



AmInvestment Bank

Company report

IGB REIT

(IGBREIT MK EQUITY, IGBRE.KL)

20 Jan 2023

Occupancy rates of malls holding up

HOLD

(Downgraded)

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Rationale for report: Company results

Price	RM1.77
Fair Value	RM1.90
52-week High/Low	RM1.75/RM1.36

Key Changes

Fair value	↕
EPS	↔

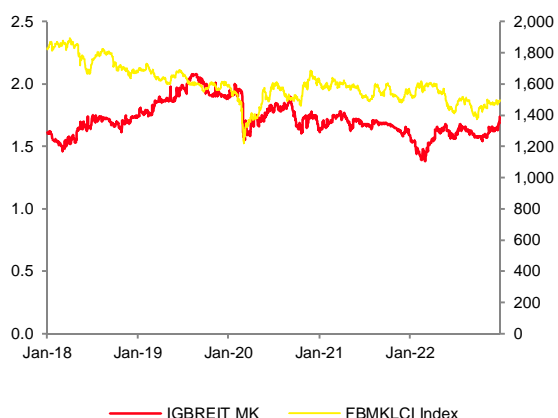
YE to Dec	FY22	FY23F	FY24F	FY25F
Gross Revenue (RM mil)	556.4	552.4	559.1	616.4
Distributable Income (RM mil)	361.9	369.9	377.2	392.6
EPU (sen)	11.1	9.6	9.8	10.9
Consensus Net Income (RM mil)	-	348.4	362.9	n/a
DPU (sen)	9.9	10.0	10.2	10.6
DPU growth (%)	63.5	1.0	2.0	4.4
PE (x)	16.0	18.5	18.1	16.2
EV/EBITDA (x)	17.1	19.6	19.2	17.4
Distribution yield (%)	5.6	5.6	5.7	6.0
ROE (%)	9.5	9.7	9.9	10.3
Debt-to-Asset Ratio (%)	23.2	23.6	23.7	23.6

Stock and Financial Data

Shares Outstanding (million)	3,583.2
Market Cap (RMmil)	6,234.7
Book Value (RM/share)	1.04
P/BV (x)	1.7
ROE (%)	9.5
Net Gearing (%)	23.2

Major Shareholders	IGB (48.4%) EPF (11.5%) KWAP (7.4%)
Free Float	32.7
Avg Daily Value (RMmil)	1.0

Price performance	3mth	6mth	12mth
Absolute (%)	10.1	10.8	9.4
Relative (%)	1.8	5.2	13.8



Investment Highlights

- We downgrade our recommendation on IGB REIT to HOLD from BUY as the share price surged 13% since our previous update. No change to our neutral 3-star ESG rating (Exhibit 6).
- Nevertheless, we raised our DDM-based fair value (FV) slightly to RM1.90/unit (from RM1.86/unit previously) to reflect a lower risk-free rate as a result of the yield decline in 10-year Malaysian Government Securities (MGS) from 4.3% to 4% (Exhibit 5). This implies a FY24F distribution yield of 6%, at parity to its 5-year median.
- We make no changes to our earnings forecast as IGB REIT's FY22 distributable income of RM362mil came in within our estimates, albeit above consensus' expectations. It was almost on the dot of our forecast while 10% above street's.
- We also take the opportunity to introduce our FY25F earnings with a growth of 4% on expectation of a normalisation of rental reversion of 5% and stronger tenants' sales.
- In FY22, IGB REIT's gross revenue surged 39% YoY while net property income (NPI) climbed 53% YoY. The improvement was driven by lower rental rebates offered to tenants.
- On a QoQ comparison, IGB REIT's 4QFY22 gross revenue expanded 6% while NPI grew 4%. These were driven by higher occupancy rates in Mid Valley Megamall (MVM), which rose to 99.9% in 4QFY22 from 99.7% in 3QFY22. Meanwhile, the occupancy rates for The Garden Mall (TGM) was almost 100% in 4QFY22. (Exhibit 2).
- We foresee a positive rental reversion in FY23F/FY24F of 1%-3% with the assumption of a gradual normalisation of economic and social activities following the transition to the endemic phase of Covid-19.
- Its footfall and tenants' sales have also recovered to pre-pandemic levels in FY22. We believe the growth trajectory of tenants' sales to continue in 1QFY23 due to the increased demand for consumer goods during the festive season.
- 49% of its tenancies in MGM and 50% in TGM are set to expire in FY23 (Exhibit 3). We see minimal risk of non-renewal of most of the leases with the improving outlook in retail sector.

