Ireka investors' patience may soon pay off

BY **TAN SIEW MUNG**

It looks like the patience of those who invested in Ireka Corp Bhd may soon pay off. The company bounced back after having posted four consecutive years of losses. It registered a net profit of RM27.98 million in its first quarter ended June 30 (1QFY2017), compared with a net loss of RM4.09 million in the previous corresponding period.

The property and construction company's turnaround was supported by its share of profit of RM28.65 million from Aseana Properties Ltd, which in turn had gained RM33.78 million from its disposal of the Aloft Kuala Lumpur Sentral hotel.

Aseana Properties is 23.07%-owned by Ireka and listed on the London Stock Exchange.

Interestingly, Ireka's shares have been much sought after this month. They surged to a year high of 68 sen on Oct 18 and ended at 67.5 sen last Thursday. Trading volume soared to 4.01 million shares last Thursday, compared with the average six-month and 100-day volumes of 57,752 and 51,477 shares respectively.

In an exclusive interview with *The Edge*, Ireka managing director Datuk Lai Voon Hon says that although Aseana has not given any indication of a first distribution of dividends, he reckons that this should be realised anytime soon and hopes it can be this year.

"The [Ireka] board, however, has not decided how much will be allocated as dividends. Some of the distribution will be utilised to drive our growth in the next five years," he says.

In June last year, Aseana's shareholders gave the board the green light to adopt a new divestment policy to realise its assets until June 2018. Applications to make the first distribution were submitted to Aseana's lenders at the end of August 2015 but consent from two lenders is outstanding.

Lai explains that the delay in distribution is due to the lengthy regulatory processes required, such as getting the consent of financial institutions and authorities to reduce Aseana's capital.

The distribution also depends on asset sales, some of which under Aseana are in a "gestation" period and incurred operational losses, he adds.

"The process has been longer than expected. For instance, we were hoping to dispose of assets at the end of 2015 or early 2016 but we could only close the deal at the end of June. Only after that could we kick-start the process of applying to the bankers and regulators for capital return," Lai says.

As long as the first distribution kicks in, Lai opines that the following ones will be faster. He still targets to distribute dividends twice a year if the group has excess cash.

The entire process of Aseana's asset divestment will contribute about RM200 million to RM250 million to Ireka after foreign exchange rate adjustments over the next two to three years, Lai says.

From Aseana's first intended capital distribution of US$10 million (RM41.85 million), Ireka's share could be RM9.6 million.

"Our [Ireka's] debt is project-based and our gearing ratio as at June was a comfortable 0.7 times. Should the group have excess cash, we will reward our shareholders with some of it," Lai remarks.

"Ireka may resume its dividend policy as the group is expected to be profitable in FY2017, underpinned by Aseana's asset divesting trail and its construction jobs. We used to have a dividend policy to distribute 40% of our net profit. Thus, shareholders can expect that kind of returns when we become profitable," he adds.

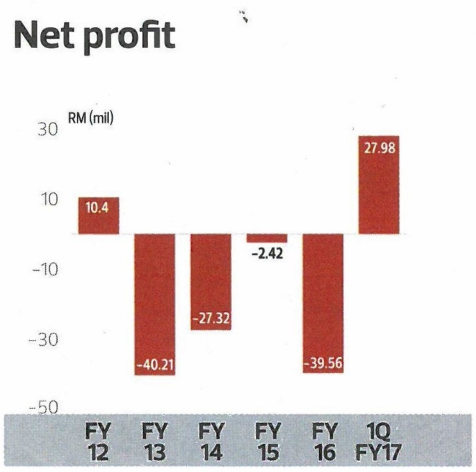
Lai notes that most projects under Aseana, including Harbour Mall Sandakan and Four Points by Sheraton Sandakan Hotel in Sabah, have attracted buyer interest.

SAM FONG/THE EDGE

Lai: Ireka may resume its dividend policy as the group is expected to be profitable in FY2017

SUHAIMI YUSUF/THE EDGE

Aseana Properties gained RM33.78 million from its disposal of the Aloft Kuala Lumpur Sentral hotel



Net asset value and realisable net asset value of Aseana's property projects

Projects	Project NAV as at June 30, 2016 (US$ mil)	Project RNAV as at June 30, 2016 (US$ mil)
In Malaysia		
Tiffani by i-ZEN	3.89	3.89
Sandakan Harbour Square	31.17	36.07
SENI Mont' Kiara	19.93	21.32
The RuMa Hotel and Residences	27.25	41.14
Kota Kinabalu seafront resort & residences	10.01	13.43
In Vietnam		
International Healthcare Park	-1.12	18.08
City International Hospital	25.64	27.52
Equity Investment in Nam Long	8.16	8.16
Others	0.05	0.05
Total project NAV/RNAV	**124.98**	**169.66**

Harbour Mall is targeted to be sold by the fourth quarter of next year while Four Points is planned to be disposed of by the second quarter of 2018.

Lai says though there is interest in these assets, there are also concerns because of the security incidents that affected the tourism industry in Sabah.

"We are still confident that we can get buyers in the next two years as these two are quality assets with positive cash flow and strategic accessing points," says Lais.

As for Aseana's three properties in Vietnam, Lai believes there are no issues in finding buyers for them because the country's economy is growing fast.

He discloses that because of the improvement in Vietnam's economy, Ireka plans to venture into property development there in the next three years.

"We won't limit ourselves to Malaysia. We know Vietnam very well as we have projects there under Aseana," he says, adding that he hopes Ireka will immerse itself in residential developments there with a potential partner.

Indeed, the group has a five-year plan to take Ireka up to the next phase of growth, including expanding its shareholders' funds.

"We don't target strong growth in the next two years as we don't expect the market to rebound. But after the second year, we believe it will grow at a faster pace. The last part of growth will be underpinned by the distribution from Aseana as well. We hope to reinvest in land bank for future growth," Lai says.

Ireka currently has 67 acres, mainly in Nilai, Kajang and Mont'Kiara, with a potential GDV of RM1.8 billion.

Lai says in terms of land bank, some of the key areas to look out for are Kuala Lumpur, Petaling Jaya and Penang.

As at Aug 31, the group's order book for the construction division stood at about RM960 million. Of this sum, about RM400 million is outstanding and Lai expects that to last Ireka another 1½ years. Most of these projects are private-sector driven, he says.

Ireka is also bidding for RM4 billion worth of jobs and targets to secure contracts worth RM1 billion to RM1.5 billion in FY2017.

If the group's property projects take off in a timely manner, the construction value of internal projects will be worth about RM700 million, he adds.

"The group may also get two projects in the next few months worth RM300 million to RM400 million. We are also in talks with two potential clients to build hotels in Malaysia."

"The margin in the construction sector is competitive and we have lowered ours. Thus, we have to know how to improve our operation cost and efficiency to stay competitive," Lai says, adding that Ireka aims to be a one-stop builder to build and design projects for clients.

Although there is a slowdown, he believes there are still potential clients looking to the group to save their costs and reduce their risks in challenging market conditions.

"There are a number of foreign investors who are looking to invest in Malaysia due to the undervalued ringgit and more conducive conditions compared with other Southeast Asian countries," he says.

The group plans to launch six property projects with an estimated gross development value of RM1.3 billion over the next 18 months. Most of the projects will cater for the mid-range market.

"We are quite confident that most of these property projects will be launched on time. Perhaps, only two will depend on market conditions," Lai says, adding that the group has not unveiled any property projects in the past 1½ years due to its prudent strategy for a market downturn.

Although the market is still facing some headwinds, Lai opines that it will gradually improve, underpinned by government policies to boost local consumption. E