

# Ireka's new business model paying off

| BY FONG MIN HUN |

Ireka Corp Bhd's radical transformation from traditional property developer to turnkey property development management appears to be paying off, judging from the consistent flow of positive, albeit modest, earnings numbers.

In its last earnings report for 1QFY10 ended June 30, Ireka registered net profit of RM3.47 million on the back of RM85.6 million in revenue. Net profit was up 17% from RM2.96 million y-o-y, while revenue hit 36.18%, which is respectable, given the difficult operating environment.

With earnings growth for construction and property companies coming in as a mixed bag this last reporting season, Ireka, which has core businesses in both sectors, surprised analysts with its performance.

"Ireka was the surprise this last season as its performance came in above the market's — and my — expectations," says a Kenanga property analyst. "The better performance is largely due to its improved operations as well as cheaper building material costs."

She says Ireka's new business model, which "plays off" projects secured from Aseana Properties Ltd, a UK-listed property investment company, has so far proven to be a smart decision as it exploits Ireka's expertise in property development as well as construction. The move, she adds, has secured Ireka's income stream and lightened its balance sheet to the extent that it is now able to focus on its core businesses of development and construction.

Ireka owns a 23% stake in Aseana. Other major shareholders include Credit Suisse Securities (27%) and Legacy Essence Ltd (18%). Aseana's focus is on property development in Malaysia and Vietnam.

About three years ago, when Ireka was still a property developer, it found its bal-



The primary income stream for Ireka is from Westin Kuala Lumpur, its flagship development



PICTURES: IREKA

**Lai: We decided to pursue an asset-light strategy to strengthen Ireka financially for future growth**

ance sheet weighed down by a hefty loan taken to finance the development of Westin hotel as well as other projects.

Ireka's executive director Lai Voon Hon, who is also CEO of its property development vehicle Ireka Development Management Sdn Bhd (IDM), says in an emailed reply that its high gearing level was a result of the Asian financial crisis.

"Just like many other construction and property players in the market, Ireka was affected by the crisis in the late 1990s, just as we were embarking on our flagship project, Westin Kuala Lumpur," he says.

"After the Asian economic crisis and a comprehensive review of Ireka's property development business model, we decided to pursue an asset-light strategy to strengthen Ireka financially for future growth."

The property developer, analysts say, found it difficult to manoeuvre and take on new projects because of its high gearing, which stood at four times shareholders' equity as at end-FY2006. Ireka's total borrowings, prior to the business transformation, stood at RM563.13 million, compared with total shareholders' equity of RM140.43 million.

Ireka, as at end-March FY2007, had been a loss-making concern for the past three years. Although revenue from its primary income stream — Westin Kuala Lumpur — had been growing, it wasn't growing fast enough to outpace debt-financing costs.

"The lessons we have learnt during the Asian crisis have taught us that conservative leverage and steadfastness are the way to go in the property and construction industry," says Lai. "In being steadfast, Ireka has never failed nor abandoned any projects it has embarked on."

Rather than tough out the consequences of too much leverage, Ireka decided to adopt the new model. It injected its property assets — wholly-owned Ireka Land Sdn Bhd and 60%-owned ICSD Ventures Sdn Bhd — into Aseana.

In return, Ireka was appointed as Aseana's exclusive project development manager, and will be paid management and performance fees. Its management fee is set at 2% of Aseana's net asset value (NAV), while performance charges will be based on NAV growth.

CONTINUES ON PAGE 61

# Seeking projects outside Aseana

FROM PAGE 16

The relationship has also benefited Ireka's construction arm, Ireka Construction Bhd, which analysts say has a first right to match contracts awarded by IDM.

"With both property development and construction under the same group, Ireka is able to 'play off' one company against the other and understand the strengths of each," says an analyst. "I don't doubt that the awarding of the contracts is done objectively and transparently."

Lai says Ireka also seeks other projects outside of Aseana for its order book, which now stands at RM1.14 billion, of which RM650 million is unrealised.

"Following the completion of a major condominium project in Mont'Kiara, developed by private developer Binaderas and CapitaLand, Ireka's order book currently consists of only Aseana's projects. We, however, are tendering a number of up-market residential and Grade A commercial projects outside the realm of Aseana," he says.

"Since we have a good track record of completing high-quality projects at competitive prices compared to foreign or local construction companies, we are confident that our order book will be further replenished, going forward," says Lai.

Although Ireka's income stream is fairly secure through its tie-up with Aseana, the prospects of the company will largely depend on the performance of the latter, which has been suffering losses owing to the current operating environment.

Aseana posted a net loss of US\$1.67 million (RM6 million) in its most recent financial period ended June 30.

Aseana's expansion into Vietnam is also ongoing, although it is delayed owing to the current economic conditions. Lai, who is a director on Aseana's board, says the company has spent the last few years laying the foundation for the expansion.

"Aseana is fully committed to expanding its presence in Vietnam. We are confident that Vietnam will remain a high growth market post the global financial crisis," says Lai.

"All the positive economic fundamentals which had attracted many foreign investors to Vietnam in the past remain intact and will be the foundation for future growth once the global economy recovers."

At present, Aseana has two proposed projects in Vietnam — the International Hi-Tech Healthcare Park and Queen's Palace, a mixed commercial and residential project.

Lai says Ireka expects lower collection of fees from Aseana in view of the economic downturn. ■



## LETTERS TO THE EDITOR

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### Ireka clarifies

We would like to clarify certain points which appeared in the article "Ireka's new business model paying off" (Issue 771, Sept 7).

1. Credit Suisse Securities does not own 27% of Aseana. According to Aseana's shareholder's list, Credit Suisse Securities owns only 0.07%
2. The caption of The Westin KL picture gives the impression that Ireka still owns the hotel (443 rooms), and that it is the "primary income stream" for Ireka. Please note that Ireka disposed of The Westin Kuala Lumpur at a record price of approximately RM1 million per room, to an international investment company in early 2007.
3. Ireka's construction arm is Ireka Engineering & Construction Sdn Bhd, and not Ireka Construction Bhd as reported

4. Ireka's construction arm does not have the first right of refusal to construct IDM/Aseana's development projects. Instead, IDM, as Aseana's exclusive development manager, has the "first right" to manage Aseana's projects.
5. Lai Voon Hon is not a director of Aseana, he is the president/CEO of Ireka Development Management SB, which is Aseana's exclusive development manager.

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**Editor's note:** The information on Credit Suisse Securities' interest in Ireka and Lai Voon Hoon's directorship was obtained from Bloomberg.