AmInvestment Bank

Company report

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IGB REIT

(IGBREIT MK EQUITY, IGRE.KL)

14 Dec 2020

Proxy to consumer spending growth post-pandemic

BUY

(Initiation)

Rationale for report: Initiation

Price	**RM1.76**
Fair Value	**RM2.09**
52-week High/Low	RM2.00/RM1.43

Key Changes

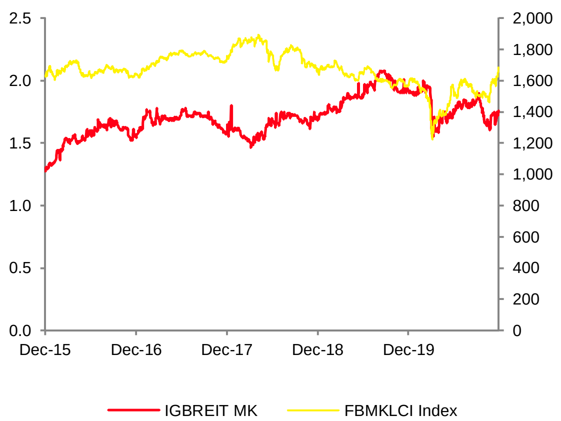
Fair value	**Initiation**
EPS	**Initiation**

YE to Dec	**FY19**	**FY20F**	**FY21F**	**FY22F**
Revenue (RM mil)	552.1	421.0	548.9	576.4
Distributable Income (RM mil)	341.9	205.7	318.3	332.4
Distributable Income PU (sen)	9.7	5.8	9.0	9.4
Distributable Income PU growth (%)	(0.0)	(39.9)	54.6	4.3
Consensus Distributable Income (RM mil)	-	215.9	298.7	322.2
PE (x)	21.5	35.8	23.2	22.2
EV/EBITDA (x)	21.7	27.3	21.4	20.5
Div yield (%)	4.4	2.7	4.1	4.3
ROE (%)	11.0	6.6	10.2	10.6
Net Gearing (%)	23.0	23.0	23.0	23.0

Stock and Financial Data

Shares Outstanding (million)	3,533.4
Market Cap (RMmil)	6,183.5
Book Value (RM/share)	1.1
P/BV (x)	1.6
ROE (%)	11.0
Net Gearing (%)	23.0
Major Shareholders	GOLDIS BERHAD(48.7%) EPF(10.3%)
Free Float	49.0
Avg Daily Value (RMmil)	2.3

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(3.8)	(0.6)	(8.3)
Relative (%)	(13.7)	(8.7)	(14.5)



Investment Highlights

- **We initiate coverage on IGB REIT with a BUY recommendation and fair value (FV) of RM2.09 based on a target yield of 4.5% over its FY22F distributable income. We are projecting IGB REIT to record RM205.7mil, RM318.3mil and RM332.4mil of distributable income in FY20F–FY22F, with earnings growing by 55% (from low base) and 4% in FY21F–22F, on the back of a gradual recovery of footfall as the Covid-19 pandemic subsides, and thus the recovery of retail spending, which supports the growth of average rental rates.**

- **Our investment case for IGB REIT is based on:**

1) It being a proxy for REITs to retail consumption growth post-pandemic. Both the malls owned by IGB REIT, i.e. Mid Valley Megamall (MVM) and The Gardens Mall (TGM) (Exhibit 4) are the flagship neighborhood malls in Klang Valley, and we believe they can return stronger in the aftermath of the pandemic as retailers consolidate their physical footprint to focus more on the flagship malls, amidst a shift in their business strategy to online expansion to rationalise costs during the pandemic. We believe IGB REIT is strategically positioned to benefit from the growth in Malaysia's economy, supported by its main consumers group – the mass affluent, who usually have better spending power, especially during an economic expansion.

