



IRIS Corporation Berhad

Turning Things Around

TP: RM0.30 (+9.1%)

Last traded: RM0.275

HOLD

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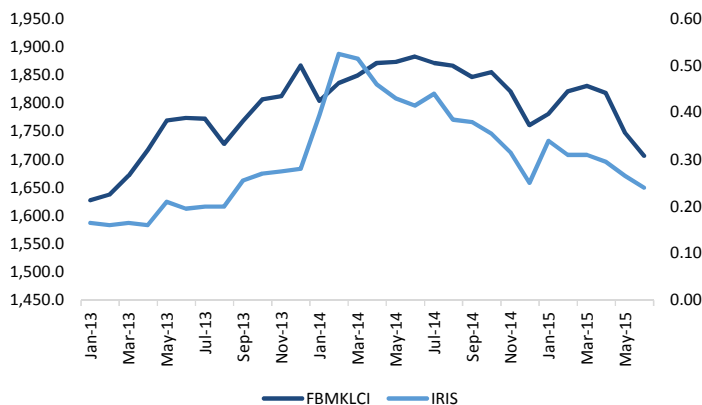
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Year to Forget

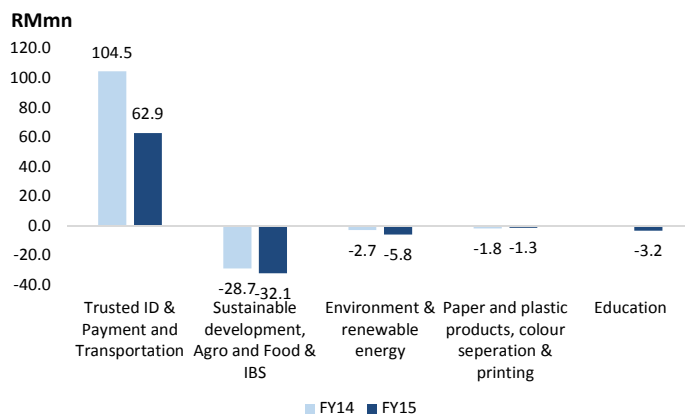
Suffering a dismal performance, few investors would reflect fondly over events in the last financial year. Over the past year, the company's share price has retracted 39.6% from its 52 weeks high of RM0.455. The group experienced its first loss in more than ten years – with the last net loss occurring in 2004. A decline in results were witnessed across the board, most notably in its Trusted ID & Payment and Transportation division (Revenue: -13.2% YoY, EBIT: -39.8% YoY). A fall was attributed to: 1) Payment collection issues in Tanzania, 2) Stall in work activities in the Republic of Guinea, and 3) Pre-operating costs in relation to its Bangladesh MRP Passport Outsourcing Project.

Figure 1 : Share Price Performance



Source: Bloomberg

Figure 2 : Segment Results



Source: Companies, TA Securities

Share Information

Bloomberg Code	ICB MK
Stock Code	0010
Listing	ACE Market
Share Cap (mn)	2040.3
Market Cap (RMmn)	561.1
Par Value	0.15
52-wk Hi/Lo (RM)	0.455/0.22
12-mth Avg Daily Vol ('000 shrs)	12157.3
Estimated Free Float (%)	47.5
Beta	0.79

Major Shareholders (%)

FELDA	- 25.3
Datuk Tan Say Jim	- 5.5
Versatile Paper Boxes Sdn Bhd	- 5.0

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(2.7)	(0.9)
Net profit (RMm)	31.9	51.7
Consensus	na	na
TA's / Consensus (%)	-	-
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY16	FY17
Net Debt/Equity (%)	58.8	56.0
CFPS (sen)	0.8	1.2
Price/CFPS (x)	33.4	22.7
ROE (%)	5.1	7.5
NTA/Share (RM)	0.2	0.2
Price/NTA (x)	1.2	1.1

Share Performance (%)

Price Change	IRIS	FBM KLCI
1 mth	14.6	1.0
3 mth	(6.8)	(5.2)
6 mth	(19.1)	(3.2)
12 mth	(37.5)	(7.9)