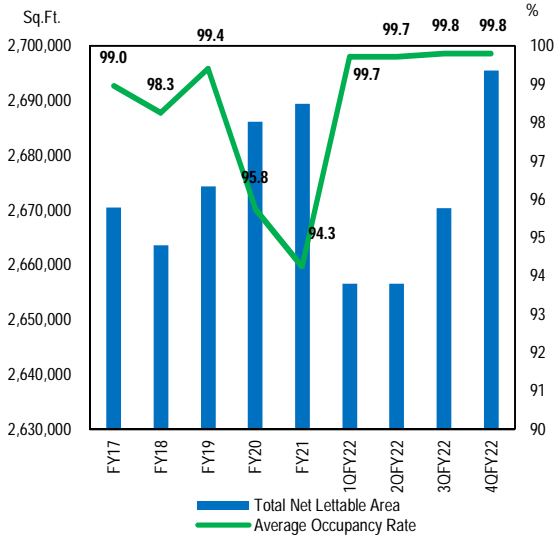
- IGB REIT declared its gross distribution per unit (DPU) of 2.5 sen in 4QFY22. The FY22 DPU of 9.9 sen represents a distribution yield of 6%.
- We anticipate the Fed rate to peak in 1HFY23 as a result of weaker economic data and softening inflation. Our in-house economist projects another 0.75% hike in the Fed rate in 1HCY23 from the current level of 4.25%-4.5%. Meanwhile, the 10-year MGS yield is forecasted to be lower by the end of 2023 at 3.8%-4%.
- We anticipate the yield spread from FY23F onwards to widen to 2% vs. 5-year median of 1%. However, the recent surge in share price has led to the narrowing of its yield spread against 10-year MGS (Exhibit 7).
- As IGB REIT is currently trading at an unexciting FY24F PE of 18x vs. 2-year average (pre-pandemic FY18-19) of 15x, we see limited upside potential at this juncture.

EXHIBIT 1: RESULT SUMMARY

RM mil	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Gross revenue	119.4	140.1	148.7	6.1	24.6	399.5	556.4	39.3
Property Operating Expenses	(25.7)	(38.9)	(43.1)	10.6	67.6	(124.4)	(136.2)	9.4
Net property income	93.7	101.2	105.6	4.4	12.8	275.1	420.2	52.8
Interest income	2.5	4.9	1.8	(64.0)	(27.8)	8.7	7.6	(12.4)
Net investment income	96.1	106.1	107.4	1.2	11.8	283.8	427.8	50.8
Manager's management fees	(8.6)	(9.0)	(9.5)	5.3	10.0	(29.2)	(37.2)	27.5
Trustees' fees	(0.1)	(0.1)	(0.1)	1.3	0.0	(0.3)	(0.3)	0.0
Other trust expenses	(0.5)	(0.2)	(0.3)	27.1	(32.8)	(1.1)	(0.9)	(20.8)
Finance costs	(13.4)	(13.4)	(13.6)	1.6	1.8	(53.1)	(53.3)	0.5
Profit before Tax	73.6	83.4	83.9	0.7	14.1	200.1	336.2	68.0
Taxation	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Net Income	73.6	83.4	83.9	0.7	14.1	200.1	336.2	68.0
Distribution adj	6.0	6.2	6.7	7.6	12.0	20.4	25.8	26.2
Distributable income	79.6	89.6	90.6	1.1	13.9	220.6	361.9	64.1
<u>Distribution:</u>								
EPU (Sen)	2.1	2.3	4.0	72.5	95.1	5.6	11.1	97.3
Declared DPU (Sen)	2.2	2.4	2.5	0.8	13.4	6.0	9.9	63.5
Distribution Yield as at the end of the quarter (%)	3.7	6.0	6.0	(0.1)	63.5	3.7	6.0	63.5
NAV/unit	1.1	1.1	1.1	1.5	1.3	1.1	1.1	1.3
Weighted avg units in issue ('Mil)	3,567.0	3,577.9	3,579.8	0.1	0.4	3,567.0	3,579.8	0.4
<u>Margin:</u>								
Net property income margin (%)	78.5	72.2	71.0	(1.2)	(7.4)	68.9	75.5	6.7
PBT margin (%)	61.6	59.5	56.4	(3.1)	(5.2)	50.1	60.4	10.3
Net Interest coverage (x)	7.7	10.8	8.1	(25.3)	4.5	5.5	8.3	51.6
Debt/Asset ratio (%)	23.0	23.0	22.8	(0.5)	(0.6)	23.0	22.8	(0.6)

