RESULTS UPDATE

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TA SECURITIES
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FBMKLCI: 1,747.52
Sector: Technology

IRIS Corporation Berhad

Aiming for a Better FY16

TP: RM0.30 *(+13.2%)*

Last traded: RM0.265

HOLD

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Review

- IRIS reported FY15 core net losses of RM13.0mn – below our core net profit expectations of RM21.3mn.
- For the full year, segmental results for the trusted identification & payment and transportation division slipped 40.7% YoY to RM62.9mn. For large periods of the financial year, work activity stalled on debt collection issues in Tanzania and fears over the Ebola epidemic in the Republic of Guinea. Also, the division was dragged down by pre-operating costs for the Bangladesh MRP Passport Outsourcing Project – revenue will only be generated in the next financial year.
- Encouragingly, losses narrowed in its sustainable development, agro and food & industrial building division. Excluding impairments, we estimate segmental losses decreased to RM24.1mn vs. RM35.0mn in the previous year. This was aided by an increase in "Rimbunan Kasih" and "Sentuhan Kasih" contracts awarded, as well as the initiation of cost reduction and capital budgeting measures.
- Its environment and renewable energy segment recorded a loss of RM5.8mn. This was mainly attributed to a loss of RM7.6mn from the disposal of its waste-to-energy incineration plant. Apart from that, there were disruptions to its waste incineration power plant in Phuket, due to upgrading works.
- Sequentially, the reported losses of RM26.0mn were mainly attributed to 1) Pre-operating costs for the Bangladesh MRP Passport Outsourcing Project; and 2) Impairment loss incurred in Agro Division and its associate, Versatile Creative Berhad. Together, this totalled to approximately RM30.0mn. Excluding this figure, we estimate the group would have made a quarterly net profit of RM4.0mn.

Impact

- Following delays in its Gerehu Heights project, we assume number of houses sold of 90/100/100 for FY16/FY17/FY18. Revise our FY16/FY17 forecast downwards by -26.7%/-13.1% to RM32.7mn/RM51.7mn. Also, introduce our FY18 net profit forecast of RM50.9mn.

Outlook

- Performance in the trusted identification & payment and transportation division is expected to fare better in the coming financial year. This is premised on resolved issues in the Tanzania and the Republic of Guinea, coupled with revenue generated from the Bangladesh MRP Passport Outsourcing Project. Also, we expect to see maiden contributions from its partnership with Global Blue to act as the approved refund agent for GST paid by foreign tourists.

Share Information	
Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	2,040.3
Market Cap (RMmn)	540.7
Par Value	0.15
52-wk Hi/Lo (RM)	0.465/0.22
12-mth Avg Daily Vol ('000 shrs)	13,406.3
Estimated Free Float (%)	47.5
Beta	0.8
Major Shareholders (%)	
	FELDA - 25.3
	Datuk Tan Say Jim - 5.5
	Versatile Paper Boxes Sdn Bhd - 5.0

Forecast Revision	FY16	FY17
Forecast Revision (%)	(26.7)	(13.1)
Net profit (RMm)	32.7	51.7
Consensus	n/a	n/a
TA's / Consensus (%)	-	-
Previous Rating	Hold (Unchanged)	

Financial Indicators	FY16	FY17
Net Debt/Equity (%)	0.5	0.4
CFPS (sen)	2.4	3.1
Price/CFPS (x)	10.9	8.5
ROE (%)	5.4	7.7
NTA/Share (RM)	0.3	0.3
Price/NTA (x)	0.9	0.8

Scorecard	% of FY	
vs TA (%)	n/a	Below
vs Consensus (%)	n/a	n/a

Share Performance (%)		
Price Change	**IRIS**	**FBM KLCI**
1 mth	0.0	0.0
3 mth	(14.5)	(4.5)
6 mth	6.0	(0.8)
12 mth	(36.1)	(7.2)

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

Source: Bloomberg

- Gerehu Heights is the group's maiden foray into PNG. Under the property development project, 300 housing units will be sold over the next 1.5 years. Potential GDV is estimates at RM300mn with gross margins of between 20-30%. Its initial soft launch was well received with 50 houses sold within two days.

Valuation

- Decrease our TP to RM0.30/share from RM0.36/share previously. This is based on a lower PE of 14x and CY16 EPS of 2.2sen. Our lower PE is to take into account of potential delays in its project. Maintain our **HOLD** recommendation on the stock.

Table 1: Earnings Summary (RMmn)

FYE March 31	FY14	FY15	FY16F	FY17F	FY18F
Revenue	573.2	564.5	756.5	836.5	856.5
EBITDA	87.5	58.9	119.8	143.7	146.2
EBITDA margin (%)	15.3	10.4	15.8	17.2	17.1
PBT	35.1	-17.0	63.1	89.7	88.6
Net profit	23.3	-20.6	32.7	51.7	50.9
Core net profit	23.3	-13.0	32.7	51.7	50.9
Diluted EPS (sen)	1.1	-0.6	1.5	2.4	2.3
EPS Growth (%)	10.6	-155.9	-351.8	57.9	-1.6
PER (x)	24.7	-44.2	17.5	11.1	11.3
GDPS (sen)	0.0	0.0	0.5	0.5	0.5
Div yield (%)	0.0	0.0	1.7	1.7	1.7
ROE (%)	4.8	-2.3	5.4	7.7	7.1

Table 2: FY15 Results Analysis (RMmn)

FYE March 31	4QFY14	3QFY15	4QFY15	QoQ	YoY	FY14	FY15	YoY
Revenue	158.4	141.8	138.0	-2.7	-12.9	573.2	564.5	-1.5
EBITDA	17.5	22.3	-8.5	>-100	>-100	87.5	47.2	-46.1
Depreciation & Amortisation	-4.8	-6.4	-8.8	37.4	81.0	-31.6	-30.5	-3.3
EBIT	12.7	15.9	-17.2	>-100	>-100	55.9	16.6	-70.3
Net finance cost	-6.4	-6.2	-7.5	21.8	17.3	-20.8	-26.1	25.4
EI	0.0	-7.6	0.0	-100.0	n/a	0.0	-7.6	n/a
PBT	6.3	2.1	-24.8	>-100	>-100	35.1	-17.0	>-100
Adj PBT	6.3	9.7	-24.8	>-100	>-100	35.1	-9.5	>-100
Tax	-6.8	-0.8	-0.8	7.4	-88.0	-16.5	-6.3	-61.9
MI	0.8	1.0	-0.5	>-100	>-100	4.7	2.7	-41.7
Net profit	0.3	2.3	-26.0	>-100	>-100	23.3	-20.6	>-100
Core net profit	0.3	9.9	-26.0	>-100	>-100	23.3	-13.0	>-100
EBITDA margin (%)	11.1	15.7	-6.1	-21.8	-17.2	15.3	8.4	-6.9
EBIT margin (%)	8.0	11.2	-12.5	-23.7	-20.5	9.7	2.9	-6.8
PBT margin (%)	4.0	1.5	-18.0	-19.4	-21.9	6.1	-1.7	-7.8
Tax rate (%)	-108.3	-36.0	3.3	39.3	>100	-46.9	66.3	113.2
Net profit margin (%)	0.2	7.0	-18.9	-25.9	-19.1	4.1	-2.3	-6.4