Ireka Corp's earnings seen as positive

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

▶ IREKA CORP BHD	2008	2009	2010E	2011E
TURNOVER (RM mil)	330.6	323.7	369.7	369.7
NET PROFIT (RM mil)	157.6	6.0	14.3	14.3
EPS (sen)	138.3	5.3	12.6	12.5
ROE (%)	66.7	2.6	5.9	5.6

Business prospects

DESPITE the more subdued outlook ahead, Ireka Corp Bhd's revenues are largely assured and earnings should look quite positive for the next two years.

Revenue over the next few years will be supported by a large unbilled orderbook totaling RM722 million. The steep fall in building material and commodity prices from 4Q08 onwards has also removed major cost pressures that crimped margins earlier.

The product mix of Ireka's order-book will improve going forward and this will boost margins. The older projects were the ones most affected by higher costs due to lower original contract prices.

These include I-Zen@Kiara 1 (completed in June 2008), Tiffani by i-Zen (which will complete in 2Q09) and One Mont'Kiara (which will complete in 2Q10). As these 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 in July 2008, which forms the bulk of the outstanding unbilled order-book.

Ireka has a good business model in place. It currently enjoys a steady stream of sustainable earnings, balanced with cyclical construction profits. The construction arm's large order-book will keep it busy for the next 2-3 years and margins should look better.

With all its construction jobs undertaken for "in-house" projects, from London property arm, Aseana Properties Ltd (ASPL), there should be almost negligible default or late payment risks, which is commonly faced by the construction industry during a major slowdown.

From ASPL, Ireka will earn stable annual management fees, plus dividends and upside from performance fees, although that is probably unlikely in the near term given the weak state of the property market in Vietnam and Malaysia.

Through ASPL it also has access to a large war chest for future investments in Malaysia and Vietnam. This gives Ireka a far larger scale of operations than otherwise possible due to its small size. An asset-light balance sheet also insulates the company from the current property downturn. As such, its balance sheet should remain reasonably healthy and can sustain high dividends with funding needed only for ongoing construction activities.

Recommendation

At 70 sen, Ireka's shares are trading at price earnings valuations of just 5.6 times for FY10-11 and well below their latest book value of RM2.06.

We note that ASPL's share price in London has also recovered somewhat after plunging since late last year. Its shares are currently trading at US$0.20 (RM0.70), up from US$0.12 last quarter although still well below its IPO price of US$1 and net asset value of US$0.891 as at Dec 2008.