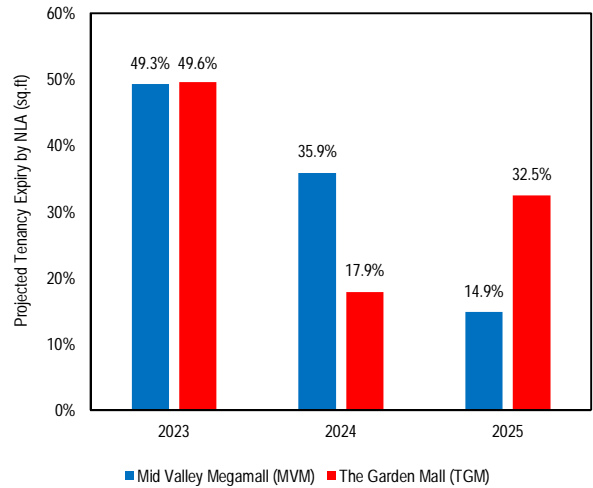
Source: Company, AmlInvestment Bank Berhad

EXHIBIT 2: RETAIL MALLS' NLA AND OCCUPANCY RATE



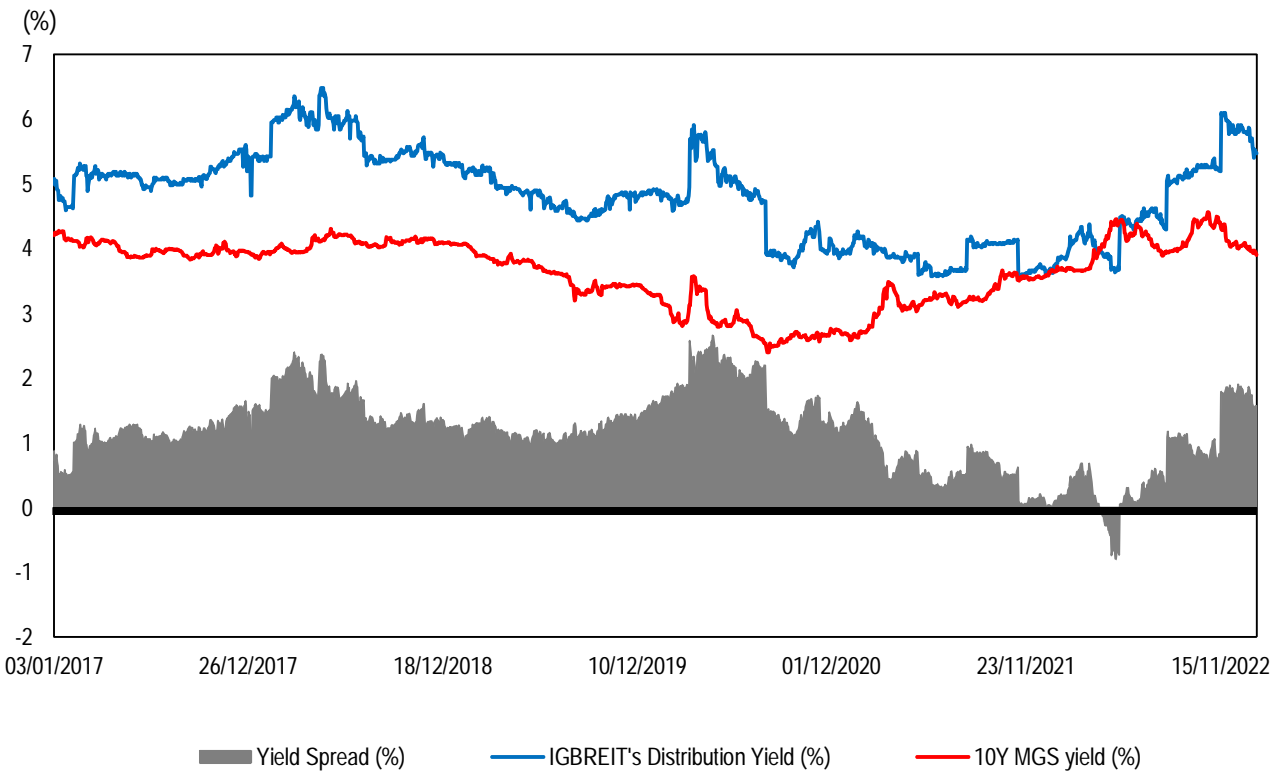
Source: Company, AmInvestment Bank Berhad

