About 60% of the 8,400 sq ft factories at Asta Enterprise Park, Kajang are priced between RM3.6 mil and RM4 mil

Ireka banks on affordable high-end property

Company will soon launch distinct brand name for its mid-market range of houses to set it apart from competitors

by V Sanjugtha

CONSTRUCTION-CUM-PROPERTY company Ireka Corp Bhd has put the turbulence generated by a failed bid to take the company private early this year firmly behind it, and is focusing on growing its property business.

The 47-year-old family-run business has an interesting strategy of creating a competitive advantage to match the industry bigwigs. While it is joining the bandwagon of developers building houses in the mid-market range, it plans to brand this category in a bid to elevate its products from competitors'. This is similar to its strategy in the luxury market via the i-ZEN brand.

Executive director Lai Voon Hon tells *FocusM* that the company will soon launch a distinct brand name to set it apart from Ireka's mid-market range of houses from competitors' as he believes houses in this category deserve due attention. He reveals that the brand will represent youth and vibrancy as the affordable housing segment appeals most to this demographic. The houses will be priced between RM300,000 and RM500,000.

"We will design it so that it will look and feel like our high-end property but at an affordable price. We expect to roll this out soon, within the next two months," he says.

The value in Nilai

Lai says the first product under Ireka's mid-market branding will be Dwi@ Rimbun Kasia in Nilai comprising 382 units of medium-rise courtyard apartments. It has a gross development value (GDV) of RM137 mil and is expected to contribute to the group's revenue base in two to three years.

The units, with built-ups of 650 to 980 sq ft, will be priced from RM300,000. Two-thirds of the units are planned in the smaller category to satisfy the demand of young buyers and the student market.

"An exciting aspect is that there will be dual entrance. This means the owner can rent out a room or students can share the units and maintain individual privacy," Lai reveals.

Also on the cards for next year are townhouses and a commercial centre. The 465 units of high-rise townhouses and 60,000 sq feet of commercial space will have an expected GDV of RM241 mil. The 1,800 sq ft townhouses will be priced in the range of RM700,000.

Ireka has 12.8ha in Nilai, part of its Rimbun Kasia development, comprising six parcels with a total GDV of RM904 mil. The first parcel saw the development of recently-completed Kasia Greens Residences comprising 142 units of super-link terrace houses with a GDV of RM80 mil. About RM40 mil has been recognised in the financial year ended March 31, 2014, while the remaining will contribute to revenue in the next financial year.

The remaining development of land in Nilai, with an estimated GDV of RM446 mil, will be launched periodically depending on market sentiments, says executive director and CFO Monica Lai Voon Huey.

In Kajang, Ireka will roll out Asta Enterprise Park, consisting of 57 units of multifunctional semi-detached factories in a gated and guarded business park. About 60% of the 8,400 sq ft factories are priced between RM3.6 mil and RM4 mil. The estimated GDV for this development is RM420 mil.

On the residential front, the company will develop 656 units of high-rise apartments and two levels of commercial space located near the Kajang town centre, about 1km from the upcoming MRT station. This has a GDV of RM330 mil.

A market observer points out that statistics show that every year about 30,000 students enrol into the institutions of higher learning in Nilai, creating a huge demand for housing. He agrees that Nilai and its surrounding areas of Kajang, Cyberjaya, Putrajaya and Sepang have much potential. He describes Ireka's move to develop affordable houses in this area as "spot on".

Despite its focus in the affordable market, Ireka still has a foot in the luxury segment. In Mont'Kiara, it still has a parcel of land located near Publika, with a GDV of RM192 mil, to be developed, possibly next year. Lai says plans are largely dependent on the issue of timing as currently at least three new developments have been launched in Mont'Kiara.

"We must move on a sustainable basis; we do not want to build too much at one go because we do not have the kind of population to buy into it. But Mont'Kiara is a developed area and a lot of people want to live here, but we must be careful not to oversupply," he says.

Ireka's previous developments there include SENI Mont'Kiara, serviced residence i-ZEN @ Kiara I and i-ZEN at Kiara II, gated and guarded courtyard homes i-ZEN @ Villa Aseana, luxury condominiums of Kiaraville and Tiffani by i-ZEN and offices and retail mall of 1Mont'Kiara.

Over in KL City Centre, Ireka is developing a hotel and serviced residence called The RuMa, which is scheduled for completion in 2017. The project comprises 19 floors of serviced residences and 13 floors of hotel suites, which will be sold on a leaseback basis.

Mont'Kiara is a developed area and a lot of people want to live here, but we must be careful not to oversupply, says Lai

Monica says Aseana Properties Ltd's fund lifespan ends in June next year and shareholders have the option to vote for a winding-down or a three-year continuity

The developer recently raised RM37 mil via a rights issue aimed at strengthening its financials, as its bid to take the company private via a selective capital reduction (SCR) exercise was shot down by minority shareholders. At 90 sen per share, the offer was lower than its valuation based on net tangible assets of RM1.20 per share. Nevertheless, it was deemed an exit route for investors since share prices were hovering at around the 60 sen level prior to the bid announcement in June last year. The foiled bid also shows that minority shareholders saw enough potential in the developer to turn down the bid in February this year. The counter closed at 69.5 sen on Oct 8.

What next for Aseana Properties?

Ireka is probably one of the few players in the region to raise cash via the listing of a close-ended property fund, Aseana Properties Ltd (ASPL). In 2007, it wanted to invest in the emerging Vietnam market but Ireka faced difficulty raising cash to invest there. Not to be beaten down, the resilient developer listed the fund on the London Stock Exchange, attracting investors who were keen to invest in emerging markets.

