

IGB REIT's FY14 revenue grows

IGB Real Estate Investment Trust
(Jan 28, RM1.37)

Maintain neutral with an unchanged target price (TP) of RM1.41: IGB Real Estate Investment Trust (IGB REIT) financial year ended Dec 31, 2014 (FY14) core net income (CNI) of RM232.6 million met expectations accounting for 103% of consensus estimate of RM224.9 million and 105% of our estimate of RM220.9 million. IGBREIT announced a final income distribution per unit (DPU) of 3.90 sen which covers for its distribution for the third quarter ending Sept 30, 2014 (3QFY14) (2.01 sen) and 4QFY14 (1.89 sen).

Cumulatively for the full FY14, DPU was 7.79 sen representing 5.2% dividend yield (after taking into account withholding tax of 10%).

IGB REIT FY14 revenue grew by 7% year-on-year (y-o-y) to RM461.8 million attributed to higher rental income. We believe this was likely due to positive rental reversion at Mid Valley Megamall and The Gardens Mall.

IGB REIT CNI grew 12.4% y-o-y to RM232.6 million. Growth in

IGB Real Estate Investment Trust

FYE DEC (RM MIL)	2013	2014	2015F	2016F
Gross revenue	430.7	461.8	457.2	473.9
Net rental income (NRI)	285.7	312.6	323.6	332.9
Net investment income	396.4	404.0	327.8	337.2
Net income	311.9	317.6	238.7	245.7
Core net income (CNI)	206.9	232.6	238.7	245.7
Realised EPU (sen)	9.1	9.2	7.0	7.2
Core EPU (sen)	6.1	6.8	7.0	7.2
Net DPU (sen)	6.3	7.0	7.2	7.3
Net distribution yield	4.6	5.2	5.3	5.5
Core PER	21.6	19.4	18.8	18.3
P/NAV	1.3	1.2	1.1	1.1
Core ROE (%)	5.9	6.4	6.5	6.7
Core ROA (%)	4.2	4.6	4.6	4.6

Source: IGB REIT, Forecast by MIDF Research

CNI was stronger than its revenue growth of 7% y-o-y. This was contributed by improved Net Rental Income margin to 67.7% in FY14 against 66.3% last year. We believe that management is likely to have implemented cost saving measures as reimbursement costs declined 14% y-o-y to RM44.9 million while maintenance expenses slipped 6% y-o-y to RM19 million.

Our TP is based on Dividend Discount Model (required rate of return: 7.5%, perpetual growth rate: 1.3%). Our neutral recommendation is based on the lack of any near-term rerating catalysts. The next possible asset injection (South Key Mall) is still undergoing construction and is expected to be completed only in FY17. — MIDF Research, Jan 28