

28 July 2022

IGB REIT

Steady Results

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2QFY22 net profit of RM83.5m (+88% YoY) lifted 1HFY22 net profit to RM168.9m (+92% YoY) – above our expectation. DPU of 2.45 sen (in 2QFY22) and 4.96 sen (in 1HFY22) are ahead of our full-year estimate of 7.4 sen. We have tweaked our FY22-FY23 earnings forecasts higher by 14% each. Maintain MARKET PERFORM with a revised TP of RM1.65 based on a target yield of 6.0% (which implies a 1.5% yield spread above our 10-year MGS assumption of 4.5%). There is no adjustment to our TP based on ESG for which it is given a 3-star rating as appraised by us.

Above expectations with 1HFY22 net profit of RM168.9m (+92% YoY) which accounted for 58%/55% of our/consensus full-year estimates. DPU of 2.45 sen for 2QFY22 was announced, taking 1HFY22 DPU to 4.96 sen (or 67% of our full-year estimate).

Results' highlights. YoY, on the back of a 58% jump in gross revenue to RM133.8m, net profit soared 88% to RM83.5m in 2QFY22 as lease revenue recovered (+75%) from the Covid-19 disruptions in 2QFY21. **QoQ**, topline was flat while net profit eased by 2%. For 1HFY22, gross revenue stood at RM267.6m (+45% YoY) while net profit rose 92% YoY to RM168.9m amid higher net property income margin (at 79.8% versus 68.1% previously). In terms of net property income breakdown, Mid Valley Megamall contributed 71% (or RM150.7m) while the balance 29% (or RM62.8m) came from The Gardens Mall. Both assets saw high occupancy rate at 99.7% as of end-June 2022 (same as end-March 2022). Gearing level was unchanged at 23%.

Outlook. With the Malaysian economy on the mend, the recovery momentum is expected to continue as average gross monthly rental income has rebounded from the 2020/2021 levels to be almost back to the 2019 threshold while footfall is currently at c.90%-95% of pre-pandemic number (of an average of 3m per month). Nonetheless, the underlying business outlook may be clouded by cautious consumer spending amid a rising inflationary environment and concerns over a possible recession.

Tweaking our forecasts. Following the 1HFY22 performance, we have adjusted our net profit projections to RM333.4m (+14%) for FY22 and RM341.1m (+14%) for FY23 after tweaking up our lease income and margin assumptions. Our FY22 and FY23 gross DPU forecasts now stand at 9.7 sen (from 7.4 sen) and 9.9 sen (from 7.5 sen), respectively, which imply yields of 6.1%-6.2%.

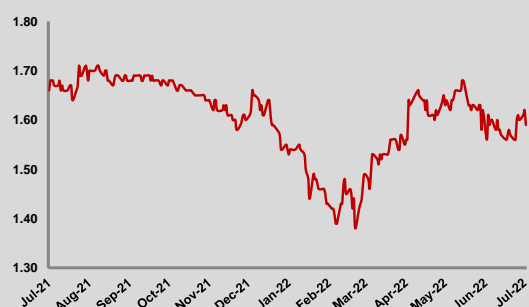
Still MARKET PERFORM. We have revised our TP to RM1.65 (from RM1.50) based on a target yield of 6.0% (which is derived from a 1.5% yield spread above our 10-year MGS assumption of 4.5%). This takes into consideration IGBREIT's quality asset portfolio (as reflected by the high occupancy rates) notwithstanding the competitive retail industry environment the group is operating in.

Risks to our call include: (i) bond yield contraction/expansion, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

MARKET PERFORM ↔

Price : RM1.59
Target Price : RM1.65 ↑

Share Price Performance



KLCI 1,470.71
YTD KLCI chg -6.2%
YTD stock price chg -3.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	IGBREIT MK Equity
Market Cap (RM m)	5,691.3
Shares Outstanding	3,579.4
52-week range (H)	1.71
52-week range (L)	1.38
3-mth avg daily vol:	1,068,643
Free Float	22%
Beta	0.4