EXHIBIT 3: TENANCY EXPIRY PROFILE BY NLA (%)



Source: Company, AmInvestment Bank Berhad

EXHIBIT 4: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: AmInvestment Bank Bhd, Bloomberg

EXHIBIT 5: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate (10-year MGS)	4.0%
Beta	0.4
Market Return	14.5%

Cost of Equity (Ke) 8.4%

Average Cost of Debt 4.5%

Capital Structure: (RM Mil)

Market Cap	5,518.1	82.0%
Total Borrowing	1,214.3	18.0%
Total	6,732.4	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	82.0%	8.4%	6.9%
Average Cost of Debt	18.0%	4.5%	0.8%
WACC			7.7%

Multi-Stage DDM	2022	2023	2024	2025	2026	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.10	0.0996	0.10	0.11	0.11	2.16
Present Value (RM)	0.09	0.09	0.08	0.08	0.08	1.49
Valuation	1.90					

Rate of Return (%) 7.7%

Terminal Growth Rate (%) 2.5%

Source: Company, AmInvestment Bank Berhad

EXHIBIT 6: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★		
Waste management	★	★	★		
Pollution control	★	★	★		
Sustainable industrialization	★	★	★		
Diversity and inclusion	★	★	★		
Employees welfare	★	★	★		
Corporate social responsibilities	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank Bhd

