

26 July 2024

IGB REIT

Positive Rental Reversions

By Clement Chua | clement.chua@kenanga.com.my

IGBREIT's 1HFY24 results and distribution beat expectations due to stronger-than-expected rental reversions, which also drove an 8% YoY growth in its core net profit. Mid Valley Megamall is returning to full occupancy with new tenants taking up the floor space vacated by Metrojaya. We raise our FY24F-25F earnings forecasts by 3% and 15%, respectively, lift our TP by 5% to RM1.77 (from RM1.68) and maintain our MARKET PERFORM call.

IGBREIT's 1HFY24 core net profit of RM190.5m made up 51% of both our full-year forecast and full-year consensus estimate. However, we consider the results above expectations as we expect a stronger 2H when the floor space in Mid Valley Megamall under reconfiguration comes back online. The variance against our forecast came largely from better-than-expected rental reversions.

It announced a net distribution of 2.31 sen, bringing its YTD net distribution of 4.98 sen DPU. This is on track to beat our full-year forecast of 9.72 sen.

YoY, its 1HFY24 revenue and core net profit grew by 6% and 8%, respectively, mainly driven by higher rental incomes from positive reversions with The Gardens Mall achieving occupancy close to 100% while that of Mid Valley Megamall was returning to close to full occupancy.

QoQ, its 2QFY24 topline fell 8% due to the high base from seasonally strong 1Q. Its core earnings dropped by a steeper 14% on a higher reimbursement cost.

Outlook. The retail malls under IGBREIT will continue to be buoyed by their wide range of tenants that cater to various income level groups and international tourists. As mentioned, the occupancy at Mid Valley Megamall is returning to close to 100% following the recent completion of floor space previously occupied by Metrojaya. We understand that it has secured higher-yielding new tenants for the floor space. On the other hand, we continue to remain cautious on retail sales due to sustained elevated inflation and the impending RON95 subsidy rationalisation that will further hurt consumer spending, partially cushioned by the return of international tourists.

Forecasts. We raise our FY24-25F earnings forecasts by 3% and 15%, respectively, to reflect better rental reversions.

Valuations. Consequently, we raise our TP by 5% to RM1.77 (from 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%). There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us (see Page 4).

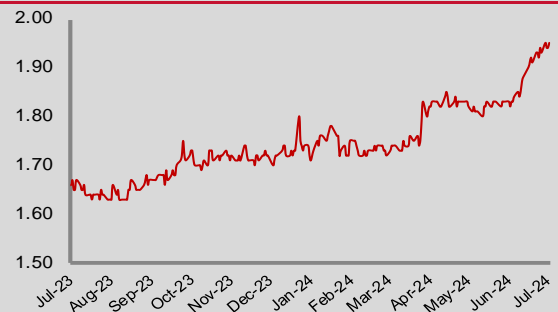
Investment case. We continue to like IGBREIT for its resilient portfolio, evident from its high occupancy rates and ability to cater to a wide range of income groups and international tourists. Maintain **MARKET PERFORM**.

Risks to our call include: (i) a higher risk-free rate, (ii) lower-than-expected rental reversions, (iii) lower-than-expected occupancy rates, and (iv) loss of footfall to new malls.

MARKET PERFORM ↔

Price : **RM1.95**
Target Price : **RM1.77** ↑

Share Price Performance



KLCI	1,615.18
YTD KLCI chg	11.0%
YTD stock price chg	13.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	IGBREIT MK Equity
Market Cap (RM m)	7,038.0
Shares Outstanding	3,609.2
52-week range (H)	1.96
52-week range (L)	1.62
3-mth avg. daily vol.	2,408,951
Free Float	27%
Beta	0.4

Major Shareholders

IGB Berhad	48.0%
Employees Provident Fund	11.4%
Kumpulan Wang Persaraan	6.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	604.3	635.0	704.2
EBIT	447.9	477.5	535.5
PBT	517.6	388.6	440.8
PATAMI	517.6	388.6	440.8
Core PATAMI	359.1	388.6	440.8
Consensus (NP)	-	376.0	399.3
Earnings Revision	-	+3.3	+14.6
Core EPS (sen)	10.0	10.8	12.2
Core EPS Growth (%)	6.8	8.2	13.4
GDPS (sen)	10.5	11.5	13.1
NDPS (sen)	9.4	10.1	11.5
BVPS (RM)	1.12	1.11	1.11
PER (x)	19.6	18.1	15.9
PBV (x)	1.7	1.8	1.8
Asset Gearing (x)	0.22	0.22	0.22
Net Div. Yield (%)	4.8	5.2	5.9

