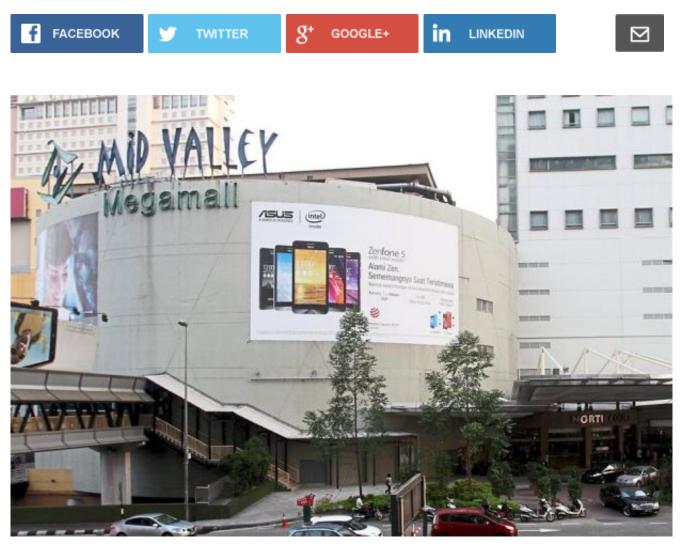
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IGB growth revenue up, falling tourist arrivals dents outlook

BY DANIEL KHOO



Higher revenue: File picture of Mid Valley Megamall, owned by IGB Real Estate Investment Trust. The mall and the neighbouring Gardens Mall reported an increase of 7 and 11 in total gross revenue and net property income of RM367.8mil and RM261.6mil respectively.

PETALING JAYA: Subdued retail outlook and falling tourist arrivals seem to have put a dent on the outlook of the otherwise fundamentally sound IGB Corp Bhd, which derives a chunk of its income from the retail and hotel industry.

There has been no let up in the share price weakness of the company despite it reporting an overall stronger set of results for the bottomline in its third quarter ended Sept 2015.

While the broader market had mostly rebounded from the late-August lows of the year, IGB's share price seems to be bucking the trend.

It registered a year-to-date (YTD) loss of 11.15% and underperforming the benchmark FTSE Bursa Malaysia KL Composite Index that declined 5% during the same period.



Despite the already weakened ringgit, tourist arrivals into the country have unexpectedly been poor for the year affecting hoteliers such as IGB.

The letdown in tourist arrivals was due to a confluence of factors, among which is the worst haze episodes that had blanketed the country for at least two months in the second half of 2015.

Both Tourism Minister Datuk Seri Mohamed Nazri Aziz and his deputy Datuk Mas Ermieyati Samsudin had in earlier reports alluded to the decline in tourist arrivals to the economic downturn, the east coast flooding disaster, the incidents involving Malaysia Airlines and AirAsia in 2014 and most recently the haze.

Companies such as IGB derives its income from varied investments with recurring income from commercial, retail and hotel properties and indeed has a sound portfolio of assets backing its shares.

The company derived close to 70% of its YTD nine-months revenue for the financial year 2015 (FY15) from the retail and hotel industry.

A closer look at its recently announced third quarter results showed that the company had bucked the trend in retail and had instead registered a growth in top and bottomline in this segment as well.

IGB's retail segment is represented by IGB Real Estate Investment Trust (REIT), the owner of Mid Valley Megamall and The Gardens Mall.

Both the malls reported an increase of 7% and 11% in total gross revenue and net property income of RM367.8mil and RM261.6mil respectively.

While its retail assets had seen an improvement in returns given that they are strategically located in the city, its hotel segment had seen an unexpected decline and was below IGB's expectations.

The company notes that all local hotels within the company recorded lower average occupancy rates when compared to the previous year and the revenue contribution from this division declined 7% to RM251.3mil from RM270mil a year earlier.

Its Pangkor Island Beach Resort was also closed in July 2014 for redevelopment.

IGB which derives its recurring hospitality income from hotels chains such as Cititel Express and the St Giles may also be a casualty of the evolving tastes of the consumer.

Broader underlying trends such as the growing popularity of short-term accommodation rental providers such as Airbnb among a certain group of tourists could be weighing sentiment on the stock as well.

Airbnb is a portal that connects hosts to potential guests for owners of premises to rent out their properties to holiday makers.

The advantages of using the Airbnb portal to book one's accommodation include a possibly cheaper rate per person per night depending on the location.

Also, some tourists prefer a more homely atmosphere.

However, while hosts are rated by guests on the portal, most areas in this new way of holidaying abroad are still largely unregulated when compared with the hotel industry, which is regulated and rated according to the number of stars they attain.

These star ratings are usually done by the tourism boards of each country while in Malaysia, it is carried out by the Tourism Industry Licensing System under the Tourism Ministry.

Analysts do not discount the changes in the overall way consumers like to spend their holidays but question if that fear was overdramatised or over-played by the market.

"While Airbnb may be cheaper, not everyone will want to stay in Airbnb given outstanding questions of safety and security, etc. Not everyone is an individual traveller and there are businesspeople who will still stay at hotels.

"Tourists who visit via tour packages will also end up staying in hotels," an analyst says.

"While there may be detractors such as Airbnb to the industry, I do not believe the hotel industry will be severely impacted as there are other sources of income," he adds.

For IGB, analysts covering the stock have so far generally rated the stock an overweight with two research houses rating it a buy, one a hold and another a sell.

Public Investment Research's Tan Siang Hing who had an outperform call on the company with a target price of RM4.80 says that the shares does not deserve to trade at such levels but notes that market perception is hard to control.

The counter closed RM2.28 last Friday.

"The office that is coming up in Mid Valley area is a huge one with 900,000 square feet of net lettable area.

"There is a possibility that they may convert some of it to service residences as well," Tan says.

Trading at a valuation of 14 times historical earnings and 0.72 times tangible book value, IGB is sitting at a discount to its past three-year average of 17.8 times earnings and 0.83 times tangible book value.

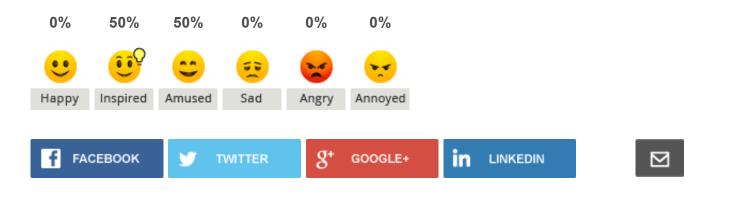
Dividends have also seen growth in the past year with 12 months gross yield at 6.49% but the matrix had grown 100% since a year ago and 43% compared to five years ago.

In his report earlier, Tan say he likes IGB's investment grade assets, which generates about 70% of its earnings currently.

"Our earnings estimates have not factored in the contributions from the new assets, which we believe will be substantial over the next three to five years," his report says.

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