EXHIBIT 7: PB BAND CHART

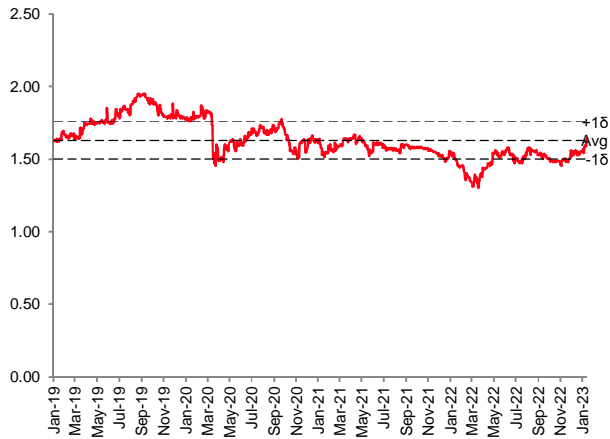


EXHIBIT 8: PE BAND CHART

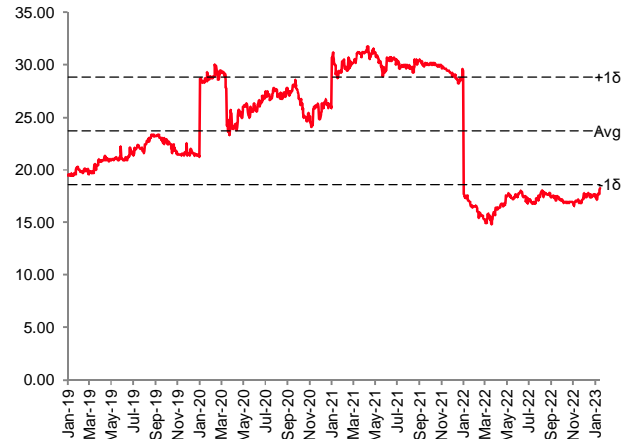


EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Gross Revenue	399.5	556.4	552.4	559.1	616.4
Property operating expenses	(124.4)	(136.2)	(129.8)	(130.4)	(142.0)
Net Property Income (NPI)	275.1	420.2	422.7	428.6	474.4
Net Investment income	266.4	472.7	410.7	416.5	461.0
Net interest	(44.4)	(45.8)	(42.3)	(42.7)	(41.3)
Exceptional items (EI)	nil	nil	nil	nil	nil
Pretax profit	200.1	396.2	342.5	349.3	392.6
Taxation	nil	nil	nil	nil	nil
Minorities/pref dividends	nil	nil	nil	nil	nil
Net Income	200.1	396.2	342.5	349.3	392.6
Distributable Income	220.6	361.9	369.9	377.2	392.6
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Plant and equipment	2.6	1.7	1.8	1.5	1.4
Investment Properties	4,960.0	5,020.0	5,020.0	5,020.0	5,020.0
Total non-current assets	4,962.6	5,021.7	5,021.8	5,021.5	5,021.4
Cash & Bank balances	223.0	258.4	256.3	270.5	282.2
Inventories	nil	nil	nil	nil	nil
Trade receivables	47.5	37.4	35.2	35.6	39.2
Other current assets	nil	nil	nil	nil	nil
Total current assets	270.5	295.8	291.5	306.1	321.4
Trade payables	213.8	232.3	211.2	212.3	231.1
Short-term borrowings	1,214.7	15.2	14.8	14.8	14.8
Other current liabilities	nil	nil	nil	nil	nil
Total current liabilities	1,428.5	247.5	226.0	227.1	245.9
Long-term borrowings	-	1,199.3	1,216.5	1,229.8	1,226.2
Other long-term liabilities	nil	nil	nil	nil	nil
Total long-term liabilities	-	1,199.3	1,216.5	1,229.8	1,226.2
Total Unitholders' funds	3,804.5	3,870.8	3,870.8	3,870.8	3,870.8
Minority interests	nil	nil	nil	nil	nil
NAV per unit (RM)	1.1	1.1	1.1	1.1	1.1
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	200.1	396.2	342.8	349.5	392.9
Depreciation/Amortisation	1.2	1.2	0.7	0.6	0.5
Net change in working capital	(8.6)	35.3	(18.7)	0.7	15.1
Others	64.4	(7.2)	42.0	42.4	41.0
Cash flow from operations	257.2	425.5	366.8	393.2	449.6
Capital expenditure	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Net investments & sale of fixed assets	nil	nil	nil	nil	nil
Others	8.2	6.8	12.0	12.1	13.4
Cash flow from investing	8.0	6.5	11.6	11.7	12.9
Debt raised/(repaid)	nil	nil	nil	nil	nil
Equity raised/(repaid)	nil	nil	nil	nil	nil
Distribution paid to unitholders	(211.9)	(342.7)	(356.5)	(363.5)	(381.1)
Others	(52.7)	(53.6)	(54.0)	(54.5)	(54.4)
Cash flow from financing	(264.6)	(397.1)	(410.5)	(418.0)	(435.5)
Net cash flow	0.6	34.8	(32.1)	(13.1)	27.0
Net cash/(debt) b/f	192.8	193.4	228.2	196.1	183.0
Net cash/(debt) c/f	193.4	228.2	196.1	183.0	210.0
Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	(14.1)	39.3	(0.7)	1.2	10.2
Net Property Income growth (%)	(13.1)	52.8	0.6	1.4	10.7
Pretax margin (%)	50.1	71.2	62.1	62.5	63.7
Distribution income margin (%)	55.2	65.1	67.0	67.5	63.7
Interest cover (x)	3.8	7.1	5.7	5.7	6.2
DPU payout (%)	107.6	0.9	1.0	1.0	1.0
Receivable turnover (days)	37.9	23.2	23.2	23.2	23.2
Inventory turnover (days)	nil	nil	nil	nil	nil
Payable turnover (days)	615.6	594.2	594.2	594.2	594.2

Source: Company, AmInvestment Bank Bhd estimates

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