IGB REIT posts solid results, strives to enjoy high occupancy

▶ IGB REAL ESTATE INVESTMENT TRUST				
FYE DEC 31	**2018**	**2019E**	**2020E**	**2021E**
REVENUE (RM mil)	535.7	552.6	572.6	588.0
REALISED NET PROFIT (RM mil)	303.8	315.6	331.8	343.7
REALISED EPU (sen)	8.6	8.9	9.3	9.6
REALISED PER (x)	20.7	20.0	19.2	18.6

▶ Recommendation: Hold

TARGET Price: **RM1.74**
by Affin Hwang Investment Bank Bhd (Jan 24)

IGB Real Estate Investment Trust (REIT) reported a solid set of results. Its 2018 DPU came in within our expectations at 9.19 sen (-1% YoY).

Overall, the results are within our expectations but a tad below street forecasts (2% short).

Maintain 'Hold' with an unchanged DDM-derived TP of RM1.74. At a 5.3% 2019E dividend yield, IGB REIT's valuation is within its historical trading range and looks fair.

A firm 2018; revenue grew by 2% on higher rental. IGB REIT reported a solid set of results — 2018 net property income grew by 3.4% on the back of higher revenue (+2.1%) and lower operating costs (-1.3%).

Its 2018 realised net profit, however, grew by a mere 0.1% to RM303.8m due to the absence of a one-time write-back of interest booked in 3Q17.

IGB REIT continues to enjoy high occupancy of c.99%; a positive rental reversion has translated to a commendable 2.6% growth in gross rental income.

IGB REIT declared an income distribution of 2.28 sen for 4Q18, bringing the full-year distribution to 9.19 sen (-1% YoY).

Realised net profit slipped by 0.4%. Sequentially, IGB REIT's 4Q18 realised net profit fell by 0.4% QoQ to RM75.5m due to higher property expenses (9.6% QoQ), despite a seasonally higher revenue of RM137.2m (2.6%).

In tandem, management has declared a lower 4Q18 DPU of 2.28 sen (3Q18: 2.29 sen).

Maintain 'Hold' with an unchanged DDM-derived TP of RM1.74. We tweaked our 2019-2020E EPS forecasts by -0.2% after incorporating the 2018 financial statements, while maintaining our 'Hold' rating an DDM-derived TP of RM1.74. While we like IGB REIT for its first-class assets, strong balance sheet and exciting asset acquisition outlook (ie, Southkey Megamall in Johor Baru), the positives are, in our view, largely priced in.

At a 2019E dividend yield of 5.3%, valuation is within its historical trading range (though at a slight premium to peers) and looks fair considering its first-class assets and solid management track record.

Upside risks include higher than expected retail spending; downside risks include unexpected hike(s) in the interest rate.