IGB REIT 1H realised net income within expectations

IGB Real Estate Investment Trust (July 24, RM1.97)

Maintain market perform with an unchanged target price of RM1.80: IGB Real Estate Investment Trust's (REIT) first half of financial year 2019 ended June 30 (1HFY19) realised net income (RNI) of RM160.8 million came in well within our and consensus expectations at 52% and 51% respectively.

A gross dividend per unit (GDPU) of 4.66 sen was declared for 1HFY19, which included a 0.04 sen non-taxable portion, also within our FY19 target of 9.61 sen at 49%, implying a gross yield of 4.9%.

Year to date, its top line has increased by 4.3% year-on-year on higher rental income mostly from positive reversions backed by stable occupancy.

Its net property income (NPI) margin was marginally unchanged at 73% but flattish financing cost allowed RNI to increase by 5.5%.

Quarter-on-quarter, its top line was down by 4.4%. Being a non-festive period, the second quarter is generally a weaker quarter.

This, coupled with a marginally lower NPI margin (-0.3 percentage point) and slightly higher financing cost (+1.1%), resulted in its RNI declining by 6%.

We expect minimal capital expenditure of RM25 million-RM10 million for FY19-FY20 for minor refurbishment and upkeep of two malls. FY19 will see 23% and 44% of Mid Valley Megamall and The Gardens Mall's net lettable area up for expiry respectively.

We do not expect the acquisition of the Southkey mall in Johor in the near term and reckon that it would take at least one reversion cycle for the asset to stabilise before being acquired by IGB REIT, likely by FY21 to FY22.

We maintain our FY19-FY20 core net profit estimates of RM312 million-RM317 million, driven by low- to mid-single-digit reversions of both assets on 98% occupancy.

Our FY19-FY20 GDPU estimates of 9.61 sen-9.71 sen (net dividend per unit of 8.65 sen-8.74 sen) suggest a gross yield of 4.9%-5% (net yield of 4.4%-4.5%).

We are comfortable with our "market perform" call as we believe we have priced in most positives for now (close to full occupancy on positive reversions), while downside risks are limited.

Its current gross yield of 5.4% is on a par with retail Malaysian REIT-comparable peers under our coverage of 5.3% (note that the peers' average excludes CapitaLand Malaysia Mall Trust, which commands a higher gross yield of 7% given its less-than-perfect asset profile on negative reversions and lower occupancy versus peers).

Risks to our call include bond yield compression or expansion and stronger- or weaker-than-expected rental reversions. — *Kenanga Research, July 24*

IGB Real Estate Investment Trust

FYE DEC (RM MIL)	2018A	2019E	2020E
Turnover	542.7	556.6	565.8
Ebit	349.2	357.3	362.2
PBT	303.9	312.2	317.2
Net profit (NP)	303.9	312.2	317.2
Core NP (RNI)	303.9	312.2	317.2
Consensus (NP)	NA	317.0	328.6
Core EPS (sen)	8.6	8.8	8.9
Core EPS growth (%)	5.5	2.2	1.1
NDPS (sen)	8.7	8.7	8.7
BVPS (RM)	1.06	1.05	1.05
Core PER	22.7	22.2	22.0
Gearing (x)	0.23	0.23	0.23
Net dividend yield (%)	4.5	4.4	4.5

Source: Kenanga Research