City, the land will be used to develop a resort and villas utilising the IRIS KOTO IBS. Marketed as a diving destination, the development will potentially be targeted to visiting tourists (of which there were 119k in 2012). Further details are currently unavailable as the project is still under its planning stages. The project will be financed by ILSB through shareholder's loan to PPRL, which will subsequently be repaid from future profits.

Figure 1 : Nautilus City



Source: Companies, TA Securities

Small Price to Pay

Similar to the Solomon Island announcement a month ago, IRIS is acquiring the opportunity at a relatively inexpensive price. The acquisition values the land cost at approximately RM2.13/sq.ft. Once again, we believe the stakes were sold at a discount due to the group's development expertise and capital. Additionally, utilisation of the IRIS KOTO IBS will serve to provide time and cost savings. However, we do caution about the potential take up rate by locals. Palau houses a small population of 21k individuals with a low GDP per capita of US\$10.5k. Nevertheless, taking into account the potential gains from the project, we believe the entry cost is definitely a small price to pay.

Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	1970.5
Market Cap (RMmn)	1083.8
Par Value	0.15
52-wk Hi/Lo (RM)	0.55/0.155
12-mth Avg Daily Vol ('000 shrs)	18117.5
Estimated Free Float (%)	55.2
Beta	0.91

Major Shareholders (%)

FELDA - 26.7
Datuk Tan Say Jim - 11.0

Forecast Revision

	FY14	FY15
Forecast Revision (%)	-	-
Net profit (RMm)	31.4	60.6
Consensus	na	na
TA's / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	45.7	53.9
CFPS (sen)	(5.8)	(3.3)
Price/CFPS (x)	nm	nm
ROE (%)	6.4	10.1
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	2.6	2.3

Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	39.2	1.3
3 mth	100.0	0.8
6 mth	175.0	5.8
12 mth	243.8	11.6

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



Source: Bloomberg

Impact

We leave our estimates unchanged pending more guidance from management but positive about the company's strategy in diversifying its earnings base by fully engaging its KOTO IBS expertise.

Recommendation

This marks the third project of a similar kind undertaken by IRIS (Papa New Guinea, Solomon Island and Palau Island). While we do note the risks involved, we opine these projects may provide significant potential upsides in the future. Also, given previous successes under Rimbunan Kaseh and Sentuhan Kasih, we are confident IRIS possess the necessary capabilities to execute these opportunities. Capturing this underlying potential, we upgrade our target PE to 18x from 15x. Hence, we further raise our TP for IRIS to RM0.65/share from RM0.55/share previously. This is based on a PE of 18x against CY15 earnings of 3.6sen. Maintain BUY on IRIS.

Financial Statements

Profit and Loss (RM'mn)	2012*	2013	2014F	2015F	2016F
Revenue	483.8	537.1	724.9	1038.4	1101.9
COGS	(343.2)	(430.8)	(522.0)	(747.6)	(793.3)
Gross profit	140.6	106.3	203.0	290.7	308.5
EBITDA	84.9	71.7	120.7	179.6	199.9
Depreciation	(12.6)	(23.8)	(33.0)	(41.1)	(42.9)
EBIT	72.2	47.9	87.7	138.6	157.0
Finance cost	(14.1)	(13.3)	(18.0)	(21.1)	(13.0)
Associate	(2.2)	(0.7)	(0.7)	(0.7)	(0.7)
EI	0.0	0.0	0.0	0.0	0.0
PBT	58.1	34.0	69.1	116.8	143.3
Adj PBT	58.1	34.0	69.1	116.8	143.3
Tax	(17.2)	(15.6)	(19.3)	(36.4)	(48.7)
MI	2.8	2.6	(18.3)	(19.7)	(19.7)
Net profit	43.7	21.1	31.4	60.6	74.9
Adj net profit	43.7	21.1	31.4	60.6	74.9
EPS (sen)	2.9	1.1	1.6	3.1	3.8
DPS (sen)	0.5	0.5	0.5	0.5	0.5

