

HLIB Research

PP 9484/12/2012 (031413)

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BUY (Maintain)

Target Price: **RM2.01**
Previously: **RM2.01**
Current Price: **RM1.65**

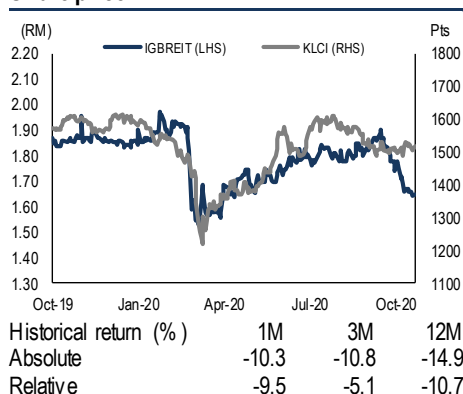
Capital upside 21.8%

Dividend yield 4.1%

Expected total return 25.9%

Sector coverage: REIT

Company description: A REIT that consists of Mid Valley Megamall and The Gardens Mall in Malaysia.

Share price

Stock information

Bloomberg ticker	IGBREITMK
Bursa code	5227
Issued shares (m)	3,557
Market capitalisation (RM m)	5,869
3-mth average volume ('000)	1,088
SC Shariah compliant	No

Major shareholders

GOLDIS Berhad	48.7%
EPF	10.6%
KWAP	7.4%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PAT - (RM m)	315.9	211.9	289.0
EPU - core (sen)	8.90	5.95	8.08
P/E (x)	18.5	27.7	20.4

IGB REIT

Rebounded remarkably

IGB REIT's 3Q20 core net profits of RM76.8m (+294.1% QoQ, -3.7% YoY) were within ours and consensus expectations. Dividend of 2.11 sen per unit was declared. Overall, the company has shown a strong recovery in 3Q thanks to its robust asset quality and premium location. We believe IGBREIT's low exposure to tourist (less than 10% exposure to international tourists) and its establishment are the reasons for their strong recovery in 3Q. Maintain our forecast and reiterate our BUY call with unchanged TP of RM 2.01.

Within expectations. 3Q20 core net profit of RM76.8m (+294.1% QoQ, -3.7% YoY) brought 9M20 core net profit to RM164.7m (-31.5% YoY). The results were within ours and consensus expectations, accounting for 78% and 75%, respectively.

Dividend. Declared 3Q20 DPU of 2.11 sen per unit (3Q19: 2.31 sen per unit), going ex on the 9th November 2020.

QoQ. Top-line recovered remarkably by 111.0% to RM130.7m due to low base in 2Q20 from rental support provided to tenants and lower car park income arising from the Covid-19 pandemic and resultant MCO. Although total operating expenses was higher by 33.7% (due to cost saving in 2Q as the malls are not fully operational), core net profit increased by 294.1% to RM76.8m due to the lower base.

YoY. Revenue decreased slightly by 4.1% against the corresponding 3Q19 due to rental support provided to tenants and lower car park income. In turn, core net profit decreased by 3.7% in tandem with lower revenue.

YTD. Revenue for 9M20 of RM317.7m decreased by 23.0% from RM412.5m in corresponding period 9M19. Primarily, the fall was contributed by lower rental income resulting from rental support to their tenants and lower car park income during MCO particularly during 2Q. Subsequently, core net profit of RM87.9m showed a decrease of 31.5% from RM164.7m in 9M19.

Outlook. We believe IGBREIT's low exposure to tourist (less than 10% exposure to international tourists) and its establishment as well as its prominent location are the reasons for their strong recovery in 3Q. Although the recent resurgence of Covid-19 cases is concerning, we reckon that the company will still be on track to recover thanks to their premium location. Also, it's worth to note that its 3Q20's net profit showed an improvement by 12.4% compared to 1Q20 (and only a decrease of 3.7% as compared to 3Q19); which suggest that company almost back to pre-Covid levels. Management guided that the rental assistance will be extended to 4Q (which we already priced in and imputed in our FY20 earnings) on a case-to-case basis to struggling tenants at a lesser quantum and won't be as drastic compared to the first MCO.

Forecast. Maintain as results were inline.

