Looking ahead to Ireka's finer years

BY **FOO YEN NE**

There is more to Ireka Corp Bhd than meets the eye. The company is an "old-timer" in the construction and property development industry.

But let's first get the obvious out of the way. Ireka's profitable financial year 2012 ended March 31 was sandwiched between the loss-making FY2011 and FY2013. And it posted a net loss of RM27.32 million in FY2014.

Investor interest in Ireka's shares is limited. The stock's trading volume is thin despite the fact that at its close of 67 sen last Friday, it was trading at a sharp discount to its net assets per share of RM1.09 as at June 30.

These are, as its executive director Lai Voon Hon admits, "not Ireka's best years". But investors should look beyond the volatile financial results and see the company's overlooked values.

Ireka's first feather in its cap is the 23.07% stake it holds in London-listed Aseana Properties Ltd (ASPL), which has a portfolio of properties worth more than US$200 million.

Also, Ireka has managed to replenish its order book with contracts worth RM1.2 billion, which can last it for at least two years.

This is a sizeable improvement on the RM400 million order book it had in the last two years. The RM1.2 billion order book is expected to give Ireka an average annual turnover of RM500 million from its construction division over the next two to three years.

Coming back to ASPL, it is structured like a development fund with a shelf life of seven years, which will come to an end in the middle of next year. Any extension of this period will be subject to the decision of a "continuation vote" at the company's 2015 annual general meeting.

"ASPL is at that juncture now and from the shareholders' perspective, they are looking at the capital distribution [that they will receive]," Lai tells *The Edge*.

"What that means is that ASPL will no longer invest in any new [property development] projects ... and we have stopped doing it. All the projects in the portfolio will be realised over time and the money will be returned to the shareholders," explains Lai, who is also the CEO of Ireka Development Management Sdn Bhd, the manager of ASPL's properties.

CHU JUCK SENG/THE EDGE

Lai, seen here with his sister and executive director Monica, says Ireka is looking at a profit margin of 10% at least

According to Lai, ASPL's shareholders are mostly institutional funds and long-term investors. The divestment of all of ASPL's assets from 2015 is already being planned. Actual sales are now only "a question of price and time", says Lai.

ASPL has an estimated realisable net asset value (RNAV) of US$270.82 million or US$1.27 per share compared with its current market price of US$0.44 per share on the Main Board of the London Stock Exchange.

Ireka will be entitled to 23.07% or about RM200 million of the divestment proceeds — which is almost double the company's market capitalisation of RM113 million. "This will be solid cash for us," says Lai.

Besides that, Ireka is also the sole manager of all of ASPL's operating assets and earns a management fee, calculated based on the NAV of the assets.

About 74% of ASPL's funds are invested in property development projects in Malaysia. It has four operating assets, namely Aloft Kuala Lumpur Sentral Hotel, 1 Mont Kiara Mall, Harbour Mall Sandakan and Four Points by Sheraton Sandakan hotel.

ASPL also has a property development project called the RuMa Hotel & Residences in Kuala Lumpur, which will be completed in 2017, and an 80-acre seafront parcel in Kota Kinabalu.

The remainder of ASPL's funds is invested in property development projects in Vietnam. It is worth noting that ASPL has a 37ha tract on which there is a commercial and residential development with a healthcare theme, called City International Hospital (CIH) that is managed by Parkway Pantai. It also has a 12.9% stake in public listed Nam Long Investment Corp and a residential property development project called Waterside Estates in Ho Chi Minh City in its portfolio.

The losses in some of ASPL's operating assets have dragged down Ireka's earnings in the past.

ASPL's financial report as at June 30 reveals that its US$7.66 million losses are linked to the operating loss and financing of the Sandakan properties and CIH of US$2.74 million and US$4.91 million respectively.

Lai says the losses were expected as these properties have a long gestation period.

With an order book of RM1.2 billion in hand, Lai reckons that Ireka will be profitable going forward.

The major jobs in the order book are high-rise residential developments for S P Setia Bhd's KL Eco City in Kuala Lumpur, UEM Sunrise Bhd's Imperia Puteri Harbour in Johor, OSK Property Holdings Bhd's Solstice in Cyberjaya as well as the MRT Package V7 (construction and completion of viaduct guideway and other associated works from Bandar Tun Hussein Onn to Taman Mesra).

An increase in the size of the order book is generally positive for a construction company's stock valuation. If Ireka can convert what is in its order book to its bottom line, the company's stock may be able to garner the valuation that its peers have. Small-cap construction stocks are trading at a price-earnings ratio of between 8 and 12 times.

Ireka Corp

The investment holding company is primarily involved in construction and property development and in the IT business.

FYE MARCH 31 (RM MIL.)	2014	2013
Opertaing profit/(loss)	-1.89	-10.33
Net profit/(loss)	-27.32	-40.21
EPS (sen)	-24	-35.3
ROE (%)	-18	-22

	AS AT SEPT 5
Market cap (RM mil)	113.6
Shares outstanding (mil)	170.87
Price / book (times)	0.61
PE forward (times)	NA
PE historical (times)	NA
Dividend yield (%)	NA
Est free float (%)	33.35

Lai says the effect of the fattened order book can already be seen in Ireka's first financial quarter ended June 30. Its net loss shrank 74% year on year to RM1.85 million from RM7.5 million in the previous corresponding quarter. Its revenue almost doubled to RM96.2 million from RM49 million previously.

Lai expects the company to continue to benefit from Malaysia's current construction boom for the next two years. Its tender book value now stands at about RM2 billion.

Ireka is mainly involved in the construction of high-end and high-quality buildings higher than 40 storeys and a limited amount of civil engineering works for infrastructure construction, such as the mass rapid transit project.

The company's quality-driven reputation and experience in this niche has allowed it to enjoy margins of above 10%, which is a premium compared with the single-digit margins of its competitors.

"Our order book has shrunk so much mainly because we are selective about the jobs we secure," says Lai, adding that Ireka emphasises profit margins rather than getting more contracts.

"Ideally, we are looking at a profit margin of 10% at least. And to get there, we need a track record."

With ASPL preparing to exit the market, Ireka has "stepped up" its property development efforts since 2012. It has also increased its landbank and has 65 acres in the Klang Valley and Nilai.

The gross development value (GDV) of its landbank is estimated at RM2 billion over the next five to six years.

Ireka is branching out of its usual high-end residential developments into the competitive mid-range segment. It will launch two such residential and high-end industrial projects by the end of this year with a GDV of RM450 million.

On that note, the volatility in Ireka's financial results and its lacklustre share performance could soon be history as the rest of FY2015 unfolds. The building blocks are in place and Ireka's finer years are ahead.

The company's worth is perhaps best reflected in the Lai family's attempt to take the company private through its investment vehicle Olymvest Sdn Bhd in June last year. The minority shareholders were offered 90 sen per share — a 40% premium to the market price of 64 sen — through a selective capital reduction and repayment exercise back then.

The Lai family collectively holds 56.54% equity interest in Ireka through Ideal Land Holdings Sdn Bhd and Magnipact Resources Sdn Bhd.

But the privatisation exercise fell through and its shares dived from 95 sen to a low of 60 sen. Soon after, Ireka undertook a two-call rights issue with warrants to raise RM37 million for working capital. E