2) In a position to ride the wave of recovery. With the recent news on the encouraging development of Covid-19 vaccines, we believe we are counting down to the end of the pandemic. This means that social distancing in the retail shopping malls could finally come to an end, enabling the recovery of footfall at malls, and thus IGB REIT's performance. We believe IGB REIT is poised for a strong recovery from its low in 2QFY20, taking cue from the strong QoQ rebound in 3QFY20, which recorded a robust growth of 294% in net profit.

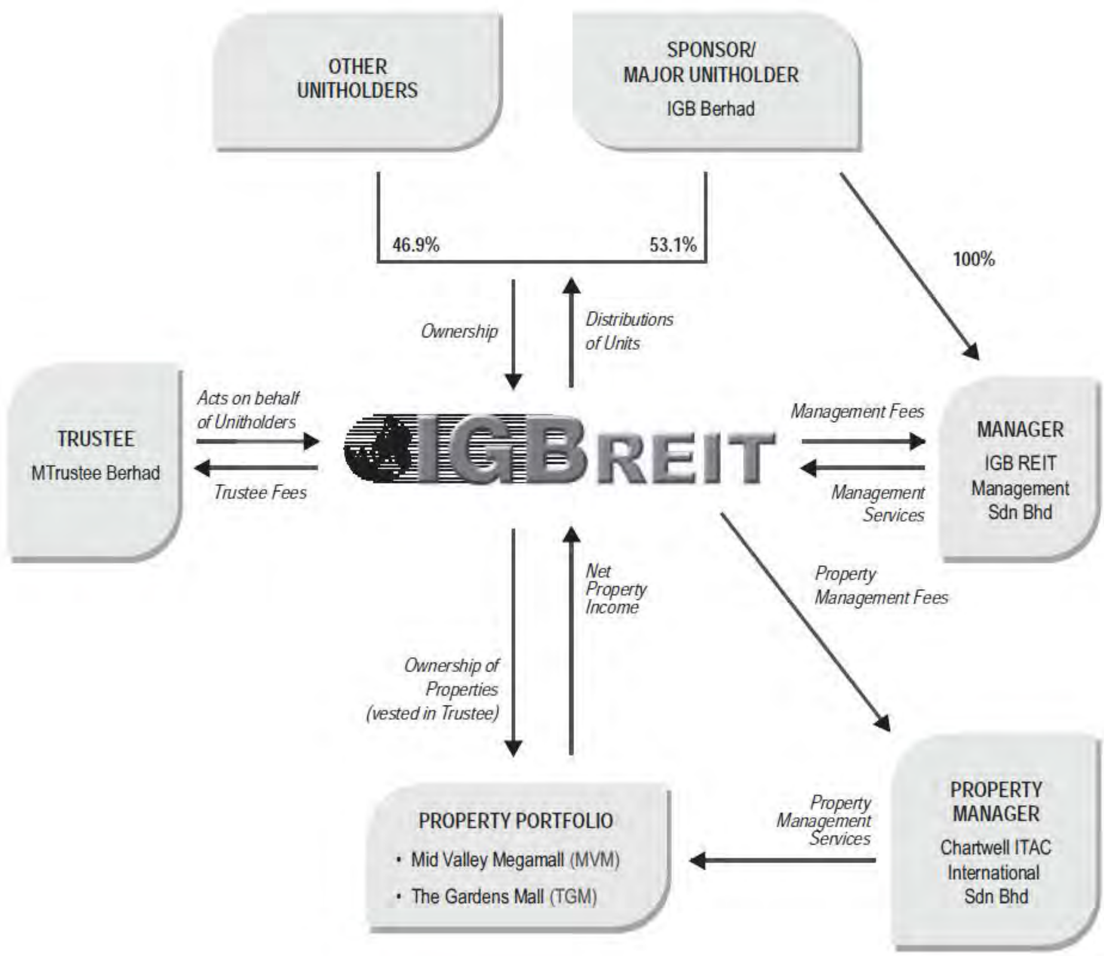
While it might see an earnings contraction in 4QFY20F due to the second CMCO which was reinstated in 14 October 2020 in Klang Valley, we believe it could be less severe as compared to 2QFY20 as most retail shops are still allowed to operate as usual. The year-end shopping season will also support traffic at the malls, as well as the return of residential and office traffic. We are projecting IGB RET's footfall to recover to pre-Covid levels by 2HFY21F.

