

# Asia Analytica: Ireka back on profit path

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IREKA Corp Bhd is back on the profit path given that its core construction division has turned around after taking a hit from losses in external projects in the past few years.

Research house Asia Analytica said in a recent report that the company was expected to register an operating profit of RM29.6mil for the financial year ending March 31, 2009 (FY09) against losses of RM10.3mil in FY08 and RM31.7mil in FY07.

Despite the high construction material costs, particularly steel, in the first quarter ended June 30, it said Ireka's construction arm still posted decent margins of 4.8%.

"All of its construction order book is now for internal projects for its London-listed property fund arm, Aseana Properties Ltd (ASPL), and are profitable," it said.

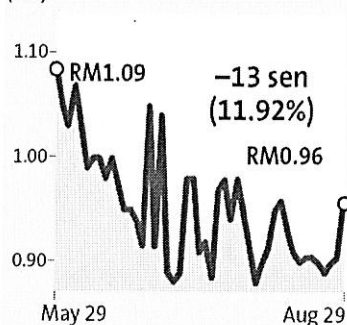
According to the research house, Ireka had been hit in the past by large construction losses due to rising building material costs for its older external projects.

These losses have since stopped with the completion of all the external projects.

"In the first quarter, the construction arm delivered pre-tax profit of RM2.53mil on revenue of RM52.9mil. Pre-tax margin was decent at 4.8% considering the very challenging operating environment," it said. "By comparison, this division posted a loss of RM28.1mil on revenue of RM61.5mil in the first quarter of FY08."

Over the past two years, Ireka had been going through a restructuring

Ireka  
(RM)



which had resulted in exceptional gains.

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

FY09 marks the first full year that earnings will reflect the new corporate structure.

"From ASPL, Ireka will earn stable annual management fees of 2%, or US\$5mil, from managing its US\$250mil of assets. Plus, it will also receive dividends and performance fees," it said.

Through ASPL, the company also has access to a large war chest for future investments in Malaysia and Vietnam – more so if value emerges during the current property downturn.

The company's outstanding construction order book stands at RM760mil, including the RM539.8mil Seni Mont'Kiara contract secured in June.

"This order book is likely to grow further given the pipeline of ASPL's new projects. Two other contracts

are likely to be secured later this year, namely the Sandakan Harbour Square and KL Sentral projects, both developed by ASPL. This should bring the order book to over RM1bil," it said.

The Seni Mont'Kiara project accounts for a sizeable 71% of the order book.

Asia Analytica said that despite operating in a cyclical industry, Ireka was a fairly defensive stock with relatively good and sustainable dividends.

"For FY09–FY10, we expect net dividends of six sen and 7.5 sen respectively. This will provide investors with net dividend yields of 6.3% and 7.8% in the respective years," it said.

It added that while concerns over Vietnam's overheating economy and plunging stock and property markets have affected sentiment for companies with exposure to the country, fortunately for ASPL, it had not gone big into Vietnam yet.

"It has so far proposed two joint-venture projects that have not started, and can be delayed without much holding costs," it said.

The initial investment cost for the two projects there is US\$23.6mil or under 10% of total asset base.

The first project involves a US\$150mil gross development value resort of 50 acres of beachfront land along China Beach in Danang, in partnership with The Nam Khang Co Corp, a Vietnamese property company.

The second involves the development of two towers with GDV of US\$106mil on 4,500 sq m in Ho Chi Minh City.

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