Major Shareholders

IGB Bhd	48.4%
Employees Provident Fund Board	11.5%
Kumpulan Wang Persaraan Diperbadankan	7.4%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	399.5	532.7	547.4
EBIT	253.2	388.1	399.4
PBT	200.1	333.4	341.1
Net Profit (NP)	200.1	333.4	341.1
Income Distribution	220.6	348.4	356.1
Consensus (NP)	n.a.	306.6	330.0
Earnings Revision	n.a.	14%	14%
Core EPS (sen)	5.6	9.3	9.5
Core EPS growth (%)	-15.6	66.1	4.4
GDPU (sen)	6.03	9.73	9.89
BV/Share (RM)	1.07	1.07	1.07
Core PER (x)	28.4	17.1	16.7
Gearing (x)	0.23	0.23	0.23
Net Div. Yield (%)	3.8	6.1	6.2

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Results Highlights								
FYE 31 Dec (RM m)	2Q22	2Q21	YoY	1Q22	QoQ	1H22	1H21	YoY
Gross revenue	133.8	84.9	58%	133.8	0%	267.6	184.4	45%
Property operating expenses	-28.0	-21.8	29%	-26.1	7%	-54.1	-58.8	-8%
Net property income	105.7	63.1	67%	107.7	-2%	213.4	125.5	70%
Interest income & other income	0.4	1.7	-74%	0.5	-4%	0.9	3.4	-74%
Other non-operating expenses	-22.7	-20.5	11%	-22.8	0%	-45.5	-40.9	11%
Pretax profit	83.5	44.3	88%	85.4	-2%	168.9	88.0	92%
Taxation	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit	83.5	44.3	88%	85.4	-2%	168.9	88.0	92%
Income Distribution	87.8	48.1	82%	89.7	-2%	177.4	95.5	86%
EPU (sen)	2.33	1.24	88%	2.39	-3%	4.72	2.47	91%
DPU (sen)	2.45	1.35	81%	2.51	-2%	4.96	2.68	85%
Key Operating Metrics:								
Portfolio occupancy rate (eop)	99.7%	n.a.	-	99.7%	-	99.7%	n.a.	-
Net property income margin	79.0%	74.4%	-	80.5%	-	79.8%	68.1%	-
Gearing (eop)	23%	23%	-	23%	-	23%	23%	-

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 Price	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.	1-Yr. Fwd.	(RM)	
STOCKS UNDER COVERAGE																		
AXIS REIT	1.93	3,167.2	Y	12/2022	8.7%	9.1%	10.4%	9.9%	24.1	21.4	19.3	1.2	1.2	6.2%	4.3%	1.95	MP	
CAPITALAND MALAYSIA TRUST	0.570	1,228.5	N	12/2022	20.9%	3.0%	n.m.	-1.7%	n.m.	14.5	14.9	0.5	0.5	3.7%	6.9%	0.51	MP	
IGB REIT	1.59	5,691.3	N	12/2022	33.3%	2.8%	66.1%	4.4%	28.4	17.1	16.7	1.5	1.5	8.8%	6.1%	1.65	MP	
KLCCP STAPLED GROUP	7.04	12,709.5	Y	12/2022	-4.4%	17.4%	-1.0%	20.6%	20.1	19.6	19.0	1.0	1.0	5.4%	4.6%	6.45	MP	
SENTRAL REIT	0.965	1,034.3	N	12/2022	9.0%	1.8%	-2.5%	0.7%	12.8	12.8	12.7	0.8	0.8	5.3%	6.7%	0.890	MP	
PAVILION REIT	1.32	4,029.7	N	12/2022	25.0%	2.0%	91.4%	2.2%	33.0	16.5	16.5	1.1	1.0	6.0%	5.6%	1.30	MP	
SUNWAY REIT	1.46	5,000.2	N	12/2022	7.6%	5.0%	-21.3%	21.7%	21.9	17.0	15.6	1.0	1.0	5.4%	5.0%	1.50	MP	
Simple Average					14.3%	5.8%	20.6%	7.9%	23.1	17.4	16.8	1.0	1.0	5.5%	5.4%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
	OVERALL		★	★	★	
SPECIFIC	Waste Management	★	★	★		
	Energy Efficiency	★	★	☆		
	Digital Transformation	★	★	★		
	Customer Safety / Protection	★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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