

IGB REIT

1HFY21 Broadly Within

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1HFY21 realised net income (RNI) of RM88.0m came in broadly within our (42%), but below consensus (34%), expectations, as we expect a stronger 2HFY21 premised on a reopening of the economy. 1HFY21 GDPU of 2.68 sen is also broadly within (44%). Maintain FY21-22E earnings of RM208-293m. Maintain MARKET PERFORM and TP of RM1.70 on FY22E valuation as we expect earnings to normalise by then.

1HFY21 realised net income (RNI) of RM88.0m came in broadly within our expectation at 42%, but below consensus' at 34%. This is due to our expectation of earnings picking up in 4QFY21 with the reopening of the economy, premised on the high roll-out of Covid-19 vaccinations in 3QFY21, and in conjunction with seasonally strong 4Q period. A 2QFY21 dividend of 1.35 sen was declared, which included a 0.02 sen non-taxable portion bringing 1H21 dividends to 2.68 sen which is also broadly within at 44% of our FY21 estimate of 6.07 sen, implying 3.7% gross yield.

Results' highlight. YoY-Ytd, top-line was down marginally by 1% as a result of MCO 2.0 which affected tenants in Jan-Feb 2021 and in 2QCY21, while FY20 saw rental weakness since mid-March due to the pandemic. As a result, RNI was flat on the back of marginally lower operating cost (-4%). QoQ, RNI was down by 15% on the back of higher rental support provided to tenants during the quarter, but lower operating cost (-41%) allowed RNI to increase marginally by 1.4%. Gearing remains stable at low level of 0.23x.

Outlook. The impact of a worsening Covid-19 situation in FY21 will continue to exert pressure in 1QFY21-3QFY21 and the group will strive to retain tenants through rental support for affected tenants. FY21-22 will see minimal expiries for both malls, at <30% which provides some comfort during these current economic conditions. We do not expect the acquisition of Southkey Mall in Johor to happen in the near term and reckon that it would take at least one reversion cycle or longer in light of the Covid-19 pandemic for the asset to stabilise before being acquired by IGBREIT, likely by FY22-23.

Maintain FY21-22E CNP of RM208-293m on flattish to low single-digit positive reversions and minimal expiries. Our FY21-22E GDPU of 6.07-8.27 sen (NDPU of 5.46-7.44 sen) suggest gross yield of 3.7-5.0% (net yield of 3.3-4.5%).

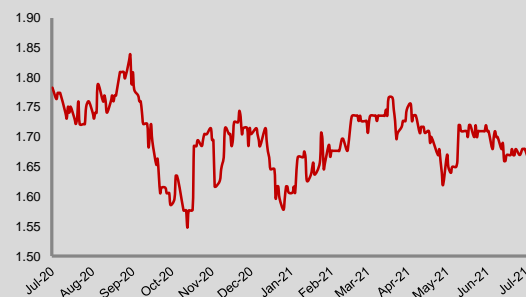
Maintain MARKET PERFORM and TP of RM1.70 on FY22E GDPS/NDPS of 8.27 sen/7.45 sen and on an unchanged +1.2ppt spread to our 10-year MGS yield target of 3.60%. Our applied spread is at +0.5SD, on par with other MREITs under our coverage. We expect IGBREIT to rebound towards the year-end with earnings normalizing in FY22 assuming a successful vaccination roll-out paving the way for economy reopening by 4QCY21. We will continue to monitor the situation closely but opt to remain cautiously optimistic on improvements to earnings going forward.

Risks to our call include: bond yield expansion, weaker-than-expected rental reversions.

MARKET PERFORM ↔

Price : RM1.66
Target Price : RM1.70 ↔

Share Price Performance



KLCI 1,512.53
YTD KLCI chg -7.0%
YTD stock price chg -3.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	IGBREIT MK Equity
Market Cap (RM m)	5,920.5
Shares Outstanding	3,566.6
52-week range (H)	1.90
52-week range (L)	1.59
3-mth avg daily vol:	608,053
Free Float	23%
Beta	0.6

