

IGB REIT anticipates stellar earnings, DPU a slight disappointment

► Recommendation: Buy

TARGET Price: RM2.12

by Affin Hwang Investment Bank Bhd (Jan 23)

IGB Real Estate Investment Trust (REIT) reported a decent set of results — 2019 realised net profit grew by 4% YoY to RM315.9m on higher rental income (3.1% YoY) and robust net property income (NPI) margin of 72%.

We believe the reconfiguration exercise involving 5% of net lettable area in Mid Valley (previously tenanted to AEON Credit Service (M) Bhd) has helped lift revenue and profitability. 2019 distributable income, however, increased by a mere 0.1% YoY due to higher cash/lower units payment for management fees.

In 2019, IGB REIT paid 65% of management fees in units (from 100% previously). As a result, 2019 DPU declined by 0.3% YoY to 9.16 sen (FY18: 9.19 sen).

Looking ahead, we expect IGB

► IGB REAL ESTATE INVESTMENT TRUST				
FYE DEC 31	2019	2020E	2021E	2022E
REVENUE (RM mil)	552.1	572.6	588.0	605.6
REALISED NET PROFIT (RM mil)	315.9	329.9	341.8	355.5
REALISED EPU (sen)	8.9	9.3	9.6	9.9
REALISED PER (x)	21.9	21.0	20.4	19.6

REIT's valuation to see further positive rerating, driven by an increasing scarcity premium for high quality retail assets with robust growth prospects and low gearing.

Earnings sequentially weaker due to higher costs. IGB REIT's 4Q19 realised net profit fell by 5.7% QoQ to RM75.3m due to higher maintenance expense, which more than offset the 2.4% revenue growth. Moving ahead, we expect maintenance expenses to normalise to RM4.5m-RM6.5m/quarter (from the record RM9.8m in 4Q19).

Maintain 'Buy' with a lower TP of RM2.12. We tweaked our

2020-2021E realised EPU forecasts by -0.1%/+0.2% and lowered our DPU forecasts by 3% after incorporating a higher cash (lower units) payment for the management fees. In tandem, we have revised our DDM-derived TP to RM2.12 from RM2.15. Maintain 'Buy'.

IGB REIT remains our top pick within the retail Malaysia REITs due to its stellar earnings track record, proactive management with innovative asset enhancement activities, efficient cost control and low gearing ratio.

Downside risks. Lower than expected earnings and reversal in global yield trend.