Good time to privatise Ireka?

BY **BEN SHANE LIM**

The rationale behind the proposed privatisation of Ireka Corp Bhd is simple enough — the loss-making group is thinly traded and poorly valued in the market.

For investors, the offer of 90 sen per share offered by controlling shareholder and founder Lai Siew Wah is seen as an easy way to cash out of the illiquid counter. After all, it comes at a 32% premium to its last traded price of 68 sen prior to the announcement.

However, the timing of the privatisation has raised some questions because management has, for some time now, been guiding that Ireka's business is close to bearing fruit. So, was the Lai family prompted by the company's low valuations to take it private?

The justification for the offer was that it came at a 7% premium to Ireka's adjusted net assets per share of 84 sen. However, it valued the group at only 0.56 times its unaudited net assets per share of RM1.60 as at March 31, 2013.

The big difference of 76 sen is due to a RM86.07 million mark-to-market adjustment for Ireka's 23.07%-controlled associate Aseana Properties Ltd, which is listed on the London Stock Exchange. Aseana has a carrying value of RM149.17 million in Ireka's books, but based on its share price, Ireka's stake has a market value of only RM63.1 million.

While Aseana may be loss-making, its share price is depressed against book value. Its last close of US$0.46 puts it at only 0.47 times book value.

The poor valuation reflects the market's scepticism about Vietnam's property sector where Aseana has several projects. However, the company's key development in the country is a hospital, whereas the property slump has affected mainly the office and high-end residential segments.

Aseana has a 66.8% stake in City International Hospital, the flagship of International Hi-Tech Healthcare Park (IHHP), which is being developed in Ho Chi Minh City and has a gross development value (GDV) of US$770 million.

As at March 2013, the hospital project had achieved overall physical completion. In process now are the installation of medical equipment and the testing and commissioning of facilities. The hospital was expected to start this month. Moving forward, Aseana is awaiting the commencement of upcoming commercial and residential developments in the IHHP.

Be that as it may, the property slump has forced the delay of the first phase of Aseana's high-end Waterside estate from 2012 to the fourth quarter of this year.

The company also has exposure to the affordable housing market in Vietnam through its 16.32% stake in Nam Long Investment Corp — one of the country's largest private developers with a 572ha landbank. When Vietnam's property market picks up again, Aseana and, in turn, Ireka stand to benefit.

It is worth noting that Aseana also has projects in Malaysia, the property sector of which has been much healthier.

It is developing the high-end RuMa Hotel and Residences in Jalan Kia Peng in the heart of Kuala Lumpur in a 70:30 venture with Ireka. Earthworks have already started for the RM635 million GDV project. RuMa Hotel and Residences is seen as a key mid-term catalyst for the group.

Aseana's wholly owned hotel Aloft Kuala Lumpur Sentral was launched at the end of 1Q2013 and by the time the hotel starts contributing meaningfully to Aseana's bottom line, Ireka may have already been privatised.

The hotel boasts 482 rooms in a 30-storey tower adjacent to the KL Sentral Station and management has guided a 65% occupancy rate.

Other completed assets in Aseana's stable include the wholly owned Tiffani by i-Zen and SENI Mont'Kiara in Kuala Lumpur. In Sabah, the company owns retail and hotel development Sandakan Harbour Square.

While Aseana has a few ongoing projects, its earnings are still lumpy because contributions are only recognised upon the completion of the projects.

Aseana posted a net loss of US$18.53 million in FY2012 ended Dec 31 compared with a net profit of US$14.14 million the year before. The loss was attributed to the pre-opening expenses and operating losses of Four Points by Sheraton Sandakan Hotel and Harbour Mall Sandakan, which began operations last year. In FY2011, profits picked up after the company realised earnings from SENI Mont'Kiara.

As for Ireka, it is grappling with a shrinking construction order book. In 4QFY2013 ended March 31, revenue from its construction arm was only RM54.17 million, down 44.6% from the previous year. Construction typically accounts for almost 80% of the group's revenue.

However, Ireka has made some headway in this area, securing a RM65 million mass rapid transit job at the end of last year. As at March 31, it had also won a RM163 million contract to build OSK Property Holdings Bhd's mixed-use development in Cyberjaya called Pan'gaea.

In the meantime, its offer will fall through if more than 10% of the eligible shareholders or 3.53% of the outstanding shares vote against the proposed privatisation at an upcoming EGM. Shareholders will have to decide if Ireka's shares are worth the 90 sen offered now or if the company will be worth much more when it reaps returns from its investments. E