26 July 2024

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Gross Lease Revenue	107.8	118.5	-9.0%	104.2	3.4%	226.3	221.7	2.1%
Non-Lease Revenue	42.2	44.1	-4.2%	37.3	13.0%	86.2	74.5	15.8%
Gross Revenue	150.0	162.6	-7.7%	141.5	6.0%	312.5	296.2	5.5%
Property Operating Expenses	-40.5	-38.3	5.7%	-38.7	4.5%	-78.8	-74.8	5.3%
Net Property Income	109.5	124.2	-11.9%	102.8	6.5%	233.7	221.3	5.6%
Interest & Investment Income	-4.5	-0.5	869.4%	1.1	-517.3%	-4.9	2.1	-336.1%
Net Investment Income	105.0	123.8	-15.2%	103.9	1.1%	228.8	223.4	2.4%
Non-operating expenses	-23.5	-24.2	-2.9%	-22.9	2.5%	-47.6	-46.2	3.0%
Profit before tax	81.5	99.6	-18.1%	81.0	0.7%	181.2	177.2	2.2%
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
Net Profit	81.5	99.6	-18.1%	81.0	0.7%	181.2	177.2	2.2%
Distributable Income	97.2	109.4	-11.1%	89.7	8.4%	206.6	192.6	7.3%
Core Net Profit	88.2	102.3	-13.9%	81.0	8.9%	190.5	177.2	7.5%
Core Earnings Per Unit (sen)	2.44	2.84	-14.0%	2.25	8.4%	5.28	4.93	7.1%
Gross Distribution Per Unit (sen)	2.56	2.96	-13.5%	2.37	8.0%	5.52	5.17	6.8%
Net Asset Value Per Unit (RM)	1.12	1.12	-0.2%	1.08	3.6%	2.24	2.16	3.7%
Key Operating Metrics:								
Net property income margin	73.0%	76.4%		72.6%		74.8%	74.7%	
Pretax margin	54.4%	61.3%		57.2%		58.0%	59.8%	
Net Gearing	17.3%	17.2%		18.0%		17.3%	18.0%	

Source: Company, Kenanga Research

Assets Breakdown

	2Q	1Q	QoQ	2Q	YoY	1H	1H	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Gross Revenue								
Mid Valley Megamall	102.9	113.5	-9.3%	97.9	5.1%	216.4	204.0	6.1%
The Gardens Mall	47.1	49.0	-3.9%	43.7	7.8%	96.1	92.2	4.2%
TOTAL	150.0	162.5	-7.7%	141.6	5.9%	312.5	296.2	5.5%
Net Property Income								
Mid Valley Megamall	78.0	90.0	-13.3%	74.4	4.8%	168.0	159.1	5.6%
The Gardens Mall	31.5	34.2	-7.9%	28.4	10.9%	65.7	62.3	5.5%
TOTAL	109.5	124.2	-11.8%	102.8	6.5%	233.7	221.4	5.6%
Net Property Margin								
Mid Valley Megamall	75.8%	79.3%		76.0%		77.6%	78.0%	
The Gardens Mall	66.9%	69.8%		65.0%		68.4%	67.6%	
TOTAL	73.0%	76.4%		72.6%		74.8%	74.7%	

Source: Company, Kenanga Research

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.
Stocks Under Coverage																	
AXIS REIT	MP	1.82	1.82	0.0%	3,180.4	Y	12/2024	9.4	10.8	10.1%	14.9%	19.3	16.8	1.1	5.8%	8.7	4.8%
CAPITALAND MALAYSIA TRUST	UP	0.675	0.58	-14.1%	1,913.1	N	12/2024	4.4	4.7	8.7%	5.5%	15.3	14.5	0.8	5.0%	4.3	6.4%
IGB REIT	MP	1.95	1.77	-9.2%	7,038.0	N	12/2024	10.8	12.2	8.2%	13.4%	18.6	18.2	1.8	9.7%	10.1	5.2%
KLCCP STAPLED GROUP	OP	7.57	8.00	5.7%	13,666.4	Y	12/2024	44.7	46.3	13.6%	3.7%	17.0	16.3	1.0	5.2%	42.5	5.6%
PAVILION REIT	OP	1.39	1.59	14.4%	5,083.0	N	12/2024	9.7	10.4	23.7%	7.4%	14.4	13.4	1.1	7.2%	9.0	6.5%
SUNWAY REIT	MP	1.60	1.65	3.1%	5,479.7	N	12/2024	10.5	11.2	2.7%	6.6%	15.3	14.3	1.1	6.5%	8.8	5.5%
SECTOR AGGREGATE					36,360.6					11.6%	7.5%	16.7	15.8	1.2	6.6%		5.7%

Source: Kenanga Research

This section was intentionally left blank.

26 July 2024

Stock ESG Ratings:

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

☆ 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

