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IGB REIT 9M net profit within expectations

Hong Leong Investment Bank Research / The Edge Financial Daily
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IGB Real Estate Investment Trust

(Nov 9, RM1.64)

Maintain buy with an unchanged target price (TP) of RM1.84: IGB Real Estate Investment Trust's (REIT) normalised net profit for the third quarter of financial year 2017 (3QFY17) of RM74.1 million (quarter-on-quarter [q-o-q]: +9.5%; year-on-year [y-o-y]): +7.8%) translated into a

normalised net profit for the first nine months of FY17 (9MFY17) of RM217.2 million (+4.7% y-o-y). The results were within our but slightly below consensus expectations, accounting for 74.7% of our and 70.5% of consensus estimates. IGB REIT's normalised net profit for 3QFY17 of RM74.1 million increased (q-o-q: +9.5%; y-o-y: +7.8%) on the back of positive rental reversion rate and lower property operating expenses.

The occupancy rate remained close to 100% while y-o-y the net property income margin slightly improved to 73% (from 71%). The renewals for lease expiry in 2017 for both Mid Valley Megamall and The Gardens Mall were largely completed with a healthy reversion of mid-single digit.

We expect both Mid Valley and The Gardens to continue registering positive tenant sales growth in 4QFY17 as we expect retail sales to be boosted by higher tourist arrivals and recent budget measures to raise household disposable income. We believe IGB REIT is shielded from the current challenging retail environment in the Klang Valley due to the prime location and high traffic volume enjoyed by both Mid Valley and The Gardens. Moreover, prudent management and a healthy balance sheet further enhance attractiveness of the stock.

Maintain “buy” recommendation with an unchanged TP of RM1.84 based on a targeted yield at 5.4%, which is one standard deviation below the historical average yield spread between IGB REIT and 10-year Malaysian Government Securities considering its highly stable assets and sustainability of yield. — Hong Leong Investment Bank Research, Nov 9

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