Outlook subdued for IGB REIT due to resurgence of Covid-19 cases

▶ IGB REAL ESTATE INVESTMENT TRUST

FYE DECEMBER	FY18A	FY19A	FY20F	FY21F
GROSS REVENUE (RM mil)	536	552	474	596
CORE NET INCOME (RM mil)	304	316	218	335
CORE EPU (sen)	8.59	8.91	6.13	9.45
CORE PER (x)	19.2	18.5	26.9	17.5

▶ Recommendation: Neutral

TARGET Price: RM1.66 by MIDF Research (Oct 27)

IGB Real Estate Investment Trust's (REIT) 9MFY20 core net income (CNI) of RM164.7m came in within expectations, making up 71% and 75% of our and consensus full-year estimates respectively.

Meanwhile, a DPU of 2.11 sen was announced for 3QFY20, bringing cumulative DPU to 4.67 sen per share.

On sequential basis, 3QFY20 CNI surged to RM76.8m (294% QoQ) as earnings recovered from adverse impact of Movement Control Order (MCO). Note that earnings in 2QFY20 were dampened by rental supports to tenants and lower car park income.

On yearly basis, 3QFY20 core net income was lower (3.7% YoY), bringing 9MFY20 cumulative earnings to RM164.7m (-31.5% YoY). The lower earnings were mainly due to lower rental income during MCO period, lower car park income and lower turnover rent as a result of lower footfall at Mid Valley Megamall and The Gardens Mall.

We expect 4QFY20 outlook for IGB REIT to be unexciting due to resurgence of Covid-19 cases in Malaysia. Shopper traffic at shopping malls is expected to be low in 4QFY20 due to implementation of Conditional MCO in the Klang Valley and as Covid-19 cases were reported at shopping malls in the Klang Valley.

In a nutshell, we revise our FY20/FY21F earnings forecasts by -6.8%/-2% as we expect lower footfall to hurt rental income.

Corresponding to the downward revision in earnings, our TP for IGB REIT is revised to RM1.66 from RM1.70. Our TP is based on DDM valuation.

We maintain 'Neutral' on IGB REIT due to subdued outlook for retail malls in the Klang Valley in the near-term.

Meanwhile, dividend yield is expected be below at 3.6% in FY20. Risks to our call include a prolonged pandemic affecting demand; lower than expected orders; and stronger than expected ringgit versus the US dollar.

Further risks include: i) less aggressive orders from its key customer; ii) delay in 5G rollout; and iii) higher than expected input costs.