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IGB REIT anchored by two prime assets

CIMB Research / The Edge Financial Daily
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IGB REIT

IGB REAL ESTATE INVESTMENT TRUST



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IGB Real Estate Investment Trust

(April 7, RM1.72)

Maintain hold call with a lower target price (TP) of RM1.70: Following our recent meeting with IGB Real Estate Investment Trust (IGB REIT), we gather that: i) the group will be able to maintain positive rental reversions on the back of strong demand for expiring leases; ii) tenant sales are expected to continue to see high single-digit year-on-year (y-o-y) growth in financial year 2017 forecast (FY17F) to FY19F, underpinned by its strategically located assets; and iii) the leases for AEON and Isetan are expiring in FY17F, while Metrojaya's lease is up for renewal in FY18F.

We concur with management that tenant sales growth for Mid Valley Megamall (MVM) and The Gardens Mall (TGM) will stay at commendable levels of a high single digit y-o-y in FY17F to FY19F, underpinned by its strategic location, accessibility and diverse tenant mix that caters to price-sensitive consumers (MVM) and more affluent consumers (TGM).

The waiting list for potential tenants remains long, suggesting strong demand for expiring leases, which should support positive rental reversions. As a testament to their popularity, MVM and TGM sustained occupancy rates of 99.9% and 99.7% respectively in FY16 and we expect them to remain at these levels in FY17F to FY19F. We forecast expiring leases for both malls in the range of 30% to 40% of total net lettable area (NLA) per annum in FY17F to FY19F.

Mid Valley Southkey Megamall (MSM) in Iskandar, Johor, for which the group has right of first refusal, is on track for end-FY18F completion. If injected into IGB REIT's portfolio, MSM will add NLA of 1.5 million sq ft (36% of NLA). Management said tenants in MVM have expressed interest in MSM and we gather that MSM has received encouraging initial interest from potential tenants.

While we are positive on MSM's potential injection, the earliest it could take place is in FY22 (after one tenancy cycle) to ensure stable rental and occupancy rates for MSM. As the group does not see any viable third-party acquisitions currently, given the lack of high-quality malls, any inorganic growth is unlikely in the near to medium term.

We lower our expiring lease assumptions for both malls to 30% to 40% of total NLA per annum in FY17F to FY19F (versus 30% to 45%) and tenant sales growth to a high single digit y-o-y. As such, we cut FY17F to FY19F

earnings per share by 3% to 4%. FY17F to FY19F dividend per share is also lowered by 6% to 7% as we revise our payout assumption to 97% (versus 100% previously), largely in line with the payout in FY16.

We maintain our “hold” call, but our dividend discount model-based TP is lowered to RM1.70, following our earnings revision. We think the stock is fairly valued at the current level. While the group can leverage on its mall locations, high traffic and positive rental reversions from expiring leases, we stay cautious, given the incoming retail space supply and opening of KL Gateway in Kerinchi in Bangsar South, Kuala Lumpur.

An upside risk is strong tenant sales (12% to 15% of rental income is from tenant sales historically), while a downside risk is increased competition from other malls. — CIMB Research, April 6

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