

18 April 2024

## IGB REIT

### Room to Bring in Higher-Yielding Tenants

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IGBREIT's 1QFY24 results and distribution were within expectations. We understand that one of its key tenants, Metrojaya, may give up part of its current floor space, as it appears to explore digital strategies. This potentially provides IGBREIT the opportunity to bring in higher-yielding new tenants. We maintain our forecasts, TP of RM1.68 and MARKET PERFORM call.

IGBREIT's 1QFY24 core net profit of RM102.3m met expectations, making up 27% and 26% of our full-year forecast and full-year consensus estimate, respectively. The group also announced a distribution of 2.96 sen, on track to meet our full-year forecast of 10.8 sen.

**YoY**, its 1QFY24 revenue increased by 5% attributable to higher rental income in both Mid Valley and The Gardens Mall. That said, we noted that average occupancy rates closed at 94.3% (from near 100%) with a key tenant in Mid Valley (i.e. Metrojaya) surrendering its tenanted net lettable area of c.200k sf at end-Mar 2024 for reconfiguration. Its net property margin declined slightly to 76.4% (-0.3ppt) owing to its attached cost. Excluding the fair value losses, its core net profit comes in at RM102.3m (+6%).

**QoQ**, its revenue increased by 3% likely due to positive rental reversions as occupancy rates were fairly full. Its core net income rose by 10% due to the low-base effect from the preceding quarter arising from hiked operating expenses, likely in lieu of year-end seasonal expenses and upkeep.

**Outlook.** In the immediate term, IGBREIT could continue to see encouraging seasonal spending supported by Hari Raya festivities. Aside from this, we opine that its assets should remain relevant thanks to their wide range of tenants that cater to various income groups. With regards to the tenancy status of Metrojaya, we understand from recent media articles that they are slated to rebrand to "MJ by Metrojaya" which could refresh the vibrancy of footfalls when it reopens during the targeted 3QFY24 period. That said, as Mid Valley is already supporting a strong departmental store anchor tenant via Aeon, and with Metrojaya anecdotally experiencing lower foot traffic, it may downsize its physical store front as it pivots into the online market place. Should this come to pass, it may enable IGBREIT to reoptimize its NLA to bring in more tenants, similar to SUNREIT's recent strategy with Sunway Pyramid.

**Forecasts.** Maintained. As of now, we have not reflected any potential rental income losses from Metrojaya as the departmental store appears to be still maintaining its presence in Mid Valley.

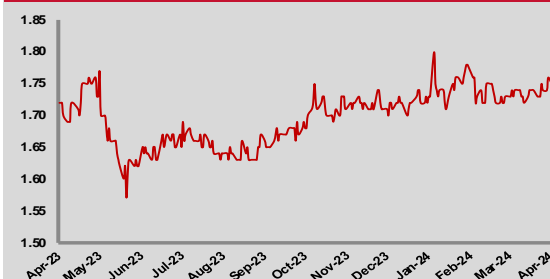
**Valuations.** We also maintain our TP of RM1.68 based on an unchanged target yield of 6.5% (derived from a 2.5% yield spread above our 10-year MGS assumption of 4.0%) against FY25F's 10.9 sen distribution per unit. This considers IGBREIT's strong asset portfolio, evident in its high occupancy rates. However, this is likely already reflected into its share price given the recent interest in the stock even in the face of inflationary challenges. There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us (see Page 4). Maintain **MARKET PERFORM**

**Risks to our call include:** (i) bond yield expansion, (ii) higher/lower-than-expected rental reversions, (iii) lower-than-expected occupancy rates, and (iv) loss of footfall to new malls.

## MARKET PERFORM ↔

Price : **RM1.75**  
Target Price : **RM1.68** ↔

### Share Price Performance



KLCI 1,539.77  
YTD KLCI chg 5.9%  
YTD stock price chg 1.7%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker IGBREIT MK Equity  
Market Cap (RM m) 6,309.5  
Shares Outstanding 3,605.4  
52-week range (H) 1.80  
52-week range (L) 1.57  
3-mth avg. daily vol. 2,390,404  
Free Float 27%  
Beta 0.5

### Major Shareholders

IGB Berhad 48.1%  
Employees Provident Fund 11.6%  
Kumpulan Wang Persaraan 7.0%

### Summary Earnings Table

FY Dec (RM m)	FY23A	FY24F	FY25F
Turnover	604.3	637.1	657.8
EBIT	407.9	427.5	436.0
PBT	517.8	376.3	384.8
<b>Net Profit (NP)</b>	<b>517.8</b>	<b>376.3</b>	<b>384.8</b>
<b>Core Net Profit</b>	<b>359.3</b>	<b>376.3</b>	<b>384.8</b>
Consensus (NP)	-	383.0	398.0
Earnings Revision	-	-	-
Core EPS (sen)	10.0	10.4	10.6
Core EPS Growth (%)	6.4	4.1	1.6
DPU (sen)	10.5	10.8	10.9
NAV/Share (RM)	1.06	1.06	1.06
Core PER (x)	17.5	16.9	16.6
PBV (x)	1.64	1.65	1.66
Gearing (x)	0.22	0.23	0.23
Net. Div Yield (%)	5.4	5.6	5.6

