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Gardens Mall's new NLA expected to lift IGB REIT FY19-20 earnings

Affin Hwang Capital / The Edge Financial Daily
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IGB Real Estate Investment Trust

(Sept 25, RM1.70)

Maintain hold with a higher target price (TP) of RM1.74: IGB Real Estate Investment Trust (REIT) recently completed an asset enhancement initiative (AEI) at The Gardens Mall, adding 14,000sq ft of net lettable area (NLA) on the lower ground floor and connecting the Din Tai Fung & Purple Cane Tea Cuisine restaurants to the parking lifts at the North section.

The 12 food and beverage and lifestyle tenants at the new retail space include Wendy's, Watsons, San Francisco Coffee and Ko Hyang.

Management is tight-lipped on the average rental for the new NLA and the projected revenue contribution.

Assuming an average monthly rental of RM30 per sq ft (versus the estimated rental range of RM18.10 to RM40.15), we forecast the new NLA to contribute RM5 million of additional revenue per annum and lift IGB REIT's 2019 to 2020E (estimate) earnings per share (EPS) by 1.4%.

The expansion took place in an underutilised area. With a capital expenditure of merely RM6 million, the AEI offers an attractive return on investment. However, we understand that the initiative is not easily replicable, for example, at the southern tip of the lower ground floor at The Gardens Mall, there is Jaya Grocer, a relatively established tenant occupying a contiguous block.

We maintain our "hold" rating on IGB REIT with a higher dividend discount model-derived TP of RM1.74 (from RM1.63) after imputing the 1.4% earnings accretion and a lower discount rate of 8.2% (from 8.5%), taking into consideration the improving consumer sentiment and IGB REIT's solid year-to-date 18 business performances.

At a 2019E dividend yield of 5.5%, its valuation looks fair.

The upside risks include higher-than-expected retail spending while the downside risks include hike(s) in the interest rate. — Affin Hwang Capital, Sept 25