

CRRC Group to boost IREKA-WB



by
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IREKA

THE shares of normally quiet construction and property development company Ireka Corp Bhd surged in price and volume early last week after the company announced that CRRC Urban Traffic (Europe) Co Ltd (CRRC UT), a member of China-based CRRC Group, is taking up a strategic stake in Ireka and will establish a joint venture into urban traffic solutions and rail infrastructure projects in the region.

Ireka's share price closed at 65 sen on Nov 6 while its warrant, IREKA-WB, ended trading at 12 sen.

Ireka has three core businesses which are construction and infrastructure, real estate and technologies. The tie-up with CRRC UT will see Ireka venturing into a new business direction to upgrade the country's public transportation and infrastructure system.

CRRC Group is the world's largest manufacturer of rolling stock and rail-related products and systems. Its revenue of US\$37.8 bil (RM153.47 bil) in 2015 saw it being ranked 266th on the Fortune Global 500 list.

Already having a presence in Malaysia, CRRC Group is an active player in the country's rail industry through its supply of contracts for the light rail transit system, Express Rail Link and KTM Komuter.

Ireka recorded a 15% improvement in revenue to RM143.48 mil for the first half (H1) of FYE 3/18 which ended Sept 30. Nevertheless, its net profit at RM4.01 mil for the period is lower than the net profit of RM18.1 mil

posted in H1 of the previous financial year.

There was a share of gains from the disposal of Aloft Kuala Lumpur Sentral Hotel in the previous financial year via 23%-owned associate Aseana Properties Ltd. Ireka stated in its latest quarterly report that the order book of the group stood at about RM750 mil as of end-September, of which RM370 mil remained outstanding.

Ireka also secured a contract from Pantai Medical Centre in October to complete refurbishment works for RM60.75 mil by June next year.

Additionally, Ireka is also launching two property projects in the current financial year comprising serviced residences in Mont'Kiara named KaMi and

mid-market courtyard condominiums in Nilai, Negeri Sembilan.

Ireka is expected to see a big jump in profit in the next financial year with the completion of The RuMa Hotel and Residences KLCC which is 70%-owned by Aseana Properties and 30%-owned by Ireka next April.

This project with a gross development value of US\$182 mil is 55.1% sold and 5.8% booked as of end-August. Aseana Properties adopted IFRIC 15 which prescribes revenue and profits to only be recognised upon completion and the issuance of occupancy permits.

CRRC UT will end up with 8.48% of the enlarged capital of Ireka after subscribing for the private placement of Ireka shares. With CRRC Group's backup, Ireka is expected to enjoy a slice of the megabuck rail projects that are upcoming in the country, notably the East Coast Rail Link and the Kuala Lumpur-Singapore High-Speed Rail.

The out-of-money IREKA-WB is trading at a substantial premium of 72% with less than two years to expiration.

However, it appears that there are investors who are banking on a quantum leap in earnings next year due to the completion of The RuMa Hotel and Residences.

With CRRC Group becoming a substantial shareholder and gaining board representation soon, Ireka's future prospects looks very bright and are worth a serious look. **FocusM**

The writer is CEO of Warrants Capital Sdn Bhd

Ireka Corp Bhd (Dec 6, 2017)

Warrant Price:	12 sen
Share Price:	65 sen
Exercise Price:	1.00
Warrants Expiry Date:	25/6/2019
Premium:	72.3%
Gearing:	5.42x
Underlying Historical Volatility:	35.7%
Warrant's Implied Volatility:	62.7%
Delta:	0.46
Effective Gearing:	2.51x



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