Windfall dividend from IGB with sale of Gardens?

BY **Siow Chen Ming**

The sale of the Gardens Mall by IGB Corp Bhd to subsidiary KrisAssets Holdings Bhd has drawn different reactions from investors in both companies. A day after the proposed deal was announced, IGB fell 17 sen to RM2.15 last Wednesday, while KrisAssets gained 15 sen to RM4.05. On Thursday, IGB fell a another two sen, while KrisAssets gained another five sen.

The fall in IGB's share price came as a surprise, say some analysts, who believe the company is a bigger winner in this deal than its 75%-owned subsidiary KrisAssets. The reasoning is that IGB is unlocking the value of its asset and will be cash rich with the proposed sale. Essentially, IGB is transferring the weight of the Gardens Mall off its balance sheet to KrisAssets.

The proceeds would also come in handy to speed up the group's asset acquisition or expansion plan — where it has been fairly quiet over the past few years — apart from fuelling investor expectations of a bumper dividend.

"And don't forget IGB will still have exposure to the steadily growing cash flow of Gardens Mall via its 75% stake in KrisAssets," says an analyst with a foreign investment bank.

She adds that valuation is not a major issue in the transaction because IGB is selling an asset to a subsidiary in which it has a high level of shareholding.

Also, speculation has been rife that KrisAssets could be turned into a real estate investment trust (REIT) with the addition of Gardens Mall. A REIT structure would give better returns to shareholders given the low tax structure accorded to a property trust. Such an exercise could also benefit IGB as the controlling shareholder.

However, what came as a surprise to many was the all-cash deal, which ran contrary to previous speculation that IGB would inject the mall into KrisAssets in return for a combination of cash and shares.

To recap, IGB last Tuesday entered into a "heads of agreement" with KrisAssets to sell the entire 100% stake in Mid Valley City Gardens Sdn Bhd (MVCG) to the latter for a consideration to be settled fully in cash. MVCG is the owner and operator of Gardens Mall.

Based on the announcements made by IGB and KrisAssets, the sale/purchase cash consideration will be based on MVCG's net tangible assets (NTA) as at FY2010 ended Dec 31 (subject to changes to the NTA before the completion of the deal), as well as the indicative market value of RM820 million for the land together with the Gardens Mall erected there.

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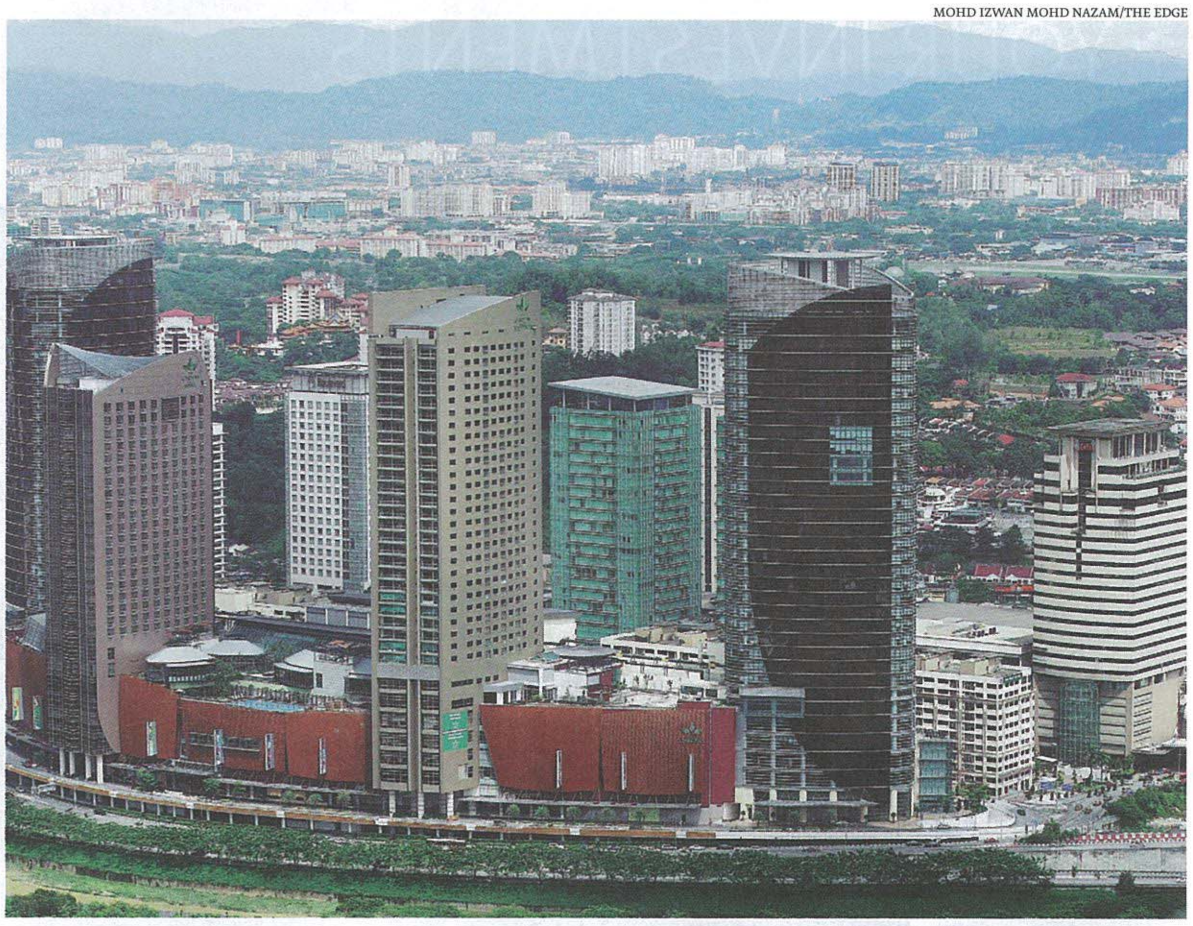