According to Monica, as the fund's lifespan ends in June next year and shareholders have the option to vote for a winding-down or a three-year continuity. "If they opt for a disposal, it will be an orderly winding-down of business. We will ensure the assets are sold for their maximum value, not fire sale. The terms state that Ireka will get its 23% share of proceeds as assets are sold," she explains.

Monica, who is also Lai's sister and daughter of Ireka founder Lai Siew Mah, adds that with ASPL's total realisable net asset value (RNAV) of US$270.82 mil (RM882.87 mil), Ireka as a 23% shareholder can expect returns of about RM200 mil, considered a significant sum for a mid-sized company like Ireka.

The property portfolio under this fund in Malaysia has a GDV of US$1.5 bil while in Vietnam the GDV is about US$770 mil.

AllianceDBS Research senior analyst Quah He Wei sees value in ASPL. However, he cautions that selling the properties under its portfolio will take time. Therefore the company may not see much upside in the near future, but he says in the long term, shareholders will tend to gain. He also points out that The RuMa Hotel and Serviced Residences, a joint-venture project between Ireka and ASPL under flagname Urban DNA Sdn Bhd, will begin realising profits only in 2017.

"There is value in Ireka, that's no doubt. But it largely depends on how fast they can crystallise it," he explains.

Ireka posted revenue of RM96.2 mil in its unaudited consolidated earning results for the first quarter ended June 30, 2014, a significant rise from RM49 mil in the same period last year. This was largely due to higher contribution from its property and construction segment as its assets in this area begin to mature and gain momentum in the market. Operating profit also showed improvement of RM4.06 mil compared with a loss of RM1.04 mil for the same period last year.

For the financial year ended March 31, 2014, Ireka reported a net revenue of RM289.7 mil, a 12.2% drop from RM329.79 mil in the preceding year. For FY14, it posted a loss of RM27.3 mil, an improvement from the RM40.2 mil loss in FY13. This was attributed to the negative results of ASPL and operating losses of its unit Ireka Engineering and Construction Sdn Bhd.

The group has three core businesses – infrastructure, real estate and technologies. Its infrastructure division comprises construction activities which contribute 80% to the group's revenue. Based on current works in hand which include the construction of the Imperia Puteri Harbour in Nusajaya, Johor, the KL Eco City and The RuMa Hotel and Residences, both in Kuala Lumpur, this division is expecting a higher turnover in the next financial year. Current order book is about RM1.44 bil, of which RM1.08 bil remains outstanding. FocusM

Dwi @ Rimbun Kasia comprises 382 units of medium-rise courtyard apartments with a GDV of RM137 mil

Weathering the Vietnam storm

IREKA Corp Bhd's gameplan is to play it safe. As Vietnam's economy has wavered, Ireka's faith in it hasn't. The conventional route for a developer facing a bad market would be to divest itself of investment and exit, but Ireka has decided to slow down activities and stay in the market.

Its strategy includes deferring luxury development Waterside Estates, which comprises villas and a high-rise apartment, all with an estimated GDV of US$100 mil, and focusing on the development of City International Hospital, the first hospital in the International Hi-tech Healthcare Park (IHTHP). Other developments in IHTHP have been deferred.

The IHTHP is Vietnam's biggest integrated healthcare park which includes healthcare as well as commercial and residential development. It has a GDV of US$670 mil and covers 37.5ha.

It has allocated 40% of land for hospitals and rest for a nursing school and medical college, a laboratory and pharmaceutical company directly linked to the hospital, a shopping mall to support the community and accommodation such as condominiums, serviced apartments and hotels.

There will also be an international school, for which Ireka executive director Lai Voon Hon is seeking a partner with a view to co-development.

The IHTHP is part of a social project awarded to Hoa Lam-Shangri-La Healthcare LLC (Hoa Lam-Shangri-La), a joint venture between Vietnamese company Hoa Lam Services Co Ltd and Shangri-La Healthcare Investment Pte Ltd of Singapore, entrusted with investing in, constructing and operating the IHTHP. APL is a key investor in Hoa Lam-Shangri-La, holding a 67% stake.

Ireka Development Management Sdn Bhd (IDM), a wholly-owned subsidiary of Ireka, is the appointed development manager for the healthcare park project.

Lai, also CEO of Ireka Development Management, explains since the economic outlook appears to have improved, the management has decided to revive the Waterside Estates project this year.

"It is adjacent to a gated community developed by Keppel Land of Singapore. We see a lot of potential in this development as the [Vietnamese] government has relaxed housing regulations allowing foreigners to purchase, subject to terms," he adds.

Waterside Estates is believed to be part of the reason Ireka decided to invest in Nam Long Investment Corp, a developer of affordable homes in Vietnam. Among the terms of the strategic stake in Nam Long are several parcels of prime land that Ireka is eyeing to develop into high-end property lots.

Ireka's investment in Vietnam is via associate company Aseana Properties Ltd (ASPL), which also has a strategic minority stake of 16.4% in Nam Long, which was acquired in 2008 for US$18.03 mil.

Nam Long is a property developer based in Ho Chi Minh City with a landbank of over 550ha in prime locations across southern Vietnam. It is also the developer of Ehomes, a brand of affordable housing. Nam Long was listed on the Ho Chi Minh Stock Exchange in April last year.