

Ireka is asset-light with steady earnings

IREKA Corp Bhd's asset-light balance sheet and steady earnings will provide investors with relatively good and sustainable dividends, said Asia Analytica in a company update report.

In April 2008, the company has officially set out its dividend policy — at 40% of net profits.

The research house expect Ireka to declare a gross 10 sen dividend for financial year ended Mac 08, which translates into a gross yield of 11.4%.

For FY09-10, Asia Analytica expect net dividends of 6 sen and 7.5 sen respectively — with high net dividend yields of 6.8% and 8.5% respectively.

► IREKA CORP BHD				
	2007	2008	2009E	2010E
TURNOVER (RM mil)	186.6	330.6	366.0	370.7
NET PROFIT (RM mil)	(30.9)	157.6	17.9	21.6
EPS (sen)	(27.1)	138.3	15.7	19.0
ROE (%)	33.6	65.4	7.1	8.2

On earnings forecast, Asia Analytica said it expect Ireka to post net profit of RM17.9 million, or 15.7 sen per share in FY2009, and RM21.6 million, or 19 sen per share, in FY2010.

At 88 sen, the research house said Ireka's shares are trading at a price earnings (PE) multiple of just 5.6 times for FY09 and 4.6 times for

FY10 earnings, and at just 0.4 times net tangible assets (NTA).

In FY March 2008, Ireka posted net profit of RM157.6 million, or RM1.38 per share, boosted by exceptional gains totaling RM175.8 million from the disposal of properties to its 19.6% owned London-listed property fund arm, Aseana Properties Ltd

(ASPL).

Excluding exceptional gains, pre-tax losses fell from RM60.4 million in FY07 to RM18 million in FY08.

Construction losses have since ceased with the completion of external projects, said Asia Analytica. It said the recent steep rise in steel and building material costs will affect margins going forward

— but the construction arm should still be profitable.

The research house said it had factored in construction margins of 4.5% in its forecasts.

Meanwhile, Asia Analytica said with the recent plunge in ASPL's share price to US\$0.63 (RM2.04), its estimation of Ireka's underlying restated net asset value (RNAV) has fallen to RM1.77 per share.

"Even if we impute a further discount to RNAV of 20%, the stock's medium term fair value is RM1.42 — far higher than the current price of 88 sen. We maintain our buy recommendation," said the research house.

Asia Analytica said it is important to note that ASPL's

share price fall will not affect Ireka's underlying net tangible assets (NTA) valuation — which stands at a substantial RM2.12 per share in March 2008.

It noped that ASPL's current share price is presently undervalued relative to NAV and RNAV.

At current prices, it said the 19.6% stake in ASPL is currently worth RM101.9 million — more than Ireka's market capitalisation of RM100 million. This means Ireka's other assets — namely the construction arm and stream of management fees are accorded no value at all by the market, added Asia Analytica.

"Ireka is a property and construction player with a different business model.