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



Source: Bloomberg

Turning Around

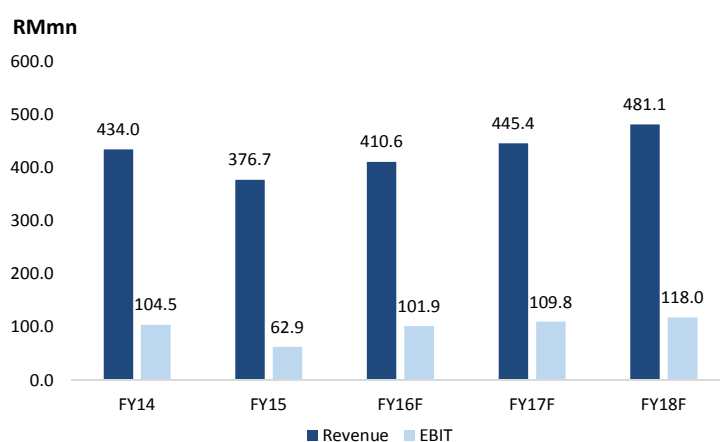
Unsurprisingly, management will be determined to change existing fortunes in the coming financial year. To achieve this, multiple projects are lined up, which will help boost earnings if it follows through. Listed below are key events that will be vital in achieving future targets:

Factor 1: Recovery in Trusted ID & Payment and Transportation Division

Being its bread and butter, no recovery can be accomplished without a better showing from its Trusted ID segment. The division is the largest contributor to revenue at 66.7% in FY15. A better performance will be dependent on the resumption of works in Tanzania and the Republic of Guinea. Payment issues in Tanzania has been resolved. Also, the number of Ebola cases have died down in recent weeks, providing employees with a peace of mind. Recognising pre-operating costs in the last quarter, the Bangladesh MRP Passport Outsourcing Project should further contribute positively to revenue in the coming financial year. Alone, the three projects are forecasted to contribute total revenue of RM117.7mn in FY16 (vs. RM56.5mn in FY15).

Investors can also look forward to contributions from its partnership with Global Blue to act as the approved agent for GST refund services to foreign tourists. Starting off, the group expects to recognise revenue of RM15.2mn from the project. This figure is expected to gradually ramp up to RM50.0mn towards its 4th or 5th years of operations. Assuming margins of 20%, the project is estimated to add RM1.5mn to the group's FY16 bottom line (at 51% share). Together, we are forecasting a rebound in the Trusted ID & Payment and Transportation division, captured by a 9.0% YoY increase in revenue and a 61.9% YoY increase in segment contributions.

Figure 3 : Trusted ID Performance



Source: Companies, TA Securities

Factor 2: Gerehu Heights

A potential dark horse to bottom line will be its Gerehu Heights project. Perhaps providing a glimpse to its future property development forays, much attention will be paid on the success of the said project. Recall, plans are to create a new township in Gerehu comprising of 300 units of houses – fetching an estimated GDV of RM300mn. Previous delays to the project were caused by financing issues. Its financier, Maybank, announced its exit from Papua New Guinea in May 2015. That said, things are back on track as it expects to secure financing within the next month. The first phase of the project, comprising of 50 houses, were sold out within two days in May 2014. It will take 12 to 18 months for the completion of the whole project. Based on this timeline, maiden contributions are expected to kick in between the 2QFY16 and 3QFY16. Assuming smooth implementation, it could possibly result in an additional revenue of RM116.7mn and RM183.3mn in FY16 and FY17. Tagging it to margins of 20%, potential net profit for FY16 and FY17 are RM17.5mn and RM27.5mn (based on 75% share).

Figure 4 : Gerehu Heights – Show House

Source: Companies, TA Securities

Factor 3: Phuket Power Plant

Through its 51% owned Thai subsidiary, PJT Technology, it operates a Municipal Solid Waste Incineration Power Plant in Phuket, Thailand. The plant consists of two lines of incinerators, capable of incinerating 700 tonnes of municipal solid waste per day. Upgrade works for its Phuket Power Plant has been completed in May 2015. The plant is now capable of producing 8.5MW of electricity. With four years remaining, it will receive a subsidized rate of THB7.32 per kilowatt hour (peak) and THB5.52 per kilowatt hour (non-peak) for electricity generated. This, we assume will translate into revenue and net profit of RM50.0mn and RM7.7mn (based on its 51% share).

