

Ireka's construction order book rises to over RM800m

On June 30, 2008, Ireka Corp (RM0.88) announced that it had secured the much-awaited construction contract for the Seni Mont'Kiara project, valued at RM539.8 million. The contract is for main building works for 605 units in four blocks of 12- and 40-storey condos, with four floors of car parks plus recreational facilities. This project has already been factored into our forecasts.

Seni Mont'Kiara is being developed by Aseana Properties Ltd (ASPL), Ireka's 19.6%-owned London-listed property fund arm. This latest contract has boosted Ireka's construction order book to just over RM800 million — or eight times its current market capitalisation of just RM100 million. The large order book will keep the construction arm busy over the next two to three years.

All of Ireka's current construction jobs are for "in-house" projects, namely those developed by ASPL and should be profitable. The bulk (two-thirds from Seni Mont'Kiara) was negotiated after the steep increase in steel and building materials costs. After this, it aims to secure two other contracts for ASPL's proposed projects — the KL Sentral project and Telekom Mont'Kiara.

Ireka is a property and construction player with a different business model. Over the past year or so, the company has quietly undertaken a major restructuring exercise that has unlocked substantial value and created an asset-light balance sheet with recurring income streams.

The company enjoyed impeccable timing in its restructuring exercise that has surfaced the value of most of its properties, degeared the balance sheet and substantially altered its business model. It took advantage of the boom in Kuala Lumpur property and hotel prices, appetite for Vietnam assets and liquidity from private equity funds. All of these market conditions have since changed — for the worse.

With the new corporate structure in place, Ireka has a steady stream of sustainable earnings of US\$5 million (RM16.5 million) a year from managing ASPL's US\$250 million asset base plus potential upside from a profit-sharing scheme, balanced with cyclical construction profits. With an order book of over RM800 million, the construction arm will provide steady earnings.



distributed back to shareholders. Thus, Ireka is effectively buffered against a potential property downturn. Yet, there are more than ample resources — via ASPL — to invest even more heavily when the property cycle turns up again. As at March 2008, ASPL had cash of US\$101.1 million for future investments, which will place it in a good position to make long-term acquisitions.

Mitigated Vietnam risk for ASPL

The recent concerns over Vietnam's overheating economy and plunging stock and property markets have affected sentiment for companies with exposure to the country. Ireka has indirect exposure to Vietnam via ASPL, and unfortunately this has dented the share prices of both Ireka and ASPL in recent weeks.

ASPL's share price in particular fell sharply, partly due to its shares being relatively illiquid. Its share price has fallen from around US\$0.84 to US\$0.63 — compared with an IPO price of US\$1 and a high of US\$1.10. At current prices, ASPL's shares are trading well below their NAV of US\$0.951 and RNAV of US\$1.128 per share, as of March 31, 2008.

Fortunately for ASPL, it had not gone big into Vietnam yet and its investments are relatively small. As such, risks are mitigated. It has so far proposed two joint-venture projects that have not started, and can be comfortably delayed without much holding costs. The initial investment cost for the two projects there is just US\$23.6 million — or under 10% of total asset base.

The first project there — announced in November 2007 — involves a US\$150 million GDV resort development on 50 acres of beachfront land along China Beach in Danang, in partnership with The Nam Khang Co Corp, a Vietnamese property company. ASPL will acquire a 60% stake in the project for US\$18 million with the remaining 40% owned by The Nam Khang.

The second project, announced on March 25, 2008, involves the development of two towers with GDV of US\$106 million on 4,500 sq m in District 1, in the heart of Ho Chi Minh City's financial district. The

YE March (RM m)	2007	2008	2009E	2010E
Turnover	188.6	330.6	366.0	370.7
Pretax profit	(33.2)	157.8	24.2	29.3
Net profit	(30.9)	157.6	17.9	21.6
EPS (sen)	(27.1)	138.3	15.7	19.0
P/E (x)	(3.2)	0.6	5.6	4.6
Dividend (sen)	8.8	10.0	6.0	7.5
Dividend yield (%)	10.0	11.4	6.8	6.5
NTA (RM)	0.61	2.12	2.21	2.33
Price/NTA (x)	1.09	0.42	0.40	0.38

along with Binh Duong Corp. ASPL has paid US\$5.6 million in deposits and contributions for the development rights, which was done when prices were trending down.

RNAV of RM1.77

With the recent plunge in ASPL's share price to US\$0.63, our estimation of Ireka's underlying RNAV has fallen to RM1.77 per share. Even if we impute a further discount to RNAV of 20%, the stock's medium-term fair value is RM1.42 — far higher than the current price of RM0.88. We maintain our buy recommendation.

It is important to note that ASPL's share price fall will not affect Ireka's underlying NTA valuation — which stands at a substantial RM2.12 per share in March 2008. Investors note that ASPL's current share price is presently undervalued relative to its NAV and RNAV.

Ireka's 19.6% stake in ASPL is currently worth RM101.9 million — more than its market capitalisation of RM100 million. This means Ireka's other assets — namely the construction arm and stream of management fees are accorded no value at all by the market.

Earnings recovery, low valuations

In FY March 2008, Ireka posted net profit of RM157.6 million in FY2008, or RM1.38 per share, boosted by exceptional gains totalling RM175.8 million from the disposal of properties to ASPL. Excluding exceptional gains, pre-tax losses fell from RM60.4 million in FY07 to RM18 million in FY08.

Construction losses have ceased with the completion of external projects. The recent steep rise in steel and building material costs will affect margins going forward — but the construction arm should still be profitable. We have factored



of RM17.9 million, or 15.7 sen per share in FY09, and RM21.6 million, or 19 sen per share, in FY10. At RM0.88, its shares are trading at P/Es of just 5.6 times FY09 and 4.6 times FY10 earnings, and at just 0.4 times NTA.

Good dividends, high yields

Ireka's asset-light balance sheet and steady earnings will also provide investors with relatively good and sustainable dividends. In April 2008, the company has officially set out its dividend policy — at 40% of net profits.

We expect Ireka to declare a gross 10 sen dividend for FY08, which translates into a gross yield of 11.4%. For FY09-10, we expect net dividends of six sen and 7.5 sen respectively — with high net dividend yields of 6.8% and 6.5% respectively.

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