

Ireka appeals to investors looking for high yields

► Recommendation:

Hold

by Asia Analytica

- **LOSSES** were expected, due to ASPL and Kinh Bac
- Better outlook ahead, as ASPL starts to turnaround
- Negative outlook on Vietnam likely to affect sentiment
- Low downside, high yield, restated BV of RM1.22

Within Expectations

Ireka Corp Bhd's final results for FY March 2011 were within our expectations, with net loss of RM11.7 million coming in slightly better than our expected loss of RM13 million.

By comparison, it posted net profit of RM8.7 million in FY10. The losses were mainly due to equity accounting of losses at 23% owned London-listed associate Aseana Properties Ltd (ASPL), mark-to-market losses on a Vietnamese investment, Kinh Bac City Devt Shareholding Corp and a weak perform-

► IREKA CORP BHD				
	2009A	2011F	2012E	2013E
TURNOVER (RM mil)	393.1	444.5	325.0	335.0
NET PROFIT (RM mil)	8.7	(11.7)	5.9	12.0
EPS (sen)	7.6	(10.3)	5.2	10.6
PER (x)	9.5	(7.1)	14.0	6.9

ance at the core construction arm in 3QFY11.

Revenue for the year increased 13.1% to RM444.5 million while pre-tax losses amounted to RM11 million, compared to a pre-tax profit of RM9.2 million in FY10.

Its net losses, nonetheless, narrowed to RM0.9 million in 4QFY11 from RM7.65 million in 3QFY11, when it was affected by unexpected cost overrun issues at the Seni Mont'Kiara project, losses at ASPL and provisions at Kinh Bac.

For the full year, Ireka's share of ASPL's losses amounted to RM7.7 million while the mark-

to-market losses for Kinh Bac totalled RM2.7 million.

ASPL's poor showing were mainly due to losses incurred on the disposal of its 1 Mont'Kiara retail mall and office tower, marketing expenses as well as the lack of new launches in Vietnam due to poor property sentiment.

Excluding these items, Ireka would have posted a small operational loss of RM0.6 million, due to weakness in the construction arm, which saw divisional pre-tax profit fall to RM1.2 million from RM9.5 million in FY10.

Net debt declined slightly

over the past year, from RM146.8 million to RM132.6 million, with net gearing at 60%.

Net assets per share stood at RM1.93 versus the current stock price of 72.5 sen.

No dividends have yet been declared, although we believe the company is likely to maintain its five sen payout.

Outlook, Recommendation

We maintain our 'Hold' recommendation. We expect a better year ahead for Ireka as it puts its construction costoverrun issues behind it and focuses on growing its orderbook.

However, continued con-

cerns over Vietnam's economy and property market will likely put a dampener on ASPL and Ireka's share price.

In the near term, small losses from ASPL and the adoption of IFRIC 15 accounting standards are likely to see Ireka posting unexciting earnings in FY12, before a growth spurt expected in FY13-14.

Orderbook replenishment is a key focus for management this year. Its orderbook as at end-April 2011 stood at RM470 million.

Over the last 12 months, Ireka has tendered for jobs totalling over RM1 billion and has secured three projects with total contract sum of about RM400 million.

FY11 also marked the entry of Ireka's construction arm in Vietnam when it won a RM27.58 million contract from Hoa Lam-Shangri-La Healthcare LLC for the structural works package at the hospital in Ho Chi Minh City, although

it is a related ASPL project.

We expect net earnings to recover to RM5.9 million in FY12, with an increase to RM12 million in FY13 and likely much higher in FY14 as ASPL's projects as well as the Jalan Kia Peng joint venture development between Ireka and ASPL are completed and recognised.

As such, the stock could see a potential re-rating in FY12-13 ahead of the earnings recovery. The stock may not excite in the near term, but downside risks are low given its relatively low P/E and price-to-book valuations, and historically high dividend yield.

While waiting for the earnings to deliver, Ireka will appeal to investors looking for high yields. Dividends in FY09 and FY10 were at five sen per share, with gross yield of 6.9%. While dividends for FY11 have not yet been announced, we believe it will likely stick to its five sen per share payout, similar to the payout in FY09-10.