Major Shareholders

IGB Bhd	48.6%
Employees Provident Fund Board	10.5%
Kumpulan Wang Persaraan Diperbadankan	7.5%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	465.2	403.9	533.2
EBIT	316.7	253.3	338.0
PBT	242.8	208.4	293.3
Net Profit (NP)	242.8	208.4	293.3
Core NP (RNI)	236.8	208.4	293.3
Consensus (NP)	n.a.	259.2	309.7
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	6.7	5.8	8.1
Core EPS growth (%)	-25.4%	-12.7%	40.0%
NDPS (sen)	6.1	5.46	7.44
BVPS (RM)	1.07	1.07	1.07
Core PER (x)	25.0	28.6	20.4
Gearing (x)	0.23	0.23	0.23
Net Div. Yield (%)	3.7	3.3	4.5



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Results Highlights								
RM m	2Q21	1Q21	QoQ	2Q20	YoY	6MFY21	6MFY20	YoY-Ytd
Gross Rental Income (Gross Revenue)	84.9	99.4	-14.6%	62.0	37.0%	184.4	187.0	-1%
Operating Costs	-21.8	-37.1	-41.2%	-24.6	-11.5%	-58.8	-61.2	-4%
Net Rental Income	63.1	62.4	1.2%	37.4	69.0%	125.5	125.8	0%
Interest Income	1.7	1.7	-1.9%	1.4	20.2%	3.4	3.2	7%
Other non-operating income	5.0	4.0	25.0%	1.0	400.0%	9.0	1.0	800%
Total Trust Income (Net Investment Income)	69.8	68.1	2.5%	39.8	75.6%	137.9	129.9	6%
Expenditure	-7.3	-7.3	-0.1%	-6.0	20.7%	-14.6	-14.6	0%
Financing Costs	-13.2	-13.1	1.1%	-13.2	0.0%	-26.3	-26.5	-1%
Fair Value Adjustments	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax Income	49.3	47.7	3.3%	20.5	140.6%	97.0	88.9	9%
Taxation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Income after Tax	49.3	47.7	3.3%	20.5	140.6%	97.0	88.9	9%
Distribution Income	49.3	48.6	1.4%	19.5	152.8%	97.9	94.0	4%
Realized Net Income	44.3	43.7	1.4%	19.5	127.3%	88.0	87.9	0%
EPU (sen)	1.24	1.23	1.3%	0.55	126.5%	2.47	2.47	0%
GDPU (sen)	1.35	1.33	1.5%	0.62	117.7%	2.68	2.56	5%
NAV/unit (RM)	1.07	1.07		1.07		1.07	1.07	
Gearing (x)	0.23	0.23		0.23		0.23	0.23	
NPI Margins	74.4%	62.7%		60.3%		68.1%	67.3%	
RNI Margins	52.2%	44.0%		31.5%		47.7%	47.0%	
Source: Company, Kenanga Research								

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
STOCKS UNDER COVERAGE																	
AXIS REIT	1.89	2,733.9	Y	12/2021	3.6%	2.5%	11.9%	1.6%	21.0	18.9	18.9	1.5	1.5	6.2%	4.6%	2.15	OP
CAPITALAND																	
MALAYSIA MALL TRUST	0.630	1,329.6	N	12/2021	-12.0%	42.3%	-33.9%	141.6%	21.0	15.8	12.6	0.5	0.5	2.6%	6.0%	0.580	MP
IGB REIT	1.66	5,920.5	N	12/2021	-13.2%	32.0%	-12.0%	40.7%	25.0	28.6	20.4	1.6	1.6	6.2%	3.3%	1.70	MP
KLCCP STAPLED GROUP	6.75	12,186.0	Y	12/2021	4.9%	6.9%	8.2%	10.3%	22.5	20.5	18.8	0.9	0.9	5.4%	4.3%	7.35	OP
SENTRAL REIT	0.900	964.6	N	12/2021	3.0%	2.6%	1.0%	0.7%	11.3	12.9	11.3	0.7	0.7	5.3%	6.9%	0.940	OP
PAVILION REIT	1.37	4,175.4	N	12/2021	9.1%	7.9%	51.7%	13.1%	34.3	22.8	19.6	1.1	1.1	2.5%	4.0%	1.30	MP
SUNWAY REIT	1.39	4,760.5	N	12/2021	7.6%	5.0%	-21.3%	21.7%	17.4	23.2	17.4	0.9	0.9	5.4%	4.0%	1.45	MP
Simple Average					0.4%	14.2%	0.8%	32.8%	21.6	20.4	17.0	1.0	1.0	4.8%	4.7%		

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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