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'All in good time'

Features

Written by Cindy Yeap of The Edge Malaysia

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IGB Corp Bhd's managing director Robert Tan Chung Meng is mulling several "big projects" with the cash raised from its retail mall real estate investment trust (REIT) — possibly including another sizeable project in Johor and one in London — but is keeping his cards close to his chest.

"I can tell you a juicy story now if I'm not bound by the law. So I'll need to tell the Securities Commission first before telling the world. That's why I do not usually grant interviews nowadays," says Tan with a laugh, sitting up as he chooses his next words like a man guarding a treasure.

Unlike most developers, IGB Corp, the builder of the gargantuan Mid Valley City that houses Malaysia's largest shopping mall, gets most of its profits from commercial space rent and income from its hotels instead of developmental profit.

IGB owns most of the office and retail space in Mid Valley City. Its over two million sq ft (185,806 sq m) of commercial space, which is mostly fully leased, Tan says, is equivalent to one KLCC Twin Tower.

The group also owns and runs several hotels, including The Gardens, Cititel, St Giles and the Renaissance Hotel in Kuala Lumpur.

"My family's future generations need not to do much; there is already a steady income stream … I think I have performed my duty [to grow IGB group] to the best of my ability," says the 60-year-old property man who still sports jet black hair without hair dye.

Tan recalls that people were sceptical about the Mid-Valley project in late 1990s. "People gave me zero chance of surviving the Asian crisis, remember? But during the worst times, we never defaulted on a single loan," he tells The Edge, adding that the group then managed to sell assets in the UK to finance the mega project.

"Recurring income doesn't look as nice initially as properties take time to build and mature, whereas if you build and sell, you record profits straight away," Tan says, relating how IGB's cumulative profits over the longer term trumped its developer peers.

Part of those recurring income-generating assets were realised last September by setting up IGB REIT, injecting two prized shopping malls into it. IGB owns a 51% stake in the REIT.

Sensing a near-term lull pending IGB's next big move, impatient investors are looking elsewhere for faster growth. IGB itself, however, is stepping up share buybacks. It has 5.87% of its shares in treasury, double what it had a year ago.

Two weeks back, its major shareholder Goldis Bhd announced a roundabout route to give the Tan family a tighter grip on IGB.

Tan declined comment on Goldis' plan to distribute one share (or a RM1.72 apiece cash equivalent) in a private vehicle that will house 30.59% of IGB for every 10 shares held in Goldis.

"That's my cousin's company," Tan says, referring to Goldis' executive chairman and CEO Tan Lei Cheng, a daughter of Tan Sri Tan Chin Nam, who pioneered the concept of condominiums in Malaysia with Desa Kudalari in Kuala Lumpur.

"I have no part in that. I'm as surprised as you. I read the plan from the newspaper. You'll have to ask them if you want to know more."

It has not been even a year after the listing of IGB REIT, but there is already speculation about IGB's next move to unlock its asset-rich portfolio. "Wait first … let us digest the REIT first," he says.

Tan downplays the chances of another REIT happening in the near future unless there's a significant change in the group's cash needs.

"Cash is good but if we cannot use it, it's a liability at this juncture because there is a negative carry," Tan says, relating how IGB can borrow at just over 3% interest, whereas IGB REIT had to offer over 5% yield.

"We only intend to do [another REIT] if we expand aggressively, if we come across something that's worth it and needs a lot of capital. At the moment, however, it is not easy to find anything good because there is so much liquidity in the market," says Tan, who has grown IGB from a small-scale property developer with little land in hand to being one of the biggest landlords in town.

Offshore ventures

Tan indicates that the group is on the lookout for opportunities abroad. But he says good bargains are hard to come by, given the ample liquidity that is also seeking high-yield assets.

"When we compete internationally, we're competing with people who are investing other people's money and will take assets at 2% or 3% yield, because cash in the bank yields practically nothing," he notes, relating the group's challenge as it hunts for assets abroad and commitment to only take calculated risks.

"When everything is in place, plans, acquisitions and all that, we will do a bit of a roadshow. Iskandar is just one of them … there are a few big ones in the negotiation stage which we cannot reveal yet."

IGB was in the spotlight last October when the media reported that a consortium led by it had won the bid to build the RM8.35 billion Taipei Twin Towers project. But four months later, IGB announced that the Taipei city government had cancelled the award after the parties involved failed to agree on terms.

"The [since-aborted] Taipei plan we could have seen to completion, but the risks involved were more than what we were willing to take," Tan replies when asked about the venture. He declined further comment.

For now, some RM500 million has been earmarked for various projects locally and abroad, including the building of the 435-key St Giles Wembley hotel in Penang and the IGB International School in Sierramas, Sungai Buluh, Selangor, which is slated to open in August 2014.

On its Johor Baru venture, Tan is happy that the group got a sweet deal. "We have saved a few hundred million at SouthKey already because there is ready infrastructure. From the Causeway, the CIQ to my place is five minutes, only 8km, straight into the mall … the area is already mature," Tan says.

"We're looking at something in Iskandar too, probably residential … the retail and commercial part will come later because the area will take time to mature," he adds, without going into specifics. "Perhaps there will be a NorthKey, maybe even EastKey and WestKey, not just SouthKey," he quips.

To diversify, IGB group has branched out into education. "If that one does well, education can be another business for the group," Tan says.

He explains that the path IGB took was the most sensible due to its lack of landbank.

"We didn't have thousands of acres of plantation land that could be converted into residential. How could we compete with people buying in acres when we buy in sq ft. So, whatever we have, we have to make sure we extract maximum value."

Like it or not, analysts often overlook IGB, preferring developers that show a quicker project turnaround time and faster earnings growth.

Waiting for IGB's slower-paced developments will not suit investors with shorter investment horizons.

JP Morgan Research's analyst Simone Yeoh, who downgraded IGB Corp to "underweight" on April 28 for lack of near-term price catalysts, is the most bearish of analysts polled on Bloomberg.

Yeoh values IGB at RM2.10 apiece, which is a 50% discount to its revised net asset value of RM4.58 apiece to account for limited dividend payout rise, risks from overseas expansion and holding company discount.

The target price is below the RM2.55 IGB closed at on May 16, which reflects 0.92 times its net assets of RM2.78 per share.

Analysts at KAF Seagroatt & Campbell and AmResearch, however, have a "buy" with target prices of RM2.90 and RM3.20 respectively, Bloomberg data showed.

Having led IGB to a higher level, Tan now looks forward to besting the group's record with the SouthKey development and other projects in the pipeline.

"Bear with me … Good things need time and will come to those who wait," Tan says, pointing out that investors familiar with IGB know it is a good long-term investment. Investors who prefer speculative spurts, he adds, should "buy something else lah".

He is also not dogmatic about succession planning at IGB and says he is "happy" to give up his position should another person be deemed more capable.

"If the shareholders want me, I can go on for another 10, 15 years, but it is for the shareholders to say that they want me to be there.

"If they don't want me, the next AGM I am out already… but the company is very strong now. Financially, it can stand on its own two feet. This is what I've done for the company with my team here. We have fantastic assets that are yielding and a strong balance sheet," says Tan.

This story first appeared in *The Edge weekly* edition of May 20-26, 2013.

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