

REIT

# IGB REIT

DETERMINED TO STAY RESILIENT DURING PANDEMIC

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**I**GB Real Estate Investment Trust's return on equity (ROE) of 9.1% over the past three years was the highest in the REIT sector.

Its FY2017 ROE stood at 9.3%, before dipping slightly to 9.1% in FY2018 and FY2019.

That said, IGB REIT's net property income (NPI) has been on the rise since its listing on Sept 21, 2012. Its FY2019 NPI was RM398.79 million, a 3.2% increase from RM386.25 million in FY2018. Mid Valley Megamall (MVM) was the major contributor, accounting for 74%, while the remaining 26% was from The Gardens Mall (TGM).

Distribution per unit was lower at 9.16 sen for FY2019 versus 9.19 sen for FY2018. Its annualised distribution yield also fell to 4.84% for FY2019 from 5.31% the year before.

As at end-2019, IGB REIT's net asset value per unit stood at RM1.0663. Based on its closing price of RM1.75 on Oct 9, the company's market capitalisation is RM6.33 billion.

Year to date, the stock has slipped 9%.

IGB REIT's portfolio had a total net lettable area of about 2.67 million sq ft as at Dec 31, 2019.

Based on valuation reports dated Jan 6, 2020, the fair value of MVM and TGM as at Dec 31, 2019, was RM3.665 billion and RM1.295 billion, respectively.

"2019 not only marked the end of another tumultuous year, but the end of a decade which saw significant changes across the globe. In the past 10 years, technology has advanced at breakneck speeds, bringing to the masses digital platforms that have brought us unprecedented access to information and enabled a new genre of business to emerge," IGB REIT says in its annual report for 2019.

For the first half of 2020, its NPI fell 37.7% to RM125.75 million, from RM202 million in the same period last year, mainly due to the rental support provided to tenants and lower car park income arising from the Covid-19 pandemic and resultant Movement Control Order (MCO).

"The current sluggish economic and business conditions are expected to result in a material adverse impact on the financial performance for the financial year ending Dec 31, 2020," it cautions.

Despite the grim outlook and many challenges ahead, IGB REIT says it is determined to stay resilient during the pandemic and remains committed to

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bringing about long-term value for its stakeholders.

In a July 21 note, MIDF Research says it expects the REIT's earnings to recover in 2HFY2020 as shopper traffic picks up and retail shops at MVM slowly reopen.

"Nevertheless, we only expect earnings to recover gradually as we think it will take a while for shopper traffic to revert to pre-Covid-19 levels. In a nutshell, we make no changes to our earnings forecast for FY2020/2021."

The research house maintains its target price at RM1.70, based on the dividend discount model valuation.

"We maintain neutral on IGB REIT due to the subdued retail backdrop in the near term. Meanwhile, dividend yield is expected to taper to below 4% in FY2020."

IGB REIT has taken appropriate and targeted action plans, including conditional rental support for eligible tenants, on a case-to-case basis to mitigate the current challenges faced by them, according to HLIB Research.

"We expect a slow rebound in 3Q2020 as management shared that some rental assistance is being extended into 3Q2020 to eligible tenants (tenants that haven't opened yet during CMCO/RMCO), and they are hopeful that none will be given in 4Q2020, hence suggesting a slow recovery in 2H2020."

The resumption of footfall in the malls during the less-stringent MCO aside, it remains concerned over 2H2020 earnings "as recovery of consumer sentiment remains uncertain during this unprecedented time, with higher unemployment leading to consumers becoming more watchful with their spending." **E**

