IGB REIT in for strong retail sales

By WONG WEI-SHEN

BUSINESS

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PETALING JAYA: Analysts expect IGB Real Estate Investment Trust (REIT) to continue bringing in strong retail sales in the first half of 2013, spurred by the upcoming Chinese New Year celebration, year-end bonus payouts and government incentives such as the Bantuan Rakyat 1Malaysia (BR1M).

“The expected strong retail sales should have a positive impact on IGB REIT's earnings, as its assets capture both the mass-market and higher-end segments,” RHB Research analysts said.

The recently announced fourth-quarter financial results for the period ended Dec 31, 2012 were within analyst expectations. IGB REIT posted a net profit of RM146.89mil and a revenue of RM102.98mil. This came from the gross rental income of Mid Valley Megamall and The Gardens Mall, which stood at RM103mil and RM67.3mil, respectively.

For the full year, net profit stood at RM153.3mil, while revenue was at RM115.29mil.

AffinInvestment Bank said the stronger results was expected due to Christmas sales as well as the year-end school holiday season.

However, the RM153.3mil net profit was 12% below its forecast, although it was 4% above its own initial

"While Mid Valley will remain as the main earnings contributor, The Gardens' earnings growth could outpace that of Mid Valley, as it slowly matures and cements its position in the high-end retail mall segment, thus narrowing the contribution gap between the two malls over the medium term," RHB opined.

AffinInvestment expects a revision of rental rates during IGB REIT's next major lease renewal in late-2013, when 53% of its net lettable area (NLA) is due for renewal.

Analysts said the first cycle of rental reversions in 2010 saw the average rental rates increase by 11.8%. It expects similar strength during the next NLA renewal, backed by the strong 21% growth in its tenants' 2011 sales.

Hwang-DBS Vickers Research has advised investors to hold on to the stock, as it is still trading at 30% premium to net asset value, which is still relatively cheaper than its retail peers. Additionally, the fund offers a "decent" 5% distribution yield.

However, it added that its inorganic growth was limited due to the lack of pipeline retail assets. "The planned 1.5 million sq ft NLA Southkey Megamall in Johor is a long-term catalyst, and third-party acquisitions will be constrained by lack of quality retail assets in the market," it said.

CIMB Research, meanwhile, believes a major re-rating catalyst could be in the pipeline for IGB REIT, if 12.3% of Mid Valley's NLA is converted into many smaller specialty lots, which would yield higher rental rates.

"This could happen if AEON decides to reduce its exposure in Mid Valley after buying Carrefour's Malaysian operations, since AEON is already the biggest tenant in the mall occupying 17.6% of NLA.

"If this materialises, we believe that rental rates for this space could increase substantially, as seen in the recent MPH Bookstore example," CIMB said.

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