

Ireka's Eureka

IREKA Corp Bhd is shaping up to be an undervalued property and construction stock. The company has surfaced the value of several property assets over the past few months, which will result in a large jump in earnings and NTA (net tangible asset) – to around RM2.80, some 78% above its current share price of RM1.57.

Ireka was founded in 1967 and listed in 1995. It had constructed some of Malaysia's major infrastructure projects in the past. After the 1997-98 slowdown, its focus shifted more to property, where it has since carved a name for its "iZen" condominium projects in Mont' Kiara (many in partnership with Singapore's CapitalLand Ltd) and as the owner of Westin Kuala Lumpur.



Surfacing value

Investors appear to have largely missed out on its recent corporate moves – namely the sale of the Westin Kuala Lumpur in January 2007 and the listing of its property portfolio on the London Stock Exchange in April 2007, which have enabled Ireka to unlock properties worth RM675.8 million, pare debts and change its business model to a more sustaining one.

The Westin impact will be reflected in its March 2007 results, and the London listing exercise in its June 2007 results. We expect a re-rating then as Ireka should book in total profits of RM205 million, or RM1.78 per share. NTA per share should rise from RM1.02 (as at end-2006) to around RM2.80 by June 2007.

Sale of Westin Kuala Lumpur

On Jan 10, 2007, Ireka completed the sale of the 55-storey Westin Kuala Lumpur along Jalan Bukit Bintang to Newwood Assets Ltd for RM455 million cash. The pricing set a new benchmark of over RM1 million per room for Kuala Lumpur hotels.

Ireka will book in a gain of RM27.2 million from the sale. More importantly, it will alleviate the bulk of the company's debts (net debt totalled RM564.6 million at end-2006), as the hotel was an unprofitable asset that had long placed a drag on balance sheet and earnings.

London-listed Aseana Prop

More interesting was the listing of Ireka's property portfolio on the London Stock Exchange (LSE), under Aseana Properties Ltd (ASPL). ASPL made its debut on April 5, 2007 on the LSE's Main Market. It is currently trading at US\$1.06 (RM5.65), compared with its offer price of US\$1, and has a market capitalisation of US\$265

million. ASPL is a property investment company focussing on acquiring and developing properties in Malaysia and Vietnam. It was listed by Ireka, which injected in several properties for a 20% stake. ASPL also raised US\$162 million, and has a US\$250 million asset base. Ireka will solely manage ASPL and its properties for a management fee, which will provide recurring income.

ASPL's listing marked a feat of sorts. It was the first listing of a Malaysian firm in the UK in recent history. Secondly, Ireka was able to obtain full value of its properties under development, which were injected based on discounted cash flows. Thirdly, ASPL's ability to raise US\$162 million underscores confidence in Ireka's projects, branding and property management expertise. Under the ASPL listing exercise, Ireka sold to ASPL stakes in two companies with four properties under construction – three in Mont' Kiara and one in Sabah. The purchase consideration was RM218.8 million, satisfied by a 20% stake in ASPL and RM50 million cash. The projects are One Mont' Kiara by iZen, Tiffani by iZen, iZen @ Kiara 1 and Sandakan Harbour.

The valuation was based on discounted cash flow basis, allowing Ireka to realise the value of its projects upfront, and book in total profits of RM175.8 million. At the same time, it will continue to develop the projects and earn management fees on ASPL's US\$250 million portfolio.

ASPL offers exposure to Vietnam's robust growth prospects, where it is reportedly evaluating five projects with a gross development value of US\$700 million. ASPL's expansion should also provide more jobs for Ireka's construction arm, which has a RM600 million order book.

Undervalued

The sale of RM675.8 million worth of assets should wipe out most of Ireka's debts and leave room for higher dividends. For the current financial year (FY Mar 2007), Ireka declared an interim dividend of 8.8 sen, paid on March 8, 2007. This translates into a yield of 5.6%, excluding a possible final dividend to be declared later.

The 20% stake in ASPL is now valued at US\$55 million, or RM185 million – more than Ireka's market capitalisation of RM179 million. That means no value is accorded to its other assets, such as its established construction arm, and several small plots of land, including 2ha in Mont' Kiara (book value: RM69.4 million) and 4.5ha in Kajang (book value: RM12.5 million).