IGB REIT shows robust organic growth potential

The Editor / TheEdge
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IGB REIT(April 3, RM1.40) Maintain add at RM1.41 with a target price of RM1.49: We met with IGB REIT's management recently and discussed the operations and development plans for Mid Valley Megamall and The Gardens Mall. We gathered that management will continue to grow the REIT assets organically by focusing on asset enhancement initiatives (AEI) in Mid Valley and improving the overall tenant mix in The Gardens. Currently, IGB REIT has a relatively low occupancy cost (the ratio of gross rental to tenant sales) of 9% to 11% and a high proportion of its net lettable area (NLA) is occupied by lower yielding anchor tenants. We believe these weaknesses, which are inherent in a relatively new mall, would provide IGB REIT stronger rental yield upside against its peers going forward.We believe the active AEI will help to improve the tenant mix and drive rental rates going forward. For instance, the REIT manager's most recent AEI on a section of the third floor of Mid Valley (formerly a food court) has created an additional 30,000 sq ft of NLA by utilising the space from a previous low-yielding storage area and carving out an additional mezzanine floor. The revamped area (renamed On3.) was opened in December 2012 and is now 100% tenanted. We believe that this will lift IGB REIT's earnings in 2013 financial year ending December (FY13).The Gardens Mall, opened in 2007, is still a relatively young mall. The current average rental in The Gardens (RM8 to RM9 per sq ft) implies a significant upside potential as it is lower than that of Mid Valley (RM10 to RM11 per sq ft). Hence, we believe The

Gardens' near-term growth could easily be underpinned by the next round of major rental revision in November 2013 when 54% of The Gardens' NLA will fall due for lease renewal. Management has guided for a rental revision rate of about 15%, which is in line with our assumption.In terms of inorganic growth, the most visible acquisition target is the planned Southkey Megamall in Johor Baru, with a planned 1.5 million sq ft of NLA. This will, however, take five to seven years to be ready for injection into the REIT. We remain positive on IGB REIT for its resilient shopper base, better risk-adjusted return and strong growth prospects for The Gardens. At the current price of RM1.41, IGB REIT is trading at calendar year 2013 gross yield of 4.8% against peers' average of 4.6%. — Affin IB Research, April 3This article first appeared in The Edge Financial Daily, on April 2, 2013.

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