IGB set to unlock value in commercial properties

By DANIEL KHOO
danielkhoo@thestar.com.my

AMID the generally soft sentiment in the property sector, one company that seems to be maneuvering its way through the storm with strategic corporate moves is IGB Bhd.

IGB is set to undertake its second real estate investment trust (REIT) listing of its assets. After listing its retail assets as a REIT, this time the company plans to lump its commercial assets that are located around the Mid Valley and Jalan Tun Razak and list the vehicle.

The REIT-ing of its commercial assets is expected to unlock value for the group. So far investors have reacted positively to this latest corporate development.

IGB's shares have moved up and had gained 14.44% or 39 sen to RM3.09 as of Friday's close, in response to the announcement of this latest corporate exercise. If the plan goes through, IGB's plans for a listed commercial REIT will be a second one that the group would own.

IGB REIT, the company's retail REIT was listed in Sept 2012 and owns the Mid Valley Megamall and The Gardens Mall. The latest plans for its upcoming commercial REIT will see the company injecting some of its commercial assets in the Mid Valley and Jalan Tun Razak area.

They include Menara IGB, Centrepoint South, Centrepoint North, The Gardens South Tower, The Gardens North Tower, Menara Southpoint (excluding the residential units), Boulevard Offices (Blocks 25 and 27), Menara Tan & Tan, and Gtower that are both located off, Jalan Tun Razak.

The sale consideration will be satisfied through a combination of cash and issuance of new units in IGB Commercial REIT (IGBCREIT), the company stated in its announcement to Bursa Malaysia. It is also proposing a restricted offer for sale and distribution-in-specie by IGB of the upcoming commercial REIT units to its shareholders.

The downside to a commercial REIT is that the market is still soft. And there are many new commercial properties that are coming into the market segment in Kuala Lumpur and Petaling Jaya in the next few years.

IGB's commercial property investments had average occupancy rates of above 80% with average rental rates at RM6 psf. The rates are comparable to the previous year.

However, IGB in the notes accompany the third quarter results stated that the property investment segment would be challenging in the near term with the scheduled increase in supply of new retail space and slower demand for office space in Kuala Lumpur.

However, the company is confident that the contribution from the segment will be satisfactory with the prime location of the buildings.

The listing of the commercial REIT allows the company to extract better value for its assets and realise some value from its holdings of commercial space. The proceeds could potentially be utilised to help IGB pare down its debts.

IGB's gearing ratio as of its latest third quarter ended Sept 30 is slightly over one time. Its market capitalisation is RM2.13bil and does not reflect the value of its commercial assets.

IGB will likely hold a majority share in the floated commercial REIT entity adopting a similar holding structure at IGBREIT. IGB has a 52.92% holding in IGBREIT at present.

PublicInvest Research estimates the value of IGB's commercial assets to be in excess of RM3bil.

"Assuming IGB is keeping a 51% stake, the listing could monetise at least RM1.5bil for shareholders," the research house says.

Following this development, PublicInvest Research had upgraded the stock to an "outperform" from a "neutral" rating before with a revised target price of RM4.70, pegged at about 50% discount to its revised net asset value estimates.

"IGB has certainly excited investors with this latest proposition. I would expect that this would not be the end of its REIT-ing plans so to speak," says a local analyst.

"That may be the plan in the longer term eventually as they also have hotels in the Mid Valley area and that they could potentially launch a hotel REIT in the future. In the retail space, there is also a possibility of it injecting Mid Valley Southkey into IGBREIT once it matures," the analyst says noting that these are some of IGB's potential catalysts.

IGB's assets appear to be strategically situated around key economic growth areas of the country and this continues to be a source of strength for the company.

For its hotels, IGB says it has slightly over 5,000 rooms around the world and mainly focused in Malaysia. These includes: MiCasa All Suite Hotel Kuala Lumpur, Cititel Mid Valley, Cititel Penang, Pangkor Island Beach Resort, Cititel Express in Kuala Lumpur, Ipoh, Penang and Kota Kinabalu.

However, the hotel industry in Malaysia appears to be suffering from the competition from the onslaught of the competitive prices that are available on platforms such as AirBnB.

In its latest third quarter, the company notes that revenue contributed by its hotel division had decreased by 10% to RM70.6mil due to lower average occupancy rates and lower average room rates.

Moving forward, the possibility for a hotel REIT to be developed could continue to sustain interest in the stock, more so should the industry recover.