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IGB REIT occupancy rate remains close to 100%

Hong Leong Investment Bank Research / The Edge Financial Daily
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**IGB Real Estate Investment Trust
(Aug 3, RM1.75)**

Maintain buy recommendation with an unchanged target price of RM1.84: This is based on targeted yield at 5.4%, which is one standard deviation below the historical average yield spread between IGB Real Estate Investment Trust (IGB REIT) and 10-year Malaysia Government

Securities considering its highly stable assets and sustainability of yield.

IGB REIT's second quarter of financial year 2017 (2QFY17) normalised net profit of RM67.7 million grew 2.7% on the back of a positive rental reversion rate, but was partially offset by higher maintenance and property upgrade expenses. Net profit declined by 10.2% mainly due to lower rental income as 1Q tends to benefit from festive season spending.

Normalised net profit increased by 3.1% mainly due to a positive rental reversion and lower borrowing costs, partially offset by higher maintenance and property upgrade expenses.

The occupancy rate remained close to 100%, while the year-on-year net property income margin slightly declined to 69% (from 70%). Renewals of leases expiring in 2017 for both Mid Valley Megamall (MVM) and The Gardens Mall (TGM) are largely completed with a healthy reversion of a mid-single digit.

We expect both MVM and TGM to continue to register positive tenant sales growth in the second half of 2017 as we expect retail sales to be boosted by higher tourist arrivals.

We believe IGB REIT is shielded from the current challenging retail environment in the Klang Valley due to the prime location and high traffic enjoyed by both MVM and TGM. Moreover, prudent management and a healthy balance sheet further enhance attractiveness of the stock.

— *Hong Leong Investment Bank Research, Aug 3*

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