- **The key risks to our assumptions include: (i) slower-than-expected footfall recovery; (ii) lower than-expected occupancy rate; and (iii) weaker-than-expected recovery in consumer spending.**
- **At our valuation of RM2.09 (based on FY22F forward target yield of 4.5%), IGB REIT offers a potential upside of 19%. We like IGB REIT as we believe its long-term outlook remains positive given its strategically located assets in the heart of Klang Valley and good customer profile, and we believe it is poised to benefit from the growth in Malaysia's economy post-pandemic. We also favour IGB REIT as a recovery play with reasonable returns with dividend yields of more than 4% for FY21F and beyond amidst the current low interest rate environment. We initiate our coverage with a BUY recommendation.**

BACKGROUND

Established on 25 July 2012, IGB REIT is a Malaysia-domiciled real estate investment trust, having its strategic assets mainly focusing on the retail segment. It was listed on the Main Market of Bursa Malaysia on 21 September 2012, and it owns two malls under its portfolio, namely Mid Valley Megamall (MVM) and The Garden Mall (TGM), both adjacent to each other, strategically located in Klang Valley.

EXHIBIT 1: TRUST STRUCTURE



Source: Company

❑ *Mid Valley Megamall*

Mid Valley Megamall (MVM) opened in 1999 and is currently one of Malaysia's largest shopping destinations, with a gross floor area of 6.1 million sq ft and a net lettable area of 1.8 million sq ft. The shopping centre spans six commercial levels and more than 6,000 parking bays.

Mid Valley Megamall is the first retail hub to house four anchor tenants: AEON BiG, Golden Screen Cinemas, AEON and Metrojaya. The mall's shopping experience is enhanced by 12 major space users and over 457 specialty shops that are at the forefront of customer trends and needs.

Also located within the space is the Mid Valley Exhibition Centre (MVEC), complete with an atrium and 3 halls within 67,621 sq ft for events and exhibitions all year round.

EXHIBIT 2: MID VALLEY MEGAMALL

Source: Company

EXHIBIT 3: THE GARDENS MALL

Source: Company

❑ *The Gardens Mall*

Adjacent to Mid Valley Megamall is The Gardens Mall, a premier shopping destination. It has 6 storeys and more than 200 outlets where top fashion brands such as Louis Vuitton, Hermès and Burberry reside. It also offers a wide array of top international cuisines, the latest technology gadgets and home furnishings.

The Gardens Mall is also home to Isetan of Japan, as well as Malaysia's most premier cinema, GSC Signature. On its 4th floor, it has dedicated area complete with spas, wellness clinics and a fitness centre. All these provide a more holistic and exclusive shopping experience,

As a premier mall, members of The Gardens Club enjoy value-added shopping experience with exclusive privileges at The Gardens Mall, as well as two dedicated lounges.

EXHIBIT 4: PROPERTY PORTFOLIO

Properties	Mid Valley Megamall (MVM)	The Gardens Mall (TGM)
Land area of master title (sq ft)	1,047,532	421,773
Tenure	Leasehold for 99 years expiring on 6 June 2103	
Master title particulars	PN 37075, Lot 80 Seksyen 95A, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur	PN 37075, Lot 79 Seksyen 95A, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Type	Retail	
Appraised value as at 31 December 2019 (RM'000)	3,665,000	1,295,000
Purchase consideration (RM'000)	3,440,000	1,160,000
Net lettable area (NLA) as at 31 December 2019 (sq ft)	1,825,478	848,000
Gross floor area as at 31 December 2019 (sq ft)	6,107,103	3,540,796
Number of tenancies as at 31 December 2019	561	239
Occupancy rate as at 31 December 2019 (%)	99.9	98.9

