



IRIS Corporation Berhad

Looking Better

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TP: RM0.36 (+10.8%)

Last traded: RM0.325

HOLD

Paul Yap

Tel: +603-21 67 9603

paul yap@ta.com.my

www.taonline.com.my

Review

- IRIS posted 9MFY15 core net profit of RM13.0mn (+74.3% QoQ, -36.2% YoY) – within our expectations at 61.3%. Building on recent momentum, we expect a stronger fourth quarter ahead.
- Year-to-date, by divisions, the trusted identification & payment and transportation division (-31.3% YoY) suffered from a slowdown in work activity. Stalls in Tanzania were caused by debt collection issues, while concerns over the Ebola epidemic delayed work progress in the Republic of Guinea.
- In the sustainable development, agro and food & industrial building division, segmental losses narrowed to RM15.6mn (vs. RM19.6mn in the previous year). Improvements were credited to recent contract awards for Rimbunan Kaseh (RK) and Sentuhan Kasih (SK) projects. For the year, it had secured a total of five RK and SK projects.
- For its environment & renewable energy segment (-160.7% YoY), operations were disrupted by upgrading works for its waste incineration power plant in Phuket. At the same time, it incurred a loss of RM7.6mn from the disposal of its waste-to-energy incineration plant.
- Sequentially, core performance improved against the previous quarter. Anchored by recent project awards, losses in the sustainable development, agro and food & industrial building division declined to RM0.5mn vs. RM5.9mn in the last quarter. The quarter also included a one-off loss totalling RM7.6mn, relating to the disposal of its waste-to-energy incineration plant located in Bangkok, Thailand. Due to a lack of waste supply, operations in the plant have been inactive for the past two years.

Impact

- As we take into account the disposal of its waste-to-energy incineration plant, increase our earnings estimates for FY15/FY16/FY17 by 0.5%/1.4%/1.1% to RM21.3mn/RM44.7mn/RM59.5mn.

Outlook

- Overall performance has been let down by losses due to a lack of scale in RK and SK projects. This was attributed to a slow award of projects by both the state government and FELDA. However, recent showings displayed narrowing losses from the segment. For the year, the group has secured a combination of five RK and SK projects. This should contribute positively as it looks to turnaround the segment.
- The soft launch of Gerehu Heights was met with positive responses as 50 houses were sold out within two days. Sold in phases over the next 1.5 years, the township will have a total of 300 housing units. Potential GDV is estimated at RM300mn with gross margin of between 20-30%. Positive contributions are expected in FY16.

Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	2,040.2
Market Cap (RMmn)	663.1
Par Value	0.15
52-wk Hi/Lo (RM)	0.615/0.22
12-mth Avg Daily Vol ('000 shrs)	17,980.2
Estimated Free Float (%)	46.8
Beta	0.8

Major Shareholders (%)

FELDA	- 25.8
Datuk Tan Say Jim	- 7.1

Forecast Revision

	FY15	FY16
Forecast Revision (%)	0.5	1.4
Net profit (RMm)	21.3	44.7
Consensus	na	na
TA's / Consensus (%)	-	-
Previous Rating	Hold (Unchanged)	

Financial Indicators

	FY15	FY16
Net Debt/Equity (%)	29.4	28.1
CFPS (sen)	3.5	1.8
Price/CFPS (x)	9.2	18.5
ROE (%)	3.6	7.0
NTA/Share (RM)	0.3	0.3
Price/NTA (x)	1.1	1.1

Scorecard

	% of FY	
vs TA (%)	61.3	Within
vs Consensus (%)	na	na

Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	(4.4)	1.9
3 mth	3.2	(0.3)
6 mth	(15.6)	(2.7)
12 mth	(38.1)	(1.1)

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



Source: Bloomberg

- Also, expect a ramp up in production for its food waste to fertiliser plant in China. Currently, incurring losses, it operates at only one third of its capacity. It recently received a permit from the local government to secure waste from other regions in the area. The move will allow the plant to achieve the scale necessary to generate positive contributions.

Valuation

- Increase our TP to RM0.36/share from RM0.35/share previously. This is based on a unchanged PER of 20x and CY15 EPS of 1.8sen. Continue to expect an improved performance ahead based on: 1) Resumption of works in Tanzania and Republic of Guinea; 2) Improved contract flow for RK & SK projects; 3) Completion of upgrading works for waste incineration power plant in Phuket; 4) Ramp up of production in its food waste to fertiliser plant in China and 5) Contributions from its Gerehu Heights project. Remain **HOLD** on the stock.

Table 1: Earnings Summary (RMmn)

FYE March 31	FY13	FY14	FY15F	FY16F	FY17F
Revenue	537.1	573.2	656.9	796.5	866.5
EBITDA	67.7	87.5	77.9	123.4	142.4
EBITDA margin (%)	12.6	15.3	11.9	15.5	16.4
PBT	34.0	35.1	25.8	74.7	95.2
Net profit	21.1	23.3	13.7	44.7	59.5
Core net profit	21.1	23.3	21.3	44.7	59.5
Diluted EPS (sen)	1.0	1.1	1.0	2.1	2.7
EPS Growth (%)	-51.8	10.6	-8.7	110.0	33.3
PER (x)	33.4	30.3	33.1	15.8	11.8
GDPS (sen)	0.5	0.0	0.5	0.5	0.5
Div yield (%)	1.4	0.0	1.4	1.4	1.4
ROE (%)	5.1	4.8	3.6	7.0	8.8

Table 2: 9MFY15 Results Analysis (RMmn)

FYE March 31	3QFY14	2QFY15	3QFY15	QoQ	YoY	YTD FY14	YTD FY15	YoY
Revenue	149.5	157.5	141.8	-10.0	-5.2	414.8	426.5	2.8
EBITDA	26.0	21.4	22.3	4.2	-14.3	68.6	55.6	-18.9
Depreciation & Amortisation	-10.3	-8.2	-6.4	-21.9	-38.3	-24.6	-21.8	-11.5
EBIT	15.6	13.2	15.9	20.4	1.5	44.0	33.9	-23.1
Net finance cost	-5.4	-5.5	-6.2	12.1	14.2	-15.2	-18.5	21.8
EI	0.0	0.0	-7.6	na	na	0.0	-7.6	na
PBT	10.2	7.7	2.1	-72.5	-79.4	28.8	7.7	-73.2
Adj PBT	10.2	7.7	9.7	26.3	-5.2	28.8	15.3	-46.8
Tax	-3.8	-3.3	-0.8	-77.3	-80.2	-9.6	-5.5	-43.5
MI	-1.0	1.4	1.0	-28.4	-202.2	1.3	3.2	149.6
Net profit	5.4	5.7	2.3	-59.2	-57.4	20.4	5.5	-73.3
Core net profit	5.4	5.7	9.9	74.3	82.0	20.4	13.0	-36.2
				%-pts	%-pts			%-pts
EBITDA margin (%)	17.4	13.6	15.7	2.1	-1.7	16.5	13.0	-3.5
EBIT margin (%)	10.5	8.4	11.2	2.8	0.7	10.6	7.9	-2.7
PBT margin (%)	6.8	4.9	1.5	-3.4	-5.4	6.9	3.6	-3.4
Tax rate (%)	-37.5	-43.6	-36.0	7.6	1.5	-33.5	-35.6	-2.1
Net profit margin (%)	3.6	3.6	7.0	3.4	3.3	4.9	3.1	-1.9

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for TA SECURITIES HOLDINGS BERHAD^(14948-M)
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Kaladher Govindan – Head of Research