Maintain BUY, TP: RM2.01. We maintain BUY with unchanged TP of RM2.01 pegged on FY21f DPU on targeted yield of 4.5%, which is derived from 2-year historical average yield spread between IGB REIT and 10-year MGS yield. IGBREIT's malls will be one of the few malls that can recover quickly due to its robust asset quality and low exposure to tourist (unlike Pavilion and Suria KLCC, which has a higher exposure to international tourists).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	207.1	225.5	229.6	289.4	295.1
Receivables	27.9	29.8	21.5	29.0	29.6
Investment properties	4,960.0	4,960.0	4,960.0	4,960.0	4,960.0
PPE	8.0	5.7	4.6	3.8	3.2
Others	-	-	-	-	-
Total Assets	5,203.0	5,221.0	5,215.8	5,282.3	5,287.9
Payables	222.4	222.8	217.6	284.1	289.8
Debt	1,213.9	1,214.2	1,214.2	1,214.2	1,214.2
Others	-	-	-	-	-
Liabilities	1,436.3	1,437.0	1,431.8	1,498.3	1,504.0
Unitholders' capital	4,436.4	4,462.5	4,492.5	4,526.6	4,561.3
Undistributed profit	-669.7	-678.5	-708.5	-742.6	-777.4
Equity	3,766.7	3,784.0	3,784.0	3,784.0	3,784.0
Total Liab & Equity	5,203.0	5,221.0	5,215.8	5,282.3	5,287.9

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Profit before taxation	333.8	315.9	211.9	289.0	298.6
Fair value gain	-30.0	0.0	0.0	0.0	0.0
Management fee	34.7	35.5	30.0	34.1	34.7
Borrowing costs	-	-	-	-	-
Interest income	2.7	2.7	1.4	1.2	1.0
Others	-2.4	-7.4	3.1	59.0	5.1
CFO	338.8	346.6	246.4	383.3	339.3
Capex	0.0	0.0	0.0	0.0	0.0
Disposal / (purchase)	-0.6	-0.4	-0.4	-0.4	-0.4
Others	147.3	0.0	0.0	0.0	0.0
CFI	-0.6	-0.4	-0.4	-0.4	-0.4
Distribution paid	-416.3	-327.9	-241.9	-323.2	-333.3
Debts raised / (repaid)	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	0.0	0.0	0.0	0.0	0.0
Others	-1.3	-1.0	0.0	0.0	0.0
CFF	-417.6	-328.8	-241.9	-323.2	-333.3
Net cash flow	-79.4	17.4	4.1	59.8	5.7

Assumptions

FYE Dec	FY20f	FY21f	FY22f
Mid Valley Megamall			
Rental rate (RM psf/mth)	9.3	12.6	12.8
Occupancy rate (%)	100%	100%	100%
Gross Rental Income	203.5	274.7	280.2
The Gardens Mall			
Rental rate (RM psf/mth)	8.5	11.5	11.7
Occupancy rate (%)	100%	100%	100%
Gross Rental Income	86.4	116.6	119.0
Car Park Income			
Mid Valley Megamall	16.5	22.3	22.7
The Gardens Mall	11.2	15.1	15.4
Other income			
Advertising and promotional income	2.5	2.6	2.7
Utilities recoverable	24.0	25.2	25.9
Kiosk rent and other leasing income	49.5	52.0	53.6
Others	6.1	6.4	6.5

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	535.7	552.1	399.7	514.9	526.1
Opex	-149.4	-153.3	-110.7	-144.6	-147.5
Net prop income	386.3	398.8	288.9	370.3	378.6
Interest income	6.8	7.1	7.1	7.3	9.1
Fair value gain	30.0	-	-	-	-
Net invest income	423.0	405.9	296.1	377.6	387.8
Total other expenses	-89.3	-90.1	-84.2	-88.6	-89.2
Profit before tax	333.8	315.9	211.9	289.0	298.6
Tax	-	-	-	-	-
Net profit	333.8	315.9	211.9	289.0	298.6
Core net profit	303.8	315.9	211.9	289.0	298.6
Distribut. income	341.4	341.9	241.9	323.2	333.3
Consensus core PAT			219.8	304.0	322.0
HLIB/ Consensus			96%	95%	93%

