



IRIS Corporation Berhad

Mining and Exploration Permit

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Mining and Exploration Permit on Diatomite

IRIS Corporation Berhad had entered into a shareholders agreement with two groups, represented by Burleigh Nominees Limited to form a joint venture company known as Plaman Resources Limited (PRL). Burleigh Nominees represents Helaint Pty Ltd ATF Manolas Group Family Trust (GMT) and Asini Investment Corporation Pty ATF Plakidis Group Family Trust (PPT).

Table 1 : Shareholding Structure of PRL

No	Shareholders	Percentage (%)	Amount of Issues Shares
1	IRIS Corporation Berhad	70	700
2	PPT	15	150
3	GMT	15	150
		100	1,000

Source: Companies, TA Securities

The objective of PRL is to acquire assets, comprising a mining permit on an area with 6.0mn tonnes reserves and an exploration permit with probable reserves of 50.0mn tonnes of diatomite. The deposits are located in Central Otego region of New Zealand. Total investment cost for the project is AUD13.0mn (RM39.2mn), of which AUD4.8mn (RM14.5mn) will be utilised for acquisition of the assets.

Diatomite as Fertiliser and Soil Conditioner

Diatomite is the fossilised remains of up to 100,000 different varieties of microscopic water-born algae known as diatoms, impregnated with silica. The deposits being acquired contains primarily of freshwater Black Diatomite, which is suitable for agricultural use as fertiliser and soil conditioner. In Malaysia, the diatomite can be applied to oil palm plantations and for rice and sugar cultivation.

At the current market price for diatomite of around USD200 to USD300 per tonne, the deposit could potential result in sales of between USD840mn (RM2.7bn) to US1.3bn (RM4.1bn). Assuming successful exploration of a further 50mn tonnes, this figure could potential rise by an additional USD7.0bn (RM22.8bn) and USD10.5bn (RM34.2bn). We believe the diatomite will likely be marketed to FELDA's related companies engaged in oil palm plantations.

Changes to Earnings Estimates

We make no changes to our earnings estimates for the moment. As previously mentioned, we will incorporate this into an update report following our prior meeting with management.

TP: RM0.675 (+64.6%)

Last traded: RM0.41

UNDER REVIEW

Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	2040.2
Market Cap (RMm)	836.5
Par Value	0.15
52-wk Hi/Lo (RM)	0.63/0.16
12-mth Avg Daily Vol ('000 shrs)	24532.9
Estimated Free Float (%)	56.7
Beta	0.87

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)	2.0	1.6

Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	(10.9)	(0.6)
3 mth	(21.9)	1.4
6 mth	49.1	2.6
12 mth	95.2	5.2

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



Source: Bloomberg

Recommendation

We maintain our TP at RM0.675/share. This is based on a PER ratio of 20x against CY15 EPS of 3.6sen. We are on overall Neutral on the venture. As a potential market for the diatomite, the company can leverage on its close relationship with FELDA, being its largest shareholder. However, there lie concerns over execution risks due to the vast number of projects ventured into. Maintain our Under Review recommendation on IRIS pending a company update report to be released in the near future. 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.

Financial Statements

<i>Profit and Loss (RM'mn)</i>	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

<i>Cash Flow (RM'mn)</i>	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)

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

<i>Balance Sheet (RM'mn)</i>	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	36.1	52.9	41.1
Others	49.8	99.1	101.7	101.7	101.7
ST Assets	473.2	586.4	759.7	928.4	966.9
Total Assets	786.6	1092.0	1341.0	1517.9	1562.9
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
ST Liabilities	295.9	518.0	573.3	532.4	515.7
LT Borrowings	75.7	102.8	106.0	151.0	126.0
Others	13.2	13.9	17.6	17.6	17.6
LT Liabilities	89.0	116.8	123.6	168.6	143.6
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
Shareholder's Funds	402.7	416.1	568.7	721.8	788.8
Liabilities + Equities	786.6	1092.0	1341.0	1517.9	1562.9

<i>Ratios</i>	2012#	2013	2014F	2015F	2016F
EPS Growth (%)	17.6	>100	32.1	103.7	23.0
PER (x)	17.6	38.4	29.0	14.3	11.6
Div Yield (%)	1.1	1.1	1.1	1.1	1.1
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)	2.4	2.4	2.0	1.6	1.4
EV/EBITDA (x)	8.3	12.0	9.3	6.3	5.4

* 15 months contribution

Based on annualised 12-month earnings

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