Figure 5 : Phuket Municipal Solid Waste Incineration Power Plant

Source: Companies, TA Securities

Challenges Within

All said, the coming financial year will not be without its challenges. The largest threat to earnings is its Rimbunan Kaseh (RK) and Sentuhan Kasih (SK) programme. In FY15, its Sustainable Development, Agro and Food & IBS division recorded a widening segmental loss of RM32.1mn from RM28.7mn in FY14. Among issues related to the segment are the low number of contract awards. On average, a combination of at least four RK and SK projects is required to breakeven.

Apart from that, losses were also incurred in managing the farm. Recall, for RK projects, the company is required to provide farm management expertise for five years after completion of the project. During this time, salaries are paid to the villagers in exchange for the farm's produce. Likewise, for SK, although it does not need to employ FELDA settlers, it has to provide consultancy services and purchase produces from the farm. One of the issues faced with the arrangement is a lack of commitment from villagers – resulting in lower than expected yields. As a result, income received is not sufficient to offset costs incurred.

To turnaround the segment, management have enacted a few measures that will help relieve pressures. First of all, coupled with ongoing works, it is expecting two new contract awards for the next financial year. Construction time for these projects will be stretched across two to three quarters from the Letter of Award to better control costs. It is also in talks with relevant parties to revise certain terms which may prove favourable in the long run.

Although we are positive on these measures, we opine that it will be a challenging task for management to turn operations around. By year end, the number of farms under operation will likely increase to 9 (from 3 currently). This may then lead to further burdens on its results. In total, for the sustainable development, agro and food & IBS division, we are projecting an improved revenue and net profit of RM219.9mn and RM3.2mn for FY16.

Estimates

We made the following changes to our estimates:

- 1) Lowered initial contributions from GST project to RM15.2mn in FY16, followed by a gradual ramp up in the following years.
- 2) Revised capacity for Phuket Power Plant upwards to 8.5MW, after taking into account upgrading works.

As a result, we tweak our FY15/FY16/FY17 results by -2.7%/-0.9%/+0.2% to RM31.9mn/RM51.7mn/RM50.9mn respectively.

Recommendation

Leave our TP unchanged for IRIS at RM0.30/share. This is based on an unchanged PE of 14x and CY16 EPS of 2.1sen. While prospects appear brighter in its trusted ID segment, we remain concerned about challenges for its RK and SK projects. As a positive, it is expected to recognise maiden contributions from its Gerehu Heights project and the completion of upgrading works in its power plant in Phuket. Maintain our **HOLD** recommendation on the stock.

P&L					
YE Mar 31 (RMmn)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	573.2	564.5	674.4	843.9	658.8
EBITDA	87.5	48.8	121.6	156.9	143.9
Depreciation & amortisation	-31.6	-30.5	-31.8	-32.0	-32.2
Net finance cost	-20.8	-23.2	-27.0	-27.7	-24.2
Associates	0.0	-4.5	-1.3	-1.1	-0.9
EI	0.0	-7.6	0.0	0.0	0.0
PBT	35.1	-17.0	61.4	96.1	86.7
Adj PBT	35.1	-9.5	61.4	96.1	86.7
Taxation	-16.5	-6.3	-18.4	-28.8	-26.0
MI	4.7	2.7	-11.1	-16.0	-9.7
Net profit	23.3	-20.6	31.9	51.2	51.0
Core net profit	23.3	-13.0	31.9	51.2	51.0
EPS (sen)	1.1	-0.6	1.5	2.4	2.4
DPS (sen)	0.0	0.0	0.5	0.5	0.5

