

Ecofirst land bank fast expanding

By: [NG BEI SHAN](#)



Tiong: 'When I see a piece of land and I have a gut feeling that I can do it, I will go ahead.'

EVEN before small property developer Ecofirst Consolidated Bhd has completed the acquisition of a 62-acre piece of land fronting the Middle Ring Road II at Ulu Kelang from Zurich Insurance (M) Bhd, it now has inked a deal to buy another 25 acres next to the 62-acre parcel.

It will be buying the 25-acre plot from large property player IGB Corp Bhd, which has a market cap of RM3.84bil. Ecofirst has a market capitalisation of a mere RM248mil.

Ecofirst signed an option agreement with IGB to acquire the 25-acre land for RM62.8mil.

Coupled with the land purchase from Zurich Insurance, this means Ecofirst is committing a total of RM207.8mil for buying land in the Ulu Klang area. This clearly is a big feat for Ecofirst.

As at its third quarter ended Feb 28, 2015, Ecofirst had RM8.73mil in cash and RM139mil of borrowings. It reported a small profit of RM1.4mil for the nine-month period, compared to RM34mil in the preceding nine months. So is Ecofirst biting off more than it can chew?

"When I see a piece of land and I have a gut feeling that I can do it, I will go ahead," its CEO Datuk Tiong Kwing Hee quips.

The new 25-acre piece should complement the mixed project that Ecofirst has planned for the Zurich land.

The price Ecofirst is paying for the IGB land works out RM57.45 per sq ft. In comparison, it is paying RM54 per sq ft for the land it is buying from Zurich Insurance.

Tiong points out that the IGB land is strategically located and comes at a "good price".

To start its biggest development just yet, Ecofirst has secured a RM130mil loan from Malaysian

Industrial Development Finance Bhd to fund the acquisition of the Zurich parcel that costs RM145mil.

That will increase its gearing level but it will fund the second parcel from operational cashflow or a rights issue.

"We're working closely with our bankers. They're comfortable to back us because they think we got an attractive price and there could be more upside to the land value in the near future," he explains.

Its luxury condominiums known as Upper-East@Tiger Lane in Ipoh, Perak will start to contribute to its income next quarter, boosting its earnings further, he adds.

Of the 529 units of the condominiums it offered, more than 60% were taken up.

On top of that, its two malls - 1Segamat mall in Johor and South City Plaza in Seri Kembangan will be contributing positively to its operating cashflow.

According to him, the RM1.4mil profit recorded for the third quarter was mainly from the recurring income of these two malls.

He targets to seal the deal with Zurich in the second half of the year before it can launch 6.5 acres of it with a gross development value of RM422mil. The first phase includes 1,631 serviced suites and 19 units of two-storey commercial lots and will keep the company busy for three years.

At the same time, Ecofirst estimates the development cost for phase one, including the pro-rated land, at RM304mil, while the gross development profit is expected to be RM118mil. Tiong intends to pay for the 25 acres with that profit.

The company has 30 months to pay the remaining RM56.52mil to IGB.

The down payment of RM6.28mil would be settled via a combination of proceeds from its private placement last year which saw it raise RM20mil and internally generated funds.

He plans to launch the serviced suites at RM750 per sq ft, which he considers reasonable due to its prime location, good connectivity and a mere six to seven minutes drive to KLCC.

The Ulu Kelang project is expected to contribute to Ecofirst's income for the next eight to ten years. Should it proceed to acquire the 25-acre parcel, the project would be even more significant to the company.

With a collective of 87 acres in the same area, Ecofirst can do a lot more.

It plans to improve the connectivity of the two parcels by building a road on IGB's land and make it the egress for vehicles exiting the Middle Ring Road. On the other hand, the 62-acre parcel would become the ingress for vehicles entering the Middle Ring Road.

Tiong says it plans to roll out the first phase of the Zurich land before going into detail on the new parcel.

"Right now, we just want to focus on carrying out an EGM to get shareholders' approval for the acquisition."

Ecofirst is required to obtain shareholders' approval within four months from the execution date, with an automatic extension of two months from the expiry of the four months upon request.

The land is currently occupied by other sub-tenants, whom IGB had taken steps to evict.

The move to buy the second parcel makes sense. Just that timing and its cashflow will be of essence.

What it needs to do now is to ensure that it can time its first project well so that the second parcel would be secured.

But the hardy businessman said he remains committed in growing the company.

He managed to revive the stalled 1Segamat mall in Johor into a fully occupied mall and loss making South City Plaza in Seri Kembangan into a cashflow generating mall.

Since beginning of the year, Tiong has been increasing his stake from slightly less than 10% to close to 15% now.

At IGB's end, the property heavyweight will be raking in a handsome profit of close to 40% or RM17.7mil from the disposal. IGB bought the land for RM36mil 21 years ago and it carried a value of RM39.4mil as at Dec 31, 2013.

But that is not particularly significant, for IGB makes an average profit of some RM190mil per year for the last five years.

That means the profit made from the land divestment could make up less than 10% of IGB's bottomline. Asked how the deal came about, Tiong says: "Perhaps it's good chemistry. Maybe they see something in us. We're a cost-prudent company."