

IGB REIT gains on resiliency amid volatility

Mid Valley Megamall and The Gardens Mall are IGB REIT's stable assets, says analyst

by MARK RAO

IGB Real Estate Investment Trust's (REIT) strong financial performance has allowed the counter to outperform as continued market volatility prompts investors to seek out such stable dividend-yielding stocks.

Its year-to-date (YTD) value is up 18.5% or 32 sen, second only to Axis REIT (up 18.6% YTD) among the listed REITs in Malaysia, while the benchmark FTSE Bursa Malaysia KLCI is down 5.6%.

The sharp rise comes despite IGB REIT's continued reliance on the organic growth of its two main assets — the Mid Valley Megamall and The Gardens Mall.

The malls continue to register high footfall and traffic, and command a strong catchment area due to its permanent location in Mid Valley City, which borders both Kuala Lumpur (KL) and Petaling Jaya.

"Mid Valley Megamall and The Gardens Mall are stable assets under IGB REIT's portfolio, with 100% occupancy rates, stable rental yields and sustainable sales targets," an analyst with a local brokerage told *The Malaysian Reserve*.

"The two malls are also located slightly outside KL, which means they are not as affected by oversupply in the retail space (compared to malls within the centre of KL)."

The analyst further noted that REITs, as defensive stocks, become attractive during periods of equity market vola-



Mid Valley Megamall has 100% occupancy rates, stable rental yields and sustainable sales targets

Pic by Muhd Amin Naharui

tility and declining bond yields.

REITs are popular among institutional investors looking for sustainable returns at relatively low-risk profiles and tend to outperform during market uncertainties and slowing growth conditions, while providing an alternative to the fixed-income market.

YTD, shares in the 18 REITs listed on the Malaysian stock exchange collectively gained 11.11% in value, while rising 8.4% over a one-year period, according to *Bloomberg* data.

For the past two quarters, the REIT's income distribution has been at 95% of its total distributable income.

In its latest report, Hong Leong

Investment Bank Bhd maintained a 'Buy' call for IGB REIT with a RM2.15 target price (TP) — 4.4% higher than its last closing price of RM2.06 yesterday — based on a targeted yield of 4.9%.

"We expect IGB REIT's both assets will continue to perform well, as they are shielded from the challenging retail environment in the Klang Valley thanks to their prominent location which contributed to strong footfall traffic into the malls," its analyst Farah Diyana Kamaludin wrote.

She said this preserved the rental and high occupancy rates of close to 100% for both malls.

Maybank Investment Bank Bhd,

however, has a 'Hold' rating on the stock with a RM1.85 TP — 10.2% lower than its last closing price.

Its analyst Kevin Wong said the near-term earnings growth for IGB REIT is expected to remain stable amid the ongoing oversupply of malls and heightening competition, and the stock could re-rate on better visibility of its asset pipeline.

"We believe that IGB REIT could re-rate once there is better visibility on its acquisition plans. However, we have not imputed any new assets into our forecast," he wrote in the report.

For the newly opened Mid Valley Southkey in Johor Baru, the research

house anticipates the acquisition would not happen until at least after one tenancy cycle of three years.

The mall in question is a joint venture between IGB REIT's parent company, IGB Corp Bhd, and Selia Pantai Sdn Bhd, and IGB REIT is believed to have the right of first refusal to acquire the retail asset.

For the first half of the fiscal year ending Dec 31, 2019, IGB REIT's net profit rose 5.5% year-on-year to RM160.81 million, while revenue grew 4.3% to RM276.21 million.

This was on the back of a 4.5% net property income growth to RM202 million over the same period, largely owing to the higher rental income recognised.

The management stated that it intends to increase the income and value of its investment properties via active asset management, asset enhancement initiatives and acquisition growth, as well as capital and risk management strategies.

Mid Valley Megamall and The Gardens Mall were valued at RM3.66 billion and RM1.29 billion respectively based on independent valuations, and has a combined net lettable area of approximately 2.67 million sq ft.

In 2018, IGB REIT took back the space previously occupied by AEON Big in Mid Valley Megamall and used the space to create 21 additional retail outlets as well as four casual leasing spaces, allowing the REIT to bring in higher rental returns.

For The Gardens Mall, the REIT increased the mall's lower ground retail space by 18,000 sq ft to improve accessibility and enhance the shopping experience.