



## IRIS Corporation Berhad

### Extraction Rights for Timber

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**TP: RM0.675** (+39.2%)

Last traded: RM0.485

**BUY**

#### JV Between ICB and Alvery

IRIS Corporation Berhad (ICB) had entered into a Joint Venture Agreement with Alvery Resources Limited for the development of 100k ha of land in Papa New Guinea. The JV company between ICB and Alvery will have an ownership split of 35:65 respectively. Investment cost for the project is USD22.0mn (RM71.2mn, USD1 = 3.24).

#### Extraction Rights for Timber

Upon incorporation, the JV company will acquire the titles to the land from Alvery and procure relevant approvals including extraction rights over all timbers. Extraction rights will subsequently be transferred to ICB or its subsidiary exclusively. In exchange, ICB shall pay a royalty to MVMCL and Alvery from the sales of timber. Alternatively, ICB will be entitled to sell the extraction rights to third parties to recover its investment cost. We deem this a possible arrangement due to potential capital needs in carrying out various projects in its pipeline.

#### Changes to Earnings

We leave our estimates unchanged at this juncture as we seek clarity on details such as type of wood planted, output per hectare and structure of royalty payments.

#### Recommendation

Maintain our TP for IRIS at RM0.675/share. This is based on a PER of 20x against CY15 EPS of 3.4sen. Overall, we are Neutral on the announcement. The deal may potentially provide the group with an alternative source of income. However, based on the number of outstanding projects, the company may be susceptible to execution risks. While the company has just announced a private placement to raise proceeds of RM100.5mn, we do not discount possibilities of further bank borrowings given the latest cash balance of RM29.5mn. Proper planning of timing and costs of each project will be important in managing cash flow needs. We maintain our BUY recommendation on IRIS. Key buying/selling points for IRIS include: 1) Ability to provide solutions to key global concerns such as poverty, pollution, food safety, employment and education; 2) Presence in 25 countries leading to favourable relationships with key government officials; 3) Synergies from FELDA being its single largest shareholder and 4) Inability to carry out opportunities presented.

#### Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	2040.2
Market Cap (RMmn)	989.5
Par Value	0.15
52-wk Hi/Lo (RM)	0.63/0.155
12-mth Avg Daily Vol ('000 shrs)	23405.3
Estimated Free Float (%)	56.7
Beta	0.9

#### Major Shareholders (%)

FELDA - 25.8
Datuk Tan Say Jim - 8.8

#### Forecast Revision

	FY14	FY15
Forecast Revision (%)	-	-
Net profit (RMm)	27.8	62.4
Consensus	-	-
TA's / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	

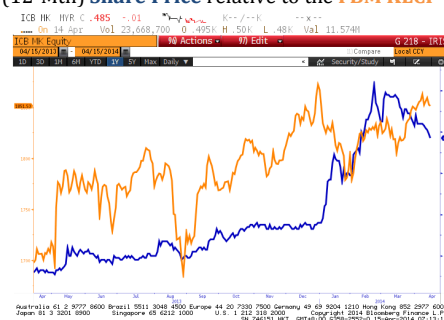
#### Financial Indicators

	FY14	FY15
Net Debt/Equity (%)	46.6	33.0
CFPS (sen)	(6.0)	(3.0)
Price/CFPS (x)	nm	nm
ROE (%)	5.7	9.7
NTA/Share (RM)	0.2	0.3
Price/NTA (x)	2.3	1.9

#### Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	(5.8)	0.1
3 mth	22.8	2.6
6 mth	79.6	2.5
12 mth	203.1	7.8

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



Source: Bloomberg

## 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	115.7	179.6	199.9
Depreciation	(12.6)	(23.8)	(33.0)	(41.1)	(42.9)
EBIT	72.2	47.9	82.7	138.6	157.0
Finance cost	(14.1)	(13.3)	(18.0)	(18.6)	(10.2)
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	64.1	119.3	146.1
Adj PBT	58.1	34.0	64.1	119.3	146.1
Tax	(17.2)	(15.6)	(17.9)	(37.2)	(49.7)
MI	2.8	2.6	(18.3)	(19.7)	(19.7)
Net profit	43.7	21.1	27.8	62.4	76.7
Adj net profit	43.7	21.1	27.8	62.4	76.7
EPS (sen)	2.9	1.1	1.4	2.9	3.5
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	64.1	119.3	146.1
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)	(17.9)	(37.2)	(49.7)
Others	36.9	22.6	0.7	0.7	0.7
CFO	110.6	17.4	(83.8)	(14.0)	98.0

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	(10.0)	(50.0)
Dividend Paid	(7.1)	(8.9)	(8.9)	(9.8)	(9.8)
Others	18.3	0.2	102.0	100.5	0.0
CFF	(16.7)	48.5	94.7	80.7	(59.8)

Key Assumptions (RM'mn)	2012	2013	2014F	2015F	2016F
<b>New contract secured</b>					
---> 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
<b>LT Assets</b>	<b>313.3</b>	<b>505.5</b>	<b>581.3</b>	<b>589.5</b>	<b>596.0</b>
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	36.1	52.9	41.1
Others	49.8	99.1	101.7	101.7	101.7
<b>ST Assets</b>	<b>473.2</b>	<b>586.4</b>	<b>759.7</b>	<b>928.4</b>	<b>966.9</b>
<b>Total Assets</b>	<b>786.6</b>	<b>1092.0</b>	<b>1341.0</b>	<b>1517.9</b>	<b>1562.9</b>
Trade and other payables	33.5	42.2	72.1	86.2	94.5
ST Borrowings	73.5	169.9	195.3	140.3	115.3
Others	188.9	305.9	305.9	305.9	305.9
<b>ST Liabilities</b>	<b>295.9</b>	<b>518.0</b>	<b>573.3</b>	<b>532.4</b>	<b>515.7</b>
LT Borrowings	75.7	102.8	106.0	151.0	126.0
Others	13.2	13.9	17.6	17.6	17.6
<b>LT Liabilities</b>	<b>89.0</b>	<b>116.8</b>	<b>123.6</b>	<b>168.6</b>	<b>143.6</b>
MI	(1.0)	41.1	75.4	95.1	114.8
Share Cap	236.3	236.5	295.6	325.1	325.1
Reserves	166.4	179.6	273.1	396.7	463.6
<b>Shareholder's Funds</b>	<b>402.7</b>	<b>416.1</b>	<b>568.7</b>	<b>721.8</b>	<b>788.8</b>
<b>Liabilities + Equities</b>	<b>786.6</b>	<b>1092.0</b>	<b>1341.0</b>	<b>1517.9</b>	<b>1562.9</b>

Ratios	2012#	2013	2014F	2015F	2016F
EPS Growth (%)	17.6	>100	32.1	103.7	23.0
PER (x)	20.8	45.4	34.3	16.9	13.7
Div Yield (%)	0.9	0.9	0.9	0.9	0.9
Net cash (RMm)	(60.4)	(213.9)	(265.2)	(238.4)	(200.2)
Net gearing (x)	0.2	0.5	0.5	0.3	0.3
ROE (%)	9.3	5.1	5.7	9.7	10.2
ROA (%)	4.8	2.2	2.3	4.4	5.0
NTA (RM)	0.17	0.17	0.21	0.26	0.29
P/NTA (x)	2.9	2.8	2.3	1.9	1.7
EV/EBITDA (x)	9.7	13.6	10.6	7.2	6.3

\* 15 months contribution  
# Based on annualised 12-month earnings

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