

Ireka morphing with the times

Strategy will change moving forward, says management

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KUALA LUMPUR: Ireka Corporation Bhd is looking to step out in a big way after a three-year self-imposed exile on its construction business.

The company, which is primarily involved in the construction business, has not been aggressively pursuing projects outside of the so-called "in-house" projects, but the management has indicated that its strategy will change moving forward.

Starting out as an earth moving specialist back in the 60s, Ireka has since diversified into construction, property development, hospitality and information technology (IT). Its core businesses, however, are in the first two.

Last month, Ireka told reporters after its 33rd AGM that it had pre-qualified for RM2.5 billion worth of construction projects and was eyeing to participate in some of the government projects expected to crop up soon.

Ireka has reined in its bidding practices the last several years to focus primarily on projects offered by Aseana Properties Ltd, which is a London-listed property development company.

This was partly due to the volatility of raw material prices and general uncertainty in the market. However, this is changing after the management determined that volatility has subsided. Building materials have stabilised, and the property markets have also shown signs of a turnaround.

Now would be the ideal time to lock in some of the cheaper prices for future projects, say analysts. Noting that, Ireka has said it will be leaving its comfort zone.

Its business structure is unique in Malaysia because it is a "land-bank-less" property developer.

In 2007, Ireka injected all its property assets into Aseana, a company that was initiated by Ireka and subsequently listed in 2007. Ireka also holds a 23% direct stake in the company, although its shareholding, together with other friendly parties, adds up to more than 40%.

In return, Ireka was appointed the exclusive property development manager for Aseana, and receives a management and performance fee in return. The base fee is set at 2% of Aseana's net asset value. Ireka also benefits from dividend issues by the property company.

In an interview with *The Edge Financial Daily*, Ireka executive directors and siblings Lai Voon Hon and Monica VH Lai said though Ireka's business model was unique



Voon Hon (left) and Monica said though Ireka's business model was unique in Malaysia, it was not that uncommon elsewhere. Photo by Chu Juck Seng

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"The model is new in Malaysia, but not that unusual in other parts of the world. In fact, one of the big companies that come to mind and certainly someone we benchmark against is (Singapore's) CapitaLand. It is a very asset light developer, but it does a lot of projects," Voon Hon said.

Unlike CapitaLand, however, Ireka does not have the balance sheet size to embark on a lot of prime projects with short turnover periods, thereby explaining the decision to inject its property assets into Aseana.

The transformation has enabled the company to focus on its core philosophy of working on projects with short gestation periods as opposed to the more traditional development model, which is to hold strategic landbanks for long periods of time.

There was a catch-22 to landbanking, Voon Hon said. Land is either prime, thus expensive to hold, or it's cheap but might take a longer time to turn over, that is to say a longer gestation period.

"We are very conscious about doing projects that have the shortest gestation period to market," he said. "We want to get to the market as soon as possible, so we can catch the right cycle."

"It's been our philosophy to not engage in landbanking," Monica added. "In fact back in those days, we couldn't list on the Kuala Lumpur Stock Exchange (KLSE) as a property developer because you needed a 1,000 acre landbank. This was subsequently reduced to 500 acres."

For that reason, Ireka then shopped around the various bourses to find a suitable listing destination for Aseana, and ended up at the London Stock Exchange because there was a market for developments in Vietnam and Malaysia there.

"If you look at various markets at that point in time, the London market was very attractive because there were investors who understood companies like Aseana Properties, and who were willing to put money into it," Monica said.

"The investors wanted to be part of the Vietnam and Malaysia emerging-market story, and we saw this as an opportunity to tap into the market."

Ireka also couldn't have timed it better. Aseana was listed in 2007, just as the bull run was coming to an end right before the onset of the crisis. It built up its war chest and picked up assets at depressed levels in 2008 and 2009 when the financial storm swept across the globe.

Although Ireka initiated the formation and listing of Aseana, Ireka's assets were not injected into it as part of the deal, but were subsequently sold to Aseana.

With a share capital of US\$250 million (RM845 million), Aseana is better poised to purchase and flip property and land than Ireka that has a market cap of around the RM114 million mark, she added.

Using Aseana as a development company, which for all intents and purposes behaves as a property fund, also spreads the risk out because Ireka would not be weighed down by a project should it be caught in the wrong development cycle.

"If Ireka used the same amount of money (for the development of a project) and put it into a pool of funds that have other shareholders, we can do eight or 10 projects with the size of the funds and we will have spread the development risk and increase our potential of higher return," Voon Hon said.

This is precisely what happened with Ireka's Westin Hotel development, which was one of the experiences prompting the transformation of its business model to spur greater growth.

Ireka recognised its stature as a smaller company, both Monica and Voon Hon said, which meant that its ability to hold debt on its balance sheets was limited.

"The Westin was actually an experience in the process of figuring out how to grow our property

business," Voon Hon said. "When the downturn came our gearing went up even though the project (The Westin) generated positive cashflow."

"Although the debt versus its value is low, the debt versus the company's share capital is very high because we are a small company holding a large asset. From that experience, we learned that if we continued to invest heavily in large capital assets, our balance sheet will suffer and will not be attractive."

According to the company's 2006 annual report, Ireka's total borrowings, prior to the business transformation and the sale of the Westin, stood at RM563.13 million compared with total shareholder's equity of RM140.43 million.

Since the transformation, Ireka is now on sounder financial footing, returning to the black after posting respectable earnings following three years of consecutive losses as at the end of its FY2007.

Going forward, Vietnam will be one of the key drivers of earnings for Aseana and Ireka, with a number of projects already mooted there. Understandably, progress there has been slowed by the economic crisis, but Voon Hon is positive about prospects.

"Vietnam has seen its worse; but whether it's out of the woods yet, the jury's still out," he said. "They're doing well now. The government's stimulus plan is working and it is revising the gross domestic product (GDP) growth to 5% to 5.5% growth, among the third highest in Asia."

Meanwhile, the construction arm of Ireka will be expected to make some big pitches for upcoming projects, including the construction of the new low-cost carrier terminal in Sepang.

One of the major components of the project will be earthworks and Ireka, with its expertise in the area, should be one of the key considerations when it comes to project awards.