IGB REIT not short of 'buy' calls despite resurgence of Covid-19 cases

KUALA LUMPUR (Oct 27): IGB Real Estate Investment Trust (REIT), which owns Mid Valley Megamall and The Gardens Mall here, is not short of "buy" calls despite a dip in its latest quarterly earnings reflecting a decline in footfall amid a resurgence of the Covid-19 pandemic.

While the REIT's earnings were broadly within analyst expectations for the third quarter ended Sept 30, 2020 (3QFY20), three among seven research houses covering the stock — namely Hong Leong Investment Bank (HLIB) Research, CGS-CIMB and RHB Research Institute — maintained their "buy" calls for the REIT.

RHB Research Institute analyst Loong Kok Wen said in a note today that the REIT's earnings met her expectations as 3QFY20 business activity improved significantly, leading to minimal rental assistance given out for the quarter.

"While we look at the swift recovery positively, the new wave of positive Covid-19 cases in Selangor is likely to lead to subdued 4QFY20 earnings. However, we believe the impact will be cushioned by the closed borders, which should support domestic spending," said Loong, who trimmed her target price (TP) for the REIT to RM1.87 from RM1.90 previously.

She cut her FY20 earnings forecast by 8%, believing that rental assistance will pick up again due to the recent spike in new infections.

HLIB analyst Nazira Abdullah also noted that the REIT had shown a strong recovery in 3QFY20, thanks to its robust asset quality and premium locations.

"We believe IGB REIT's low exposure to tourists (less than 10% for international tourists) and its establishment were the reasons for the strong recovery in 3QFY20," said Nazira, who maintained her TP of RM2.01 for the REIT.

Meanwhile, CGS-CIMB analyst Sharizan Rosely said the conditional movement control order (CMCO) in Kuala Lumpur, Selangor and Putrajaya is likely to disrupt the recovery of IGB REIT's malls in the second half of the year.

"However, we believe IGB REIT's flagship neighbourhood malls, i.e. Mid Valley and The Gardens, with their superior occupancy rates and diversified tenants, are likely to stage a firmer recovery post the CMCO, ahead of other urban malls," he said.

Nevertheless, to reflect a more prudent outlook due to the CMCO, he forecasted a lower positive average rental reversion of +1% (from +2.5% previously) for FY20 and an average occupancy rate of 94% (97% previously).

Sharizan also cut the REIT's expected distribution per unit (DPU) for FY20-22 by 7%-16% as he anticipates weaker rental income due to the CMCO, coupled with weaker net profit income margins and lower occupancy rates.

The revised DPU forecast lowered his dividend discount model-based TP to RM1.85 from RM1.98 previously.

"Our revised FY20/21/22 DPS forecasts of 7.1 sen/8.4 sen/8.8 sen translate into decent dividend yields of 4.3%-5.3% and remain supportive of the share price," he added.

Others neutral on IGB REIT, see 4QFY20 results dampened by pandemic

Meanwhile, Affin Hwang Capital analysts Azhani Hashim and Isaac Chow, with "neutral" calls for the REIT, have nonetheless revised the REIT's unit price up to RM1.72 from RM1.71.

"We were pleasantly surprised by the strong recovery of IGB REIT following 2QFY20 lows. As we were too conservative in our forecasts previously, we raise our FY20-22 earnings estimates by 1%-20%," they said.

Maybank IB Research analyst Kevin Wong, who maintained his earnings forecasts for the REIT, estimated that it would still selectively offer rental support to tenants who continue to underperform in the coming quarters due to events such as the CMCO which continues to impact the number of visitors.

However, beyond the near-term challenging outlook, he continues to favour the REIT's malls, which are prominently located in high-footfall and multiple-catchment areas.

"Its gross gearing remains relatively low at 0.23 times (at end-3QFY20), which would support long-term acquisition plans," said Wong.

Meanwhile, PublicInvest Research and MIDF Research, with "neutral" calls for the REIT, remained cautious about the REIT's outlook.

PublicInvest analyst Tan Siang Hing said while IGB REIT's rental would continue to recover, consumer sentiment is still very weak given the spike in new Covid-19 cases in recent weeks that could derail the recovery.

He said the REIT's rental income had been affected by rental support programmes, and could suffer more expected credit losses and a possible impairment of fair value (FV) for investment property due to the extended movement restrictions.

"However, we understand that since the recovery MCO (RMCO) started on June 10, both of its malls have seen an apparent and gradual increase in footfall, albeit cautious, along with vehicle traffic volume. That said, the full recovery could be clouded by the spike in pandemic cases in recent weeks," said Tan, who maintained his TP at RM1.72.

MIDF analyst Jessica Low, meanwhile, said the 4QFY20 outlook for IGB REIT is unexciting due to the resurgence of Covid-19 cases, especially with cases reported in Klang Valley malls and the resulting CMCO reducing the number of shoppers.

"In a nutshell, we revise our FY20-21 earnings forecasts by -6.8%/-2% as we expect lower footfall to hurt rental income," said Low.

She revised down IGB REIT's TP to RM1.66 (from RM1.70) due to the subdued outlook for retail malls in the Klang Valley in the near term, while the REIT's dividend yield is expected to be below 3.6% for FY20.

IGB REIT announced yesterday that its net property income for 3QFY20 fell 2.85% to RM97.83 million from RM100.7 million a year ago. Gross revenue for the quarter also fell 4.08% to RM130.75 million from RM136.31 million a year earlier.

The REIT said the lower gross revenue and net property income for the quarter were mainly due to lower rental income and car park income arising from the pandemic and resultant MCOs.

It has approved a distribution of 90% of its quarterly distributable income amounting to RM74.9 million or 2.11 sen per unit, which will be paid on Nov 27.

For the nine months ended Sept 30, 2020 (9MFY20), the REIT's net property income dropped by 26.14% to RM223.58 million from RM302.7 million for the same period last year. Gross revenue for the period fell 22.98% to RM317.73 million from RM412.52 million a year ago.

At the time of writing today, IGB REIT's share price was up three sen or 1.82% at RM1.68, valuing the group at RM6.05 billion.

Read also:
RHB trims target price for IGB REIT to RM1.87, cuts FY20 earnings forecast by 8%

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