IGB REIT rental income growth remains robust

▶ IGB REAL ESTATE INVESTMENT TRUST				
FYE DEC 31	2013	2014E	2015E	2016E
REVENUE (RM mil)	430.7	457.6	480.5	504.6
NET PROFIT (RM mil)	311.9	217.6	232.0	247.6
EPU (sen)	9.1	6.3	6.7	7.1
PER (x)	12.7	18.3	17.3	16.3

▶ **Recommendation: Buy**

TARGET Price: RM1.34

by Affin Investment Bank Bhd (May 02)

Highlights

IGB Real Estate Investment Trust's (IGB REIT) 1QFY14 realised net profit deemed within Affin's forecast. IGB REIT registered a 1QFY14 realised net profit of RM57.7m (+17.1% YoY).

Annualised, results was 6% higher than Affin's estimate of RM208.6m (but in line with consensus' forecasts), but we deem the results to be within our full-year expectations due to the seasonal factor in 1QFY14.

Meanwhile, no DPU was announced for shareholders this quarter (1QFY13: Nil).

Gross rental income grew by a robust 12.6% YoY due to tenancy renewals at both the Mid Valley Megamall (MVM) and The Gardens Mall (TGM) last year — 33% of MVM's NLA and 54% of TGM's NLA were renewed at rental rate of +15% higher. QoQ, realised net profit was up 8.8% due to lower operating expenses (-12.6% QoQ).

Occupancy rates as at 1QFY14 stood at 99.9% at MVM and 98.8% at TGM.

Outlook in FY14 — high occupancy rates, AEI to overcome headwinds. Though the operating outlook in FY14 remains challenging as IGB REIT may have to cope with uncertainties given higher operating costs (tenants having to bear with higher assessment rates and higher electricity costs through higher service charge) against a backdrop of potentially weaker retail sales.

We believe IGB REIT's key strengths: 1) stable occupancy rates of (close to 100%); 2) strong visitor and retailer attraction — MVM and TGM are key suburban shopping destinations; and 3) yield-accretive AEI will continue to sustain the REIT. Asset injection plans of Southkey Megamall (1.5m sq ft NLA) and 18@Medini (in IDR) meanwhile, are expected after FY16E.

Maintains 'Buy'

We maintain our 'Buy' rating on IGB REIT based on an unchanged DDM-derived price target of RM1.34, premised on a 8.2% cost of equity, 6% equity risk premium and a 3% terminal growth rate.

At RM1.16, IGB REIT is trading at a 13.3% discount to our NAV estimate (DDM of future DPU).

YTD, IGB REIT has underperformed the other pure retail M-REITs such as CapitaMalls Malaysia Trust (CMMT) (CMMT MK, RM1.51, not rated) and Pavilion REIT (PREIT MK, RM1.36, 'Add'), possibly on concerns that a moderation in consumer spending will hit its portfolio's net property income negatively.

Key risks: i) lowdown in consumer spending; ii) inflationary pressure; iii) decline in tenancy rates; iv) competition from 15.1m sq ft incoming supply of retail space (2014-2016); v) higher debt-refinancing rates; vi) correction in asset prices.