IGB REIT favoured for stable, 6% yield

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KUALA LUMPUR: IGB Real Estate Investment Trust's (IGB REIT) unit price has recovered from a low of RM1.12 in January to RM1.22 at last Friday's closing — yet it was still trading 2.4% below its initial public offering (IPO) price of RM1.25.

At RM1.22, which gives it a market capitalisation of RM4.19 billion, the REIT is yielding close to 6% in historical income distribution yield, which analysts said is decent given its solid asset base comprising Mid Valley Megamall and The Gardens Mall.

While there is not much excitement for IGB REIT in the near term in terms of the acquisition of new assets, it is a stable growth counter, analysts said.

"At current prices the yield is about 6% which is good, but if it moves closer to 7% then it would be a better buy," RHB Research analyst Alia Arwina told The Edge Financial Daily.

IGB REIT owns Megamall and The Gardens, which give the trust a combined 2.57 million sq ft of net lettable area. Occupancy rates for the two malls were 99.9% for Megamall and 98.8% for Gardens as at December last year.

"There is a lot of upside potential from The Gardens in terms of rental rates. Management has guided that it will focus on realising the possible rental upside over the next few years. Typically it could maintain a 5% increase each year on rentals," said Alia.

According to analysts, The Gardens presently commands between RM9 and RM10 psf in rentals which have yet to match Megamall's average rental rate of above RM10 psf.

In fact, for its first quarter ended March 2014 (1QFY14), the growth in IGB REIT's distributable income was largely driven by rental reversions from The Gardens.

The REIT's distributable income for 1QFY14 came in at RM66.66 million on the back of RM114.14 million in revenue. This was 15.3% growth from 1QFY13, when distributable income was RM57.8 million against RM101.39 million in revenue.

For the full year ended December 2013, IGB REIT served a distributable income of RM241.11 million, on revenue of RM430.73 million.

IGB REIT is more focused on internal growth, Alia said. "The group's management has guided that it is still looking for potential acquisitions but not aggressively. This [acquisitions] would be a rerating catalyst for IGB REIT."

Its parent, IGB Corp Bhd, is presently replicating the Megamall model in Johor, with the ongoing development of the RM6 billion Mid-Valley Southkey Megamall.

"But even if [Southkey Megamall] is completed in the next year or so, it would still take another one to two years to mature before it is ready to be injected into IGB REIT," said Alia.

Presently, IGB REIT's two prime assets — Megamall and The Gardens — were valued at a collective RM4.81 billion as at December 2013.

At the end of its latest quarter, the REIT's total borrowings were RM1.2 billion while it held RM134.2 million cash in hand, giving it net borrowings of RM1.06 billion. Net assets were RM1.06 per share as at end-March.

IGB REIT debuted on the Main Market of Bursa Malaysia in September 2012 at RM1.25, after which it peaked at RM1.45 on March 15, 2013. Since then, however, the REIT has mostly been on a downtrend over the last few months. At end-March this year there was a short rally, sending prices up 10.7% to RM1.24 on June 11.

"We have a "neutral" call on IGB REIT at a target price of RM1.27 because for now we think the counter is quite fairly valued," said Alia.

RM1.27 is also the consensus target price of analysts tracking the REIT, according to Bloomberg. Some 64% of analysts polled by Bloomberg recommend that investors "hold" the REIT, while 21% have a "buy" call.

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