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**Results Highlights**

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Gross Lease Revenue	118.5	116.2	2.0%	117.5	0.9%	118.5	117.5	0.9%
Non-Lease Revenue	44.1	42.3	4.2%	37.2	18.5%	44.1	37.2	18.5%
<b>Gross Revenue</b>	<b>162.6</b>	<b>158.5</b>	<b>2.6%</b>	<b>154.6</b>	<b>5.1%</b>	<b>162.6</b>	<b>154.6</b>	<b>5.1%</b>
Property Operating Expenses	-38.3	-43.2	-11.4%	-36.1	6.3%	-38.3	-36.1	6.3%
<b>Net Property Income</b>	<b>124.2</b>	<b>115.2</b>	<b>7.8%</b>	<b>118.6</b>	<b>4.8%</b>	<b>124.2</b>	<b>118.6</b>	<b>4.8%</b>
Interest & Investment Income	-0.5	-1.5	-69.8%	1.0	-145.3%	-0.5	1.0	-145.3%
<b>Net Investment Income</b>	<b>123.8</b>	<b>113.7</b>	<b>8.8%</b>	<b>119.6</b>	<b>3.5%</b>	<b>123.8</b>	<b>119.6</b>	<b>3.5%</b>
Non-operating expenses	-24.2	-24.0	0.6%	-23.3	3.5%	-24.2	-23.3	3.5%
<b>Profit before tax</b>	<b>99.6</b>	<b>89.7</b>	<b>11.1%</b>	<b>96.2</b>	<b>3.5%</b>	<b>99.6</b>	<b>96.2</b>	<b>3.5%</b>
Taxation	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Net Profit</b>	<b>99.6</b>	<b>89.7</b>	<b>11.1%</b>	<b>96.2</b>	<b>3.5%</b>	<b>99.6</b>	<b>96.2</b>	<b>3.5%</b>
<b>Distributable Income</b>	<b>109.4</b>	<b>99.8</b>	<b>9.6%</b>	<b>102.9</b>	<b>6.2%</b>	<b>109.4</b>	<b>102.9</b>	<b>6.2%</b>
<b>Core Net Profit</b>	<b>102.3</b>	<b>92.9</b>	<b>10.1%</b>	<b>96.2</b>	<b>6.4%</b>	<b>102.3</b>	<b>96.2</b>	<b>6.4%</b>
Core Earnings Per Unit (sen)	2.84	2.58	0.10	2.68	0.06	2.84	2.68	0.06
Distribution Per Unit (sen)	2.96	2.70	9.6%	2.80	5.7%	2.96	2.80	5.7%
Net Asset Value Per Unit (RM)	1.12	1.12	-0.1%	1.08	3.8%	1.12	1.08	3.8%
<b>Key Operating Metrics:</b>								
Portfolio occupancy rate	94.3%	100.0%		100.0%		80.5%	100.0%	
Net property income margin	76.4%	72.7%		76.7%		76.4%	76.7%	
Pretax margin	61.3%	56.6%		62.2%		61.3%	62.2%	
Net Gearing	17.2%	17.1%		17.9%		17.2%	17.9%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>Stocks Under Coverage</b>																	
Axis REIT	MP	1.84	1.62	-12.0%	3,215.4	Y	12/2024	9.3	10.2	16.6%	0.6%	19.0	18.8	1.2	6.0%	8.7	4.7%
Capitaland Malaysia Mall Trust	MP	0.610	0.580	-4.9%	1,723.6	N	12/2024	3.9	4.0	-284.4%	-19.5%	N.A.	10.1	0.7	5.0%	4.3	7.0%
IGB REIT	MP	1.75	1.68	-4.0%	6,309.5	N	12/2024	10.1	10.4	-2.5%	2.3%	16.7	16.4	1.7	9.8%	9.7	5.5%
KLCCP Stapled Group	OP	7.38	8.00	8.4%	13,323.4	Y	12/2024	40.2	41.6	13.6%	3.7%	16.5	15.9	1.0	5.2%	42.5	5.8%
Pavilion REIT	OP	1.27	1.51	18.9%	4,644.2	N	12/2024	8.0	8.5	20.6%	4.3%	13.1	12.6	1.0	7.2%	8.7	6.9%
SUNWAY REIT	OP	1.52	1.72	13.2%	5,205.7	N	12/2024	10.2	10.9	13.9%	6.3%	14.4	13.5	1.0	6.9%	10.6	7.0%
<b>SECTOR AGGREGATE</b>					<b>34,421.7</b>					<b>-5.1%</b>	<b>24.0%</b>	<b>18.5</b>	<b>14.9</b>	<b>1.1</b>	<b>6.7%</b>		<b>6.2%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆
	Community Investment	★	★	☆	
	Workers Safety & Wellbeing	★	★	★	
	Corporate Governance	★	★	★	★
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	☆	
<b>SPECIFIC</b>	Effluent/Waste Management	★	★	★	
	Water Management	★	★	★	
	Energy Efficiency	★	★	★	
	Green Buildings	★	★	★	
	Tenant Management	★	★	★	☆
	Supply Chain Management	★	★	☆	
<b>OVERALL</b>		★	★	★	

☆ 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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