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Windfall for IGB

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Written by Chong Jin Hun

Tuesday, 15 May 2012 13:53



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KUALA LUMPUR: IGB Corp Bhd stands to rake in close to RM1 billion in cash as its 76%-owned subsidiary KrisAssets Holdings Bhd plans to distribute cash proceeds from the planned disposal of its two retail properties to a real estate investment trust (REIT).

KrisAssets said last Friday it plans to dispose of the Mid Valley Megamall and The Gardens Mall here to IGB REIT for RM4.61 billion. The transaction will be satisfied by the issuance of 3.4 billion new units in IGB REIT at RM1 each while the balance of RM1.21 billion will be settled in cash, to be funded from the drawdown of a portion of syndicated financing facilities by the REIT.

According to KrisAssets' announcement to the exchange, it plans to distribute to its shareholders 2.73 billion units out of the 3.4 billion units

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in IGB REIT under a distribution-in-specie exercise, and pay out some RM1.27 billion cash to shareholders, of which IGB is entitled to about RM965 million with its 76% stake. KrisAssets will place out the remaining 670 million units in the REIT to raise some RM670 million for the repayment of its own borrowings and liabilities.

The cash payout by KrisAssets will further expand IGB's huge cash reserves. As at Dec 31, 2011, IGB had cash of RM821.42 million against debt obligations of RM1.1 billion. Including the potential cash distribution of RM965 million from KrisAssets, IGB's cash pile is expected to grow to RM1.79 billion, placing the parent company at a net cash position of RM690 million.

But although IGB will see its cash pile swelling, analysts said the group needs to strike a "delicate balance" between making a special dividend payout and reinvesting the cash in its real estate development projects abroad.

"As we have highlighted earlier, IGB is exploring development opportunities in London and Taipei, whereby we understand that IGB would require about RM1 billion to fund the acquisition of a site in London," AmResearch wrote in a note yesterday.

For FY11 ended Dec 31, IGB's net profit rose 4% to RM237.65 million from RM174.62 million a year ago, as revenue grew 7% to RM772.13 million from RM719.36 million previously. The anticipation of further net profit and revenue growth in IGB has lifted analysts' expectation of a potential upside in its stock price.

AmResearch has a target price of RM3.50 for IGB, translating into a discount of 22% to the research firm's revised net asset value of RM4.50 a share for the stock.

IGB rose 2.2% or six sen to close at RM2.80 yesterday with some 2.7 million shares done. KrisAssets, buoyed by news of the proposed cash payout, rose 49 sen to end at RM7.50, leading Bursa Malaysia's top gainers' list.

This article appeared in The Edge Financial Daily, May 15, 2012.

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