Ireka still waiting for Aseana's cash distribution

BY **YEN NE FOO**

They say good things come to those who wait. Yet, as time passes, even the most patient will wonder whether the prize is worth their while.

In the case of Ireka Corp Bhd, it has waited a long time for Aseana Properties Ltd — a 23%-owned associate company listed on the London Stock Exchange — to wind down its business, realise all its assets and distribute the cash among shareholders. Depending on prevailing foreign exchange rates, Ireka's portion of the capital distribution would work out to about RM250 million.

When Aseana's shareholders approved the asset disposal and capital distribution plan on June 22, the idea was for it to continue trading through 2018 without making new investments. At the time, Aseana's promise was to distribute at least US$20 million in 2015 in two tranches, subject to relevant consent and approvals.

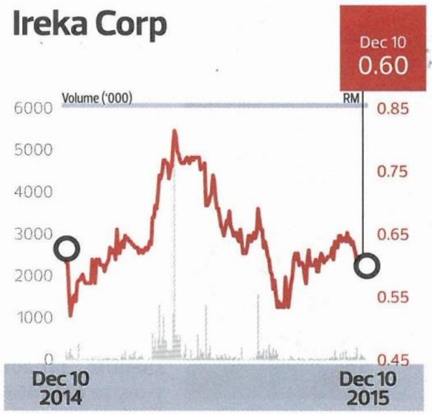
In fact, the first US$10 million distribution was meant to have happened more than two months ago, at the end of September, and Ireka had expected RM10 million from that first tranche. Had the RM10 million come through, it would have helped halve Ireka's RM19.74 million net loss (-11.55 sen per share) in its second quarter ended Sept 30 (2QFY2016).

But this was not to be. Instead of providing a boost, the bulk of Ireka's net loss came from its share of losses at Aseana of RM18.5 million. The latter attributed its losses to a weaker ringgit and operating losses at Four Points by Sheraton Sandakan hotel, Harbour Mall Sandakan and City International Hospital.

There is no immediate prospect of a Christmas cheque from Aseana either. In a Dec 3 update to the LSE, Aseana said it sought lenders' approval for the first US$10 million capital distribution "at the end of August but at present, consent from two lenders remains outstanding", without identifying the lenders.

"We understand market conditions in Malaysia, caused by the recent political events in the country and the depreciation of the ringgit this year, have caused concerns for a number of the company's lenders who have therefore become cautious about the company returning capital to shareholders. At the present time, the board believes further discussion with the lenders and more portfolio realisations will help resolve the situation," Aseana added.

Even so, Aseana, while reiterating its "firm intention" to distribute the cash, said "it is possible that capital repayments may not occur until there have been further realisations within the portfolio and the company has paid down a portion of its project-related debts".



According to its website, 30% to 40% of its funds are slated for investment in Malaysia while 60% to 70% are for projects in Vietnam.

As at Sept 30, Aseana's cash balance stood at US$25 million, a figure it expects to grow by year end. Its unaudited net asset value (NAV) stood at US$134.4 million (down from US$148.2 million at end-June 2015) while its unaudited revised net asset value (RNAV) slipped to US$207.2 million (from US$229.7 million at end-June 2015) "mainly due to foreign currency translation losses of US$13.7 million" even as the ringgit weakened against the greenback. As at end-September, NAV per share stood at 63.4 US cents (versus 69.9 US cents) while RNAV per share was at 97.7 US cents (versus US$1.084).

Aseana's Dec 2 quarterly investor update did not say what its revenue and losses for the quarter ended Sept 30 were. In the first six months of the year, it made a net loss of US$6.6 million on revenue of US$16.9 million. Its cash pile amounted to US$17.06 million as at June 30 but its total liabilities stood at over US$257 million.

When contacted, Ireka also puts Aseana's delay down to prudence amid deteriorating economic conditions and outlook. "The lenders recognise the presence of cash in the company (Aseana) for such distribution but being prudent, certain bankers would like to see the cash remain in the company in case the business environment deteriorates in the coming year," it says in an email response to *The Edge*. "They have said they would like to see more realisations of Aseana's assets before they grant the approval."

For Ireka, the latest setback in Aseana's planned capital distribution presents some unanticipated concerns. First, it admits that the delay in cash distribution has affected the property developer-cum-builder's cash flow position. It adds, though, that a tighter cash flow does not impede its existing operations or plans.

"Ireka had expected to receive about RM10 million in the first distribution and at least another RM10 million in the second. However, given the current economic and market conditions, we are exercising caution in implementing our investment plan. Our priority is to focus on securing approvals for our current development projects and be ready to launch them when the property market improves," it explains.

The second cash distribution will not happen until the first US$10 million has been distributed and Aseana, while liasing intensively to obtain the necessary consents, did not provide a timeline for it in its Dec 3 statement.

Ireka, in its notes accompanying its end-September accounts, however, said Aseana "intends to make the second distribution at the earliest possible date in 2016, subject to obtaining the requisite consents and confirmatory certificates".

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Assets in Aseana's portfolio illiquid and chunky by nature

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In its Dec 3 statement, Aseana said "progress in selling other assets is also well underway, although no further sales are yet at a stage that the board feels able to announce the likely terms or timing".

Apart from an 8.3% stake in Vietnamese property developer, Nam Long Investment Corp, most assets in Aseana's portfolio are illiquid and chunky in nature. Negotiations for their disposal could take years. These assets include parcels of land, a hospital in the International Hi-Tech Healthcare Park and a property development in Ho Chi Minh City comprising villas and high-rise apartments. That reduces the chances of a capital distribution happening quickly, given that lenders want to see more cash from asset sales first.

Finally, the reason for the lenders withholding their consent — Malaysia's lacklustre economic climate — is expected to be in play in the foreseeable future.

A marked slowdown in Malaysia's property market is already making it challenging for Aseana to sell its luxury residential developments, such as The RuMA Hotel and Residences in Kuala Lumpur. The RuMA was only 49% taken up as at July 31 and Aseana reported that it was broadening its marketing focus to overseas markets like Taiwan, Singapore, Japan and the Middle East in the hope of securing more sales. The company also has operating assets, such as Aloft Kuala Lumpur Sentral hotel, Sandakan Harbour Square mall and Four Points by Sheraton Sandakan hotel, up for sale.

The significantly weaker ringgit has given rise to huge unrealised translation losses for Aseana as 70% of its assets are based in Malaysia while its accounts are denominated in US dollars. This has had an adverse impact on its income statement and shareholders' funds. A persistently weak ringgit will not make Aseana's job of selling its Malaysian assets easy.

Ireka says it is confident the cash will come from Aseana "in due course". In the meantime, the waiting continues. E