Source: Company

MANAGEMENT

❑ *Chairman Tan Sri Lin See Yan*

Tan Sri Lin is an independent strategic and financial consultant. He is a professionally qualified chartered statistician (UK), and has three post-graduate degrees from Harvard University (including a PhD in Economics) where he was a Mason Fellow and Ford scholar. He is also a Chartered Scientist (UK). Prior to 1998, he was the chairman/president and chief executive officer (CEO) of Pacific Bank Group for 14 years. Lin was the deputy governor of Bank Negara Malaysia, and has served the central bank for 34 years in total. Lin continues to serve the public interest, including as a member of several key steering committees at the Ministry of Higher Education; economic advisor to the Associated Chinese Chambers of Commerce and Industry of Malaysia; a meember of the Asian Shadow Financial Regulatory Committee; a board director of Sunway Bhd and Sunway University Sdn Bhd; and the governor of Asian Institute of Management, Manila.

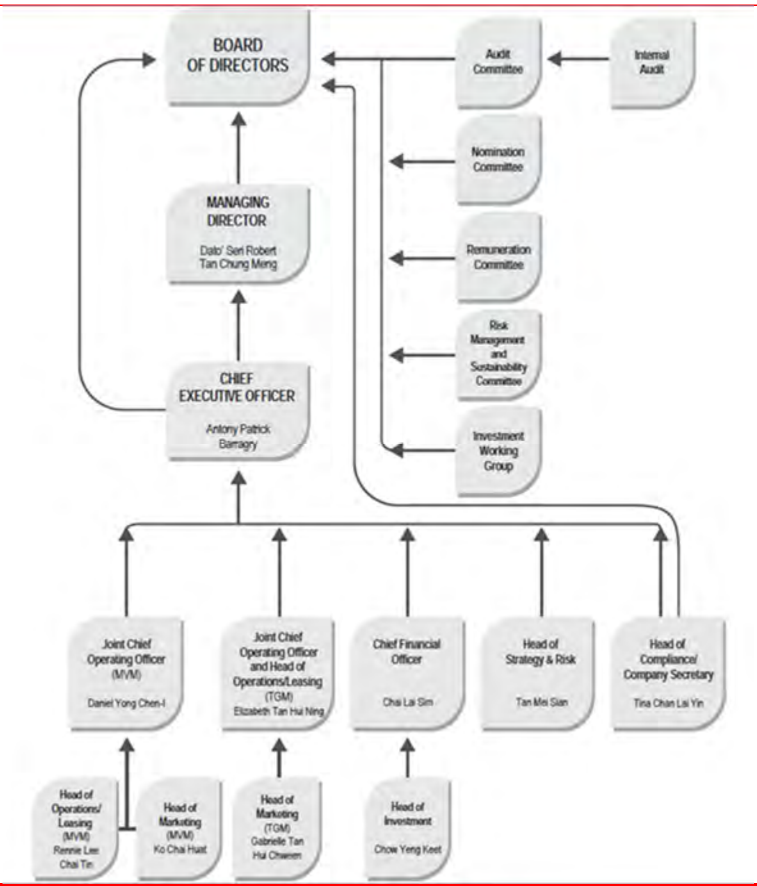
❑ *Managing director Datuk Seri Robert Tan Chung Meng*

Tan has vast experience in property development, hotel construction, retail design and development as well as corporate management with more than 30 years experience in the property and hotel industries. He studied business administration in University of Hull, United Kingdom and was attached to a chartered surveyor for a year upon graduation. He developed a housing project in Central London before returning to Malaysia. In 1995, he was appointed the joint managing director with IGB Corporation Bhd (IGBC) and was subsequently redesignated as group managing director in 2001. Following the delisting of IGBC in 2018, he was appointed as group chief executive officer of IGB Bhd.

❑ *CEO Antony Patrick Barragry*

Barragry holds a Diploma in Architecture from the University of Sheffield. He is a qualified architect with more than 40 years of international experience in the design, development and operations of mixed-use developments. His prior work experience includes the Jebel Ali Hotel development in Dubai, the UAE, Putra World Trade Centre in Kuala Lumpur and Ciragan Palace Kempinski Hotel in Istanbul, Turkey. His career with IGB group commenced with Renaissance Kuala Lumpur Hotel in 1993. He was then was appointed as project director for phase 1 of Mid Valley City development; and subsequently became the executive director of Mid Valley City Sdn Bhd in 2002. He was the CEO of Mid Valley City Gardens Sdn Bhd from January 2008 till September 2012.

