Ireka: Dividend normalisation in FY2016

BY **YEN NE FOO**

Property developer and construction group Ireka Corp Bhd registered its third straight year of being in the red for the financial year ended March 31, 2015 (FY2015), with a net loss of RM2.26 million, but shareholders can at least look forward to normalisation of dividend payments in FY2016.

Ireka's poor performance was due to unrealised translation loss in the final quarter, delayed property development launches worth RM200 million in gross development value and low-margin construction jobs.

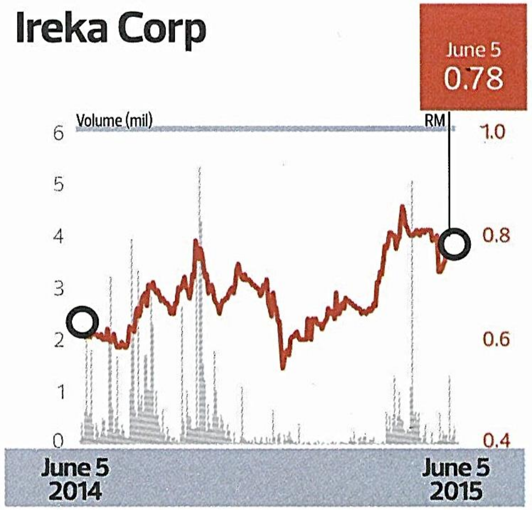
Despite that, patient Ireka (fundamental: 0.2; valuation: 0.9) shareholders can at least expect dividends in FY2016, compared with none since FY2013, from the sale of properties in its 23.07%-owned subsidiary Aseana Properties Ltd.

Aseana was incorporated in 2007 and is expected to be wound up this year. It has all of its property development assets in Malaysia and Vietnam, with an estimated value of RM1 billion.

The sale proceeds will be redistributed to its shareholders. Ireka's claim on that prize works out to about RM250 million.

In a May 22 circular to shareholders, Aseana's board has recommended that shareholders vote against a resolution to wind up the company. Instead, it asked and obtained an undertaking from substantial shareholders to allow Aseana to continue trading until June 2018 to carry out its "divestment investment policy".

Under the policy, Aseana will not make new investments and will start to realise its assets progressively in a "controlled, orderly and timely manner" over the next three years.



The logic of Aseana's extended lifespan is that with more time, it can preserve shareholder value and there will be no fire sale of its current portfolio worth close to RM1 billion.

In the meantime, Aseana has committed to return US$20 million (RM74 million) to shareholders in the third quarter of 2015, based on current cash balances and expected receivables. An additional US$20 million cash distributions could be made available if further asset disposals happen before the end of the year.

As at Dec 31, 2014, Aseana's cash pile stood at US$16.2 million.

"Aseana is actually sitting on a bit of cash. It has been selling the development assets such as [property] units that have been completed. Obviously, for Aseana to make such a commitment, it is confident of returning excess funds to shareholders," says Lai Voon Hon, Ireka's newly appointed group managing director.

"Moving forward, there will be regular capital distributions from Aseana. It will be twice annually, quite likely in June and December, for the next three years. This gives Ireka the certainty of returns."

For Ireka, the commitment means that it will receive between RM17 million and RM34 million in the second half of the year. It is a small fraction of the RM250 million it will receive over the next three years but it is still a relief for Ireka, which has been absorbing much of Aseana's losses in the last few years.

However, not all of what Ireka receives from Aseana this year will translate into dividends for Ireka's shareholders. Ireka will use part of the returns to "strengthen its capital base".

Lai says, "We want to grow the company. I think initially, it (the returns from Aseana) will be used to strengthen our capital base and for further investment in our property development business.

"Previously, we have distributed 40% of our profits as dividends. We hope to be able to normalise that payout again. Whether there will be an extraordinary return to Ireka's shareholders, it is up to the board. I don't think it will be this year, but it will likely be in later years."

Dividend per share in FY2012 was five sen. A sum of RM17 million could work out to 3.9 sen per share.

Ireka has assured investors that "what the company does not need" from Aseana's disposals will be distributed to shareholders.

But there is worry that Aseana's "chunky" operating assets such as City International Hospital in Ho Chi Minh City, Vietnam, and assets in Sandakan, Sabah — including a shopping mall, hotel and a parcel of seafront land — may not find buyers within the three-year timeframe.

Investors, however, may find comfort in the fact that Aseana is now in "various stages of negotiations for disposals" for most of its assets, with some of these proposed deals only waiting for parties to agree on the final transaction prices. Properties in Sandakan would be the last to be sold following recent kidnappings in the city.

"We don't have a 'For Sale' sign in the market but we have appointed consultants and investment bankers to get buyers who can match our requirements. You will see in the next few months that some of these [negotiations] will translate into sales," Lai says.

Even if not all of Aseana's assets are sold by June 2018, he says it is not "the end of the world". Aseana can still get an extension of time to carry out the remaining disposals.

On Ireka's operations, Lai says its construction division has an order book of RM1.4 billion.

"We were supposed to launch 382 courtyard apartments in Nilai and an industrial park. Both projects are delayed and there are no contributions, but fixed costs remain," he adds.

In fact, the construction division just managed to register a pre-tax profit of RM483,000 while the property development division posted a profit before tax of RM5.17 million in FY2015. E

Note: The Edge Research's fundamental score reflects a company's profitability and balance sheet strength, calculated based on historical numbers. The valuation score determines if a stock is attractively valued or not, also based on historical numbers. A score of 3 suggests strong fundamentals and attractive valuations. Visit www.theedgemarkets.com for more details on a company's financial dashboard.