Ratios					
YE Mar 31 (RMmn)	FY14	FY15	FY16F	FY17F	FY18F
Valuations					
PER	25.6	-45.8	18.7	11.6	11.7
Dividend yield	0.0	0.0	1.6	1.6	1.6
PBV	1.0	1.0	0.9	0.8	0.8
Profitability ratios					
ROAE	4.4	-2.2	5.1	7.5	6.9
ROAA	1.9	-1.0	2.3	3.4	3.4
EBITDA margin	15.3	8.6	18.0	18.6	21.8
PBT margin	6.1	-3.0	9.1	11.4	13.2
Liquidity ratios					
Current ratio	1.2	1.3	1.3	1.4	1.5
Quick ratio	1.0	1.1	1.2	1.2	1.3
Leverage ratios					
Total liabilities/equity	1.2	1.2	1.2	1.2	0.9
Net debt/equity	0.5	0.7	0.6	0.6	0.4
Int. coverage ratio	2.6	0.7	3.1	4.2	4.2
Growth ratios					
Sales	6.7	-1.5	19.5	25.1	-21.9
Pretax	3.1	-126.9	-749.7	56.5	-9.8
Earnings	10.6	-155.9	-344.9	60.8	-0.5
Total assets	19.7	2.5	8.5	9.7	-9.5

Balance Sheet					
YE Mar 31 (RMmn)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	408.6	378.5	380.7	382.2	383.0
Associates + Subsidiaries	7.6	21.4	20.1	19.0	18.1
Goodwill	140.7	169.9	169.9	169.9	169.9
Others	29.4	52.3	48.3	44.8	41.7
LT assets	586.4	622.0	618.9	615.8	612.7
Inventories	101.9	85.5	101.2	126.6	98.8
Trade receivables	430.2	382.7	472.1	590.7	461.2
Cash	81.7	63.4	75.8	75.9	84.2
Others	106.4	185.9	185.9	185.9	185.9
Current assets	720.2	717.5	834.9	979.2	830.1
Total assets	1,306.6	1,339.5	1,453.9	1,595.0	1,442.8
Trade payables	289.8	231.4	278.2	348.1	271.8
ST borrowings	307.3	317.5	347.6	357.1	268.4
Others	9.5	9.5	9.5	9.5	9.5
Current liabilities	606.6	558.4	635.3	714.8	549.7
LT borrowings	76.0	167.0	152.2	156.3	118.2
Others	16.8	13.9	13.9	13.9	13.9
LT liabilities	92.9	180.9	166.1	170.2	132.2
Share capital	306.0	306.0	325.1	325.1	325.1
Reserves	244.1	260.1	282.2	323.7	364.9
Shareholders' funds	550.1	566.2	607.3	648.8	690.1
MI	57.0	34.1	45.2	61.2	70.9
Total liabilities and equity	1,306.6	1,339.5	1,453.9	1,595.0	1,442.8

Cash Flow					
YE Mar 31 (RMmn)	FY14	FY15	FY16F	FY17F	FY18F
PBT	35.1	-17.0	61.4	96.1	86.7
Depreciation and amortisation	31.6	30.5	31.8	32.0	32.2
Net interest	20.8	23.2	27.0	27.7	24.2
Other non-cash	8.3	12.8	1.3	1.1	0.9
Changes in WC	-134.4	-48.5	-58.3	-74.2	81.0
Net interest	-20.8	-23.2	-27.0	-27.7	-24.2
Tax paid & others	-13.9	-17.8	-18.4	-28.8	-26.0
Operational cash flow	-73.3	-40.1	17.9	26.2	174.7
Capex	-30.9	-14.4	-30.0	-30.0	-30.0
Others	-63.0	-51.3	0.0	0.0	0.0
Investing cash flow	-93.9	-65.7	-30.0	-30.0	-30.0
Net share issue	138.2	0.0	19.1	0.0	0.0
Dividend paid	-8.9	0.0	-9.8	-9.8	-9.8
Net change in debts	56.7	100.6	15.2	13.7	-126.7
Others	23.7	-13.1	0.0	0.0	0.0
Financial cash flow	209.7	87.5	24.5	3.9	-136.5
Net cash flow	42.5	-18.3	12.4	0.1	8.3
Opening cash flow	37.2	81.7	63.4	75.8	75.9
Forex	2.0	0.0	0.0	0.0	0.0
Closing cash flow	81.7	63.4	75.8	75.9	84.2

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