Cash Flow (RM'mn)	2012*	2013	2014F	2015F	2016F
PBT	58.1	34.0	69.1	116.8	143.3
Non- cash item	16.4	21.9	33.0	41.1	42.9
Chg in working capital	21.7	(44.6)	(163.5)	(137.8)	(42.0)
Tax	(22.5)	(16.5)	(19.3)	(36.4)	(48.7)
Others	36.9	22.6	0.7	0.7	0.7
CFO	110.6	17.4	(80.2)	(15.7)	96.1
Capex	(15.3)	(120.4)	(35.0)	(50.0)	(50.0)
Others	(1.4)	20.7	0.0	0.0	0.0
CFI	(16.7)	(99.7)	(35.0)	(50.0)	(50.0)
Net Addition/Rpmt	(27.9)	57.1	1.6	70.0	(50.0)
Dividend Paid	(7.1)	(8.9)	(8.9)	(8.9)	(8.9)
Others	18.3	0.2	102.0	0.0	0.0
CFF	(16.7)	48.5	94.7	61.1	(58.9)

Key Assumptions (RM'mn)	2012	2013	2014F	2015F	2016F
New contract secured					
---> Digital solution	210	207	900	180	180
---> Rimbunan Kaseh	-	46	46	69	69
---> Sentuhan Kasih	-	40	200	240	240
---> Felda 20k housing req	-	0	0	75	75

Balance Sheet (RM'mn)	2012	2013	2014F	2015F	2016F
Fixed Assets	117.1	162.4	202.4	211.3	218.4
Intangibles	135.4	141.5	155.1	155.1	155.1
Others	60.8	201.7	223.8	223.1	222.5
LT Assets	313.3	505.5	581.3	589.5	596.0
Inventories	57.4	94.6	149.3	204.8	220.4
Trade & other receivables	277.2	333.9	472.6	569.0	603.8
Cash & Cash equivalent	88.8	58.9	39.7	35.1	22.4
Others	49.8	99.1	101.7	101.7	101.7
ST Assets	473.2	586.4	763.3	910.6	948.2
Total Assets	786.6	1092.0	1344.6	1500.2	1544.2
Trade and other payables	33.5	42.2	72.1	86.2	94.5
ST Borrowings	73.5	169.9	195.3	180.3	155.3
Others	188.9	305.9	305.9	305.9	305.9
ST Liabilities	295.9	518.0	573.3	572.4	555.7
LT Borrowings	75.7	102.8	106.0	191.0	166.0
Others	13.2	13.9	17.6	17.6	17.6
LT Liabilities	89.0	116.8	123.6	208.6	183.6
MI	(1.0)	41.1	75.4	95.1	114.8
Share Cap	236.3	236.5	295.6	295.6	295.6
Reserves	166.4	179.6	276.7	328.5	394.5
Shareholder's Funds	402.7	416.1	572.3	624.1	690.1
Liabilities + Equities	786.6	1092.0	1344.6	1500.2	1544.2

Ratios	2012#	2013	2014F	2015F	2016F
EPS Growth (%)	17.6	>100	49.2	92.9	23.5
PER (x)	23.6	51.5	34.5	17.9	14.5
Div Yield (%)	0.8	0.8	0.8	0.8	0.8
Net cash (RMm)	(60.4)	(213.9)	(261.6)	(336.2)	(298.9)
Net gearing (x)	0.2	0.5	0.5	0.5	0.4
ROE (%)	9.3	5.1	6.4	10.1	11.4
ROA (%)	4.8	2.2	2.6	4.3	4.9
NTA (RM)	0.17	0.17	0.21	0.24	0.27
P/NTA (x)	3.2	3.2	2.6	2.3	2.0
EV/EBITDA (x)	10.9	15.1	11.2	7.9	6.9

* 15 months contribution
Based on annualised 12-month earnings

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