At RM820 million, the Gardens Mall — with a net lettable area of about 800,000 sq ft — is valued at RM1,025 per sq ft (psf). This is somewhat close to the average psf launch price for S P Setia Bhd's KL Eco-City project, which is adjacent to Mid Valley.

> Gardens Mall in Mid Valley City ... IGB Corp's core strategy remains the development of properties for recurring income rather than for sale, says an analyst

However, it is not known what MVCG's NTA is as it was not stated in the announcements. Thus, it is not clear whether the cash consideration for the asset will turn out to be less than RM820 million after factoring in MVCG's liabilities.

For IGB, as at FY2010 ended Dec 31, the group had total borrowings of RM832.2 million, of which RM200 million is believed to be carried by subsidiary KrisAssets. There is also RM628.8 million cash in IGB's consolidated balance sheet as at that date, of which RM218.8 million is held in KrisAssets. Thus, excluding the borrowings and cash held at KrisAssets, IGB's net borrowings could have been RM222.2 million as at Dec 31 last year.

Assuming that IGB sells MVCG to KrisAssets for RM820 million cash, at Gardens Mall's indicative market value (which translates into 55 sen per IGB share), IGB could go from a net debt to net cash position of RM597.8 million, or 40.11 sen a share. The counter closed at RM2.13 last Thursday.

"Whatever the final sale consideration, my guess is not more than a 50% dividend distribution from the cash proceeds, while the rest will go towards asset acquisitions," says the analyst.

IGB's shareholders, especially the Tan family, will benefit from a bumper dividend from the group. The Tan family's private vehicles — Tan Chin Nam Sdn Bhd, Tan Kim Yeow Sdn Bhd and Wah Seong (Malaya) Trading Co Sdn Bhd — hold a total of 8.78% equity interest in the company. Meanwhile, Goldis Bhd, in which the Tans own a combined 41.98% stake, holds another 27.51% equity interest in IGB.

"From the sale of MVCG, IGB may utilise the proceeds to acquire or develop more hotels or commercial properties, such as offices, locally and abroad. They still own a smaller parcel near Mid Valley which they plan to develop into commercial properties," says the analyst.

She adds that the group's core strategy remains the development of properties for recurring income rather than for sale. In fact, property investments (rental income from shopping malls and offices) and hotel operations contributed about 88% of the group's pre-tax profit of RM319.7 million in FY2010.

To be fair, IGB's recurring net profit from property investment and hotel operations alone could rival certain large developers with quick project turnaround. Nevertheless, such strong recurring income from the group has not led to generous dividends for shareholders yet, as the group is still focusing on expanding its portfolio of investment properties that requires heavy capital re-investment.

In a recent report, JP Morgan raised its target price for IGB from RM2.90 to RM3. "Our new target price of RM3 is based on a 20% discount to our revised RNAV of RM3.60 per share. This compares with the current average discount of 25% for Asian property investors and the historical mean discount of 26% for Malaysian property peers. We believe this is fair as improved transport/MRT linkages with Malaysia's Economic Transformation Programme provide upside prospects to RNAVs for the sector, and hence could see shares trading above the historical RNAV mean valuations," it said. E