EXHIBIT 5: ORGANISATION AND REPORTING STRUCTURE



Source: Company

COMPANY'S FUNDAMENTALS

❑ *Strong occupancy rate*

In the past, MVM and TGM have always recorded a strong occupancy rate of close to 100% (100% on average for MVM, and 98% on average for TGM). This is mainly underpinned by its strategic location in the heart of Klang Valley, coupled with its strong brand name and good management (and thus strong market position), which give it the advantage of being the "chosen malls" over the other urban /neighbourhood malls as the retailers consolidate their physical footprints (as some of them focus more on online expansion to rationalise costs, partly due to the oversupply of retail spaces, further fuelled by the pandemic). This can be seen from their strong occupancy rate, which remains at 95% and above even during the MCO period.

We believe the strengths of IGB's malls include: (1) its strategic location, which is well connected with the adjacent communities (i.e. residential area, offices, hotels) via bridges (by foot), highways and trains (such as KTM, LRT, monorail, KLIA express train); (2) a good mix of tenants (which include entertainment, departmental stores, super/hypermarkets, F&B, fashion, specialty retail stores, fitness/personal care services), which enable them to provide a complete shopping experience, giving it the edge as one of the primary go-to malls that function as one-stop centres for the Malaysian lifestyle; (3) comfortable ambience with warm hospitality, coupled with a well-planned layout that provide convenient access and smooth traffic flows, giving consumers a relaxed and pleasurable experience during their visits and thus are willing to stay longer (which will eventually contribute to a higher average spending per footfall at the mall).

❑ *Good customer profile*

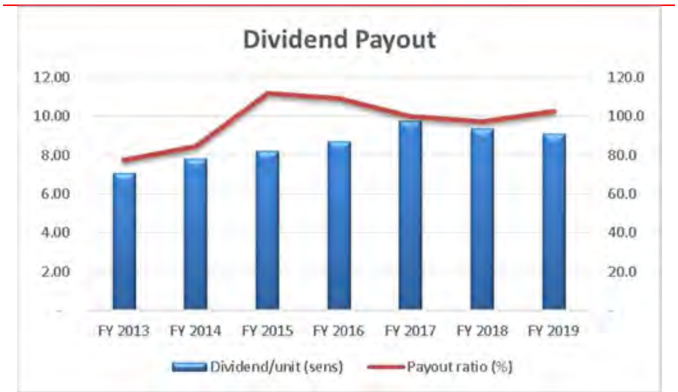
We also like IGB for its good customer profile, mainly targeting the mass affluent with higher spending power and distributable income, and are usually more resilient during a recession.

❑ *Stable dividend payout*

IGB REIT has an excellent track record of dividend payout ratio and dividend yield with s five-year historical average dividend payout ratio and dividend yield of above 100% and above 5% respectively. Looking forward, we are projecting IGB REIT to have a dividend yield of 4% and above for FY21F and beyond.

We believe the slightly below average yield is justified amidst the current low interest rate environment, coupled with the relatively safe and lower risk profile of IGB REIT, given its best-in-class assets.

