

IREKA-WB: Betting on new management to add value



by Alan Voon

THE share price of construction and property development company Ireka Corp Bhd (Ireka) has been rising steadily since the end of March after the company announced the appointment of Lai

Voon Hon and his sister Monica Lai as managing director and deputy managing director, taking over the helm of the company from their father and uncle respectively.

Investors must be betting on the new generation adding value to the company. A few corporate developments on the horizon may indeed be the catalysts for the re-rating of the company's market value. The share price of Ireka and its warrant IREKA-WB ended trading on April 15 at 80.5 sen and 32.5 sen respectively.

Ireka recently called for an EGM on April 23 to seek shareholders' approval for the company to dispose land measuring 8.35ha located at Pekan Senawang, Seremban to AEON Co (M) Bhd for RM53.66 mil cash. Ireka had just bought the land earlier at RM21.88 mil in what is believed to be a back-to-back deal with the landowner and AEON. Ireka is

IREKA-WB (as of April 15)

Warrant Price:	32.5 sen
Share Price:	80.5 sen
Exercise Price:	RM1
Warrants Expiry Date:	25/6/2019
Premium:	64.6%
Gearing:	2.48
Underlying Historical Volatility:	31.7%
Warrant's Implied Volatility:	54.6%
Delta:	0.69
Effective Gearing:	1.71

expected to make a net gain of RM5.14 mil from the sale of land after factoring development cost of RM24.72 mil, taxes and other expenses.

AEON has also agreed to appoint Ireka to be the main building contractor to construct a shopping centre on the above-mentioned land. The value of the construction contract is expected to be RM203.4 mil.

Ireka posted a net profit of RM8.91 mil for the first three quarters of FYE 3/15 which ended Dec 31, 2014. This is a significant improvement over a net loss of RM14.22 mil recorded in the corresponding period of FYE 3/14. The main reason for the turnaround is due to

Ireka's 23.07%-owned associate company Aseana Properties Ltd (Aseana) contributing profit of RM4.06 mil compared with a loss of RM10.75 mil in the corresponding period of the previous financial year. Ireka's construction division also made a profit of RM600,000 compared to a loss of RM7.89 mil previously. As at the end-December, Ireka's net asset per share stood at RM1.15.


Another development likely to boost Ireka's value in the medium term is the expectation that Aseana's shareholders will vote in June to discontinue new projects and dispose of existing projects and assets. Ireka may potentially be entitled to more than RM220 mil in capital repayment based on its share of revalued net asset value of Aseana as at Sept 30, 2014 which amounted to US\$266.64 mil (RM986.57 mil), according to Aseana's corporate presentation ended Q3 2014.

This is assuming Aseana selling all its projects and assets at current market

value. Ireka's share of proceeds from the sale of Aseana's assets is already 65% higher than the current market capitalisation of Ireka, at RM137.55 mil. This means that investors buying into Ireka at the current share price is effectively getting Ireka's other assets for free as well as getting a substantial discount off Aseana's assets.

Such high expectation of Ireka's share price performance in the future has caused IREKA-WB to be trading at a relatively high valuation based on its implied volatility at a significantly higher level than the underlying share's historical volatility. The high premium of IREKA-WB may also be due to the lack of supply of the warrants at current level. Investors who are bullish on Ireka should therefore buy into the mother share directly to get reasonable exposure. **FocusM**

The writer is CEO of Warrants Capital Sdn Bhd.



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