Ireka Corp order book rises to RM899m

▶ **Recommendation: Maintain buy**
By Asia Analytica

▶ IREKA CORP BHD	2007	2008	2009E	2010E
TURNOVER (RM mil)	186.6	330.6	316.0	370.7
NET PROFIT (RM mil)	(30.9)	157.6	11.3	19.4
EPS (sen)	(27.1)	138.3	9.9	17.0
ROE (%)	NM	65.4	4.6	7.4

Earnings outlook

DESPITE the prevailing global economic uncertainties and the losses in second half quarter FY09, the outlook for Ireka is actually looking better. The worst of the building material and commodity price increases are well behind us. As prices of most commodity-related products, particularly steel, have fallen sharply since September-October 2008, margins should improve going forward, particularly in 4Q09.

Ireka Corp Bhd's revenue over the next few years will be supported by a very large order-book totaling RM898.7 million as at Sept 30, 2008.

The product mix of its order-book will improve going forward and this will also boost margins. As older projects are being progressively completed, the order-book is being replenished by newer and better-margin ones, priced when building material prices were much higher.

Most notable is the RM539.8 million Seni Mont'Kiara contract secured on 1 July, 2008, of which RM486.1 million remains outstanding. This accounts for a sizable 54% of the order-book, and was based on more current and higher cost pricing structures.

Another recent contract is the RM195 million Sandakan Harbour project, awarded on 2 Sept 2008. The outstanding value is RM188 million. Together, the two newer projects account for RM674.1 million or 75% of the total orderbook.

Ireka has a good business model and corporate structure. The company has managed to de-gear itself well ahead of the global financial crisis, and fetched peak prices for all its assets.

The construction arm's RM899 million order-book will keep it busy for the next two-three years. The squeeze on margins should be largely over. Moreover, all its construction jobs are now "in-house", i.e. for projects undertaken by Aseana Properties Ltd (ASPL). Therefore, there should be almost negligible default risk, which is commonly faced by the construction industry during a major slowdown.

With its new corporate structure in place, Ireka has a steady stream of sustainable earnings, balanced with cyclical construction profits.

From ASPL, Ireka will earn stable annual management fees of 2% from managing its asset base. ASPL's net asset value (NAV) as at 30 Sept 2008 stood at US$227 million (RM824 million). Plus. It will also receive dividends and upside from performance fees, although that is probably less likely in the near term.

Recommendation

We are reducing our net profit forecast for FY09 by 37% from RM17.9 million to RM11.3 million, or 9.9 sen per share, to account for the 2Q09 losses.

For FY10, we are reducing our forecast marginally — by 10% from RM21.6 million to RM19.4 million, or 17 sen per share, although it could surprise on the upside if building material costs remain low.