

HIGHEST RETURN ON EQUITY OVER THREE YEARS

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REIT

# IGB REIT

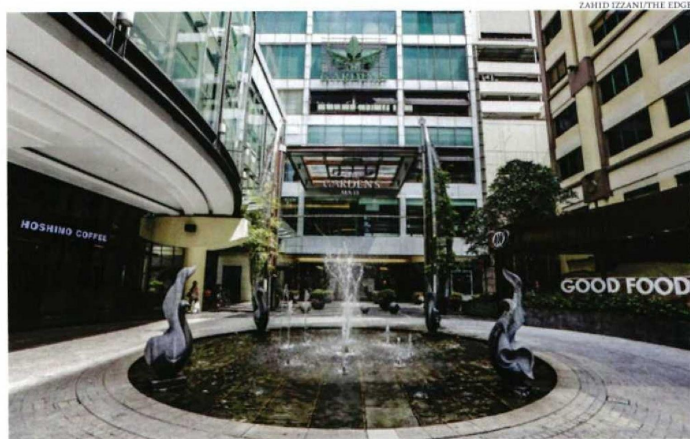
Solidifying growth with memorable shopping experience

BY LEE WENG KHUEN

For the sixth year in a row, IGB Real Estate Investment Trust (IGB REIT) has taken home *The Edge* Billion Ringgit Club (BRC) award for highest return on equity (ROE) over three years in the REIT sector. This year, the REIT also bags the award for highest returns to shareholders over three years, which it last won in 2018 after winning it for the first time in 2017. IGB REIT joined the BRC winners' list in 2016 when it clinched the award for highest profit over three years.

In the evaluation period for this year's award, IGB REIT's three-year adjusted weighted ROE came in at 7.8% per annum, having recorded an ROE of 6.9% in 2020, 5.8% in 2021 and 9.4% in 2022.

Meanwhile, total unitholder return came



in at a three-year compound annual growth rate (CAGR) of 9.3%, based on its adjusted unit prices of RM1.33 as at March 31, 2020, against RM1.74 as at March 31, 2023.

The stellar performance was driven by its robust net property income (NPI) and distribution per unit (DPU).

IGB REIT's NPI expanded to RM420.25 million in FY2022, from RM275.1 million in FY2021 and RM316.68 million in FY2020, on the back of the progressive relaxation of Covid-19 control measures. Its distributable income also reflected this trend, moving from RM259.8 million in FY2020 to RM220.58 million in FY2021 and RM361.95 million in FY2022.

For the nine months ended Sept 30, 2023 (9MFY2023), its NPI grew 5.7% to RM332.6 million from RM314.6 million in the previous corresponding period, thanks to higher rental income arising from the improving retail sales of its tenants. Its distributable income also rose to RM285.95 million from RM271.33 million over the same period.

IGB REIT rewarded its unitholders with a DPU of 9.86 sen in FY2022, much higher than the 6.03 sen and 6.75 sen in FY2021 and FY2020 respectively. For 9MFY2023, the DPU was 7.77 sen compared with 7.40 sen over the same period the year before.

The REIT's portfolio consists of two investment properties, namely Mid Valley Megamall (MVM) and The Gardens Mall (TGM), which had a combined market value of RM5.19 billion as at end-September 2023 after a revaluation exercise that saw a surplus of RM166 million compared to RM5.02 billion previously.

Individually, MVM and TGM carried a market value of RM3.79 billion and RM1.4 billion respectively. As at end-December 2022, the occupancy rates for MVM and TGM stood at 99.5% and 97% respectively, based on the net lettable area of 1.85 million sq ft and 847,250 sq ft.

In notes accompanying its unaudited third-quarter results, the manager of IGB REIT said "tenants and retailers are less optimistic on the spending power of domestic consumers".

"The price of essential goods is still higher than pre-pandemic levels, despite a slight easing in current inflation rates. The rising manpower cost, intense competition and electricity bill have affected the prospects of growth rate for the retail industry. Hence, tenants and retailers stay conservative of their business prospects in the near future," it added, noting that Retail Group Malaysia has lowered the Malaysian annual retail industry growth rate for 2023 to 2.7% from the 4.8% growth

it had forecast in June 2023, owing to the weaker-than-expected growth rate of -4% in retail sales in the second quarter of 2023 that was also attributed to a high base effect for Hari Raya the year before, which was celebrated after two years of lockdown.

Thus, its manager "remains cautious on the challenges for growth of retail sales in 2023, which would affect tenants' performance at shopping malls and, also, the financial performance of IGB REIT. Nonetheless, IGB REIT remains committed to bringing about long-term value to its stakeholders".

Kenanga Investment Research shares this concern over the strength of retail consumption, retaining a "market perform" call and RM1.66 target price after IGB REIT's 3Q2023 earnings release, noting that retailers "could still face challenges in maintaining their profitability due to increasing labour and retail costs". In addition, the "spending power of consumers may be dented by the sustained high inflation, though cushioned by the absence of an immediate plan by the government to dial back the subsidy on the RON95 petrol".

Still, Kenanga said IGB REIT is "well positioned to maintain a stable earnings pattern moving forward, even in the face of a challenging economic outlook and a high-inflation environment", noting that both malls "cater to the mid-to-higher in-

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come group, and the higher income bracket is expected to remain relatively unaffected, given their financial stability".

RHB Research and AmInvestment Bank Research, meanwhile, maintained their "buy" recommendations on IGB REIT.

In an Oct 16 note, AmInvestment said the REIT "has completed the renewal of a majority of its leases expiring FY2023 at a rate of 4% to 6%, supported by an improvement in retail sales" and the research house is "confident that the majority of leases set to expire in FY2024 will be successfully renewed in 2H2023 with positive rental reversion close

to pre-pandemic levels of 4% to 6%".

While the upcoming 5% to 10% high value goods tax "may impact retail sales at TGM as it is positioned as the higher-end mall compared to MVM, but the contribution from TGM (around 30% of revenue in FY2022) is considerably smaller than MVM", RHB told clients in an Oct 16 note.

RHB raised its target price to RM1.93 after raising its FY2023 to FY2025 earnings forecasts as well as rental reversion assumptions, while AmInvestment kept its fair value unchanged at RM1.92, which implies a distribution yield of 6%.

IGB Bhd is the largest unitholder of IGB REIT, with a direct holding of 48.19% and an indirect holding of 5.51%. The Employees Provident Fund and Kumpulan Wang Persaraan (Diperbadankan), meanwhile, own 11.57% and 7.37% of the REIT respectively.

In its 2022 annual report, IGB offers another reason its malls continue to command substantial footfall: "As shoppers returned to the malls, IGB REIT has remained committed to offering memorable, exciting and relevant retail experiences to our customers. We recognise that as families and friends step out to reconnect with one another, malls are once again playing a central role in offering a space in which they can create shared memories and start lasting tradition."