EXHIBIT 6: DIVIDEND PAYOUT



Source: Company, AmInvestment Bank Bhd

EXHIBIT 7: DIVIDEND YIELD

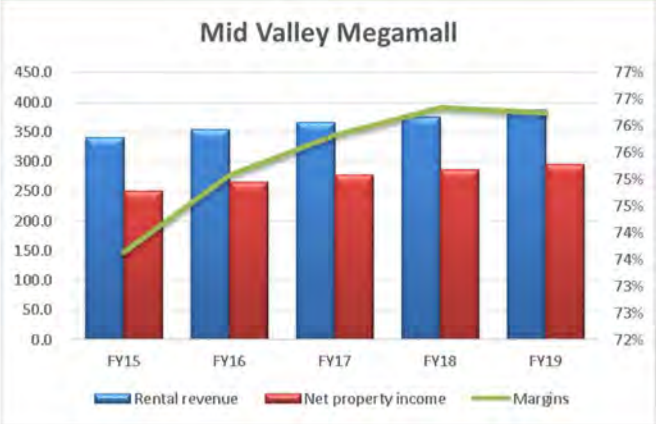
Source: Company, AmInvestment Bank Bhd

❑ *9MFY20 performances recap*

For 9MFY20, IGB REIT's revenue declined by 23% to RM318mil, while its net property income (NPI) decreased by 26% to RM234mil. This is mainly due to the rental support provided to tenants and lower car park income arising from the Covid-19 pandemic and MCO (especially hard hit in 2QFY20), which has severely impacted the footfall at the malls (and thus the consumer spending). Its net profit dropped by 32% to RM165mil.

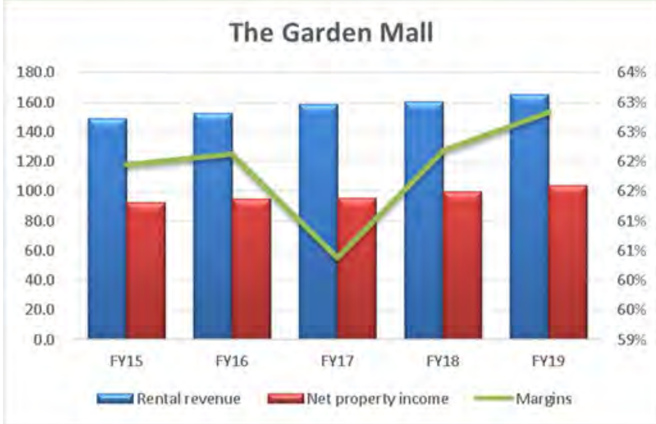
On a brighter note, IGB REIT's revenue rebounded by 111% in 3QFY20 to RM131mil, while its NPI of RM98mil was 162% higher, thanks to the reduction of rental support as well as recovering car park income after the first MCO in March–April. IGB REIT's net profit of RM77mil for the quarter was almost three times higher QoQ.

EXHIBIT 8: MVM HIST. FINANCIAL PERFORMANCE



Source: Company, AmInvestment Bank Bhd

EXHIBIT 9: TGM HIST. FINANCIAL PERFORMANCE



Source: Company, AmInvestment Bank Bhd

RISK

The key risks include: (i) slower-than-expected footfall recovery; (ii) lower-than-expected occupancy rate; and (iii) weaker-than-expected recovery in consumer spending.

FINANCIAL REVIEW

IGB's debt-to-asset ratio is 23% (as of September 2020), well below the regulatory threshold of 60% (temporary increased limit from 50% up to 31 December 2022 as part of the relief measure implemented by the Securities Commission in light of Covid-19). At the current level, we believe IGB REIT still has ample headroom to gear up for future acquisitions.

EXHIBIT 10: TOTAL DEBT/EQUITY RATIO

Source: Company, AmInvestment Bank

FINANCIAL PROJECTION

We are projecting IGB REIT to record RM205.7mil, RM318.3mil and RM332.4mil of distributable income in FY20F–FY22F, with earnings growing by 55% (from a low base) and 4% in FY21F–22F, on the back of a gradual recovery of footfall as the Covid-19 pandemic subsides, and thus the recovery of retail spending, which in turn support the growth of the average rental rates.

This is in line with our house view that GDP is expected to grow 6.4%–7.7% in FY21F after a contraction of 5.3%–5.7% in FY20F, as well as an improving unemployment rate.

According to Retail Group Malaysia (RGM), retail sales are expected to grow by 4.9% in 2021, after a contraction of 15.8% in 2020. We believe our projections are reasonable for IGB REIT as we expect its malls to stage a firm recovery post-pandemic, underpinned by its strong market position and solid customers profile.

VALUATIONS

At our valuation of RM2.09 (based on FY22F forward target yield of 4.5%), IGB REIT offers a potential upside of 19%. We like IGB REIT as we believe its long-term outlook remains positive given its strategically located assets in the heart of Klang Valley and good customer profile, and we believe it is poised to benefit from the growth in Malaysia's economy post-pandemic. We also favour IGB REIT as a recovery play with reasonable returns, dividend yields of more than 4% for FY21F and beyond amidst the current low interest rate environment. We initiate IGB with a BUY recommendation.

At our current target yield of 4.5% (vs. the peers' average of 5.5%), we think IGB REIT's slight premium is justified, underpinned by its relatively lower risk profile and best-in-class asset, supported by its strong market position and solid customers profile as mentioned.

EXHIBIT 11: PEERS COMPARISON TABLE

	Recomm.	Price	FV	Upside	Mkt Cap	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B*	ROE*	NDPS*	Div Yield*
		(RM)	(RM)	(%)	(RMmil)		FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	(x)	(%)	(sen)	(%)
PREIT	BUY	1.55	1.84	18.7	4,710.5	Dec	4.0	7.4	-52.9	85.0	38.8	20.9	1.2	8.7	7.4	4.8
YTL REIT	BUY	0.90	1.26	6.6	1,534.0	Jun	3.7	4.7	-50.7	27.0	24.3	19.1	0.6	5.8	4.2	4.7
SREIT	BUY	1.56	1.94	24.4	5,342.7	Dec	12.8	10.7	75.3	-16.4	12.2	14.6	1.1	18.3	12.8	8.2
IGB REIT	BUY	1.76	2.09	18.8	6,218.8	Dec	5.8	9.0	-40.2	55.2	30.3	19.6	1.6	13.0	8.5	4.8
Simple Average									**-17.1**	**37.7**	**26.4**	**18.6**	**1.1**			
Weighted Average									**-9.8**	**39.2**	**26.6**	**18.4**	**1.3**			

**FY21*

Source: AmInvestment Bank

EXHIBIT 12: PB BAND CHART

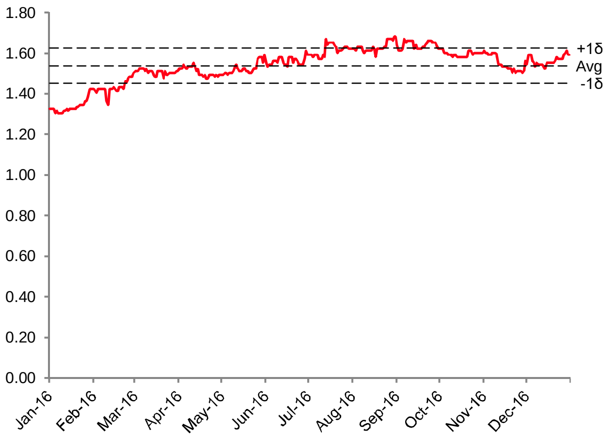
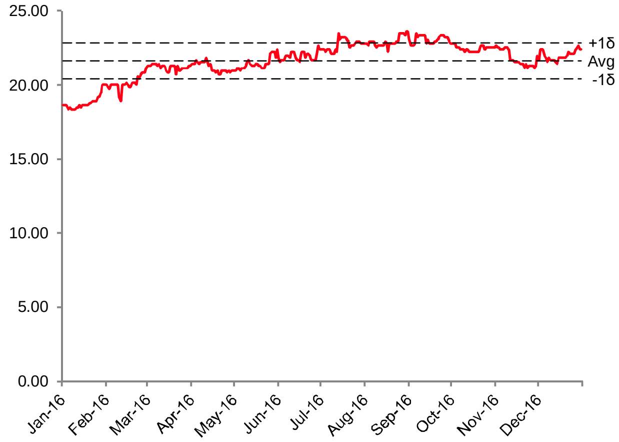


EXHIBIT 13: PE BAND CHART



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