PRESS RELEASES

RAM Ratings reaffirms rating of IGB REIT's sponsored RM1.2 billion First Tranche MTN

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RAM Ratings has reaffirmed the AAA/Stable rating of IGB REIT Capital Sdn Bhd's (IGB REIT Capital or the Issuer) RM1.2 bil First Tranche MTN. This is the first issuance under IGB REIT Capital's RM5.0 bil MTN Programme (the Programme), which is secured against Mid Valley Megamall (the Mall or the Property). IGB REIT Capital is a special-purpose vehicle incorporated by IGB Real Estate Investment Trust (the REIT) to facilitate the fundraising exercise via the Programme.

The reaffirmation of the rating is premised on the transaction's superior collateral support, afforded by the Mall's consistently stable and robust performance. The Mall's net property income (NPI) grew 3% to RM294.9 mil for FY 