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPU (sen)	8.59	8.90	5.95	8.08	8.31
P/E (x)	19.2	18.5	27.7	20.4	19.9
EBITDA	359.6	371.6	266.4	343.3	352.6
EBIT	356.8	368.9	264.9	342.1	351.6
EV	6,839.2	6,844.2	6,862.0	6,827.0	6,846.6
EV/EBITDA (x)	19.0	18.4	25.8	19.9	19.4
DPU (sen)	9.2	9.2	6.8	9.1	9.3
Dist. income PU (sen)	9.2	9.2	6.8	9.0	9.3
Dividend yield	5.6	5.6	4.1	5.5	5.6
NTA/ share (sen)	106.6	106.6	106.2	105.8	105.3
P/ NTA	1.5	1.5	1.6	1.6	1.6
BVPS (RM)	1.07	1.07	1.06	1.06	1.05
P/B (x)	1.5	1.5	1.6	1.6	1.6
EBITDA margin	67.1%	67.3%	66.6%	66.7%	67.0%
EBIT margin	66.6%	66.8%	66.3%	66.4%	66.8%
PBT margin	62.3%	57.2%	53.0%	56.1%	56.8%
Net margin	62.3%	57.2%	53.0%	56.1%	56.8%
ROE	8.9%	8.3%	5.6%	7.6%	7.9%
ROA	6.4%	6.0%	4.1%	5.5%	5.6%
Net gearing	26.73%	26.13%	26.02%	24.44%	24.29%

Quarterly Financial summary

FYE Dec	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)
Gross rental income	116.6	34.5	95.7	177%	-18%
Other income	19.7	27.4	35.1	28%	78%
Total revenue	136.3	62.0	130.7	111%	-4%
Utilities expenses	-12.3	-5.7	-9.4	65%	-24%
Maintenance expenses	-5.6	-4.8	-6.3	31%	12%
Quit rent & assessment	-3.8	-3.8	-4.1	8%	10%
Other expenses	-14.0	-10.3	-13.1	28%	-6%
Total expenses	-35.6	-24.6	-32.9	34%	-8%
Interest income	1.9	1.4	1.5	7%	-19%
Net property income	100.7	37.4	97.8	162%	-3%
Net investment income	102.5	38.8	99.3	156%	-3%
Borrowings costs	-13.4	-13.2	-13.4	1%	0%
Normalised PBT	79.8	19.5	76.8	294%	-4%
Normalised PAT	79.8	19.5	76.8	294%	-4%
DPU (sen)	2.31	0.62	2.11	240%	-9%

Figure #1 **Quarterly results comparison**

FYE Dec (RM m)	3Q19	2Q20	3Q20	QoQ	YoY	9M19	9M20	YoY
Gross rental income	116.6	34.5	95.7	177.1%	-17.9%	335.4	218.7	-34.8%
Other income	19.7	27.4	35.1	27.7%	77.9%	77.1	99.0	28.4%
Total revenue	136.3	62.0	130.7	111.0%	-4.1%	412.5	317.7	-23.0%
Utilities expenses	-12.3	-5.7	-9.4	64.5%	-23.8%	-37.5	-27.3	-27.2%
Maintenance expenses	-5.6	-4.8	-6.3	30.6%	12.2%	-16.6	-17.0	2.9%
Quit rent & assessment	-3.8	-3.8	-4.1	8.2%	10.2%	-11.3	-11.8	4.7%
Other expenses	-14.0	-10.3	-13.1	27.7%	-6.0%	-44.5	-38.1	-14.6%
Total operating expenses	-35.6	-24.6	-32.9	33.7%	-7.6%	-109.8	-94.2	-14.3%
Interest Income	1.9	1.4	1.5	6.7%	-18.9%	5.5	4.7	-15.6%
Net property Income	100.7	37.4	97.8	161.9%	-2.8%	302.7	223.6	-26.1%
Net investment income	102.5	38.8	99.3	156.2%	-3.1%	308.2	228.3	-25.9%
Borrowings costs	-13.4	-13.2	-13.4	1.1%	0.0%	-39.7	-39.8	0.4%
Normalised PBT	79.8	19.5	76.8	294.1%	-3.7%	240.6	164.7	-31.5%
Normalised PAT	79.8	19.5	76.8	294.1%	-3.7%	240.6	164.7	-31.5%
EPU (sen)	2.25	0.55	2.16	294.1%	-3.9%	6.79	4.64	-31.7%
DPU (sen)	2.31	0.62	2.11	240.3%	-8.7%	6.97	4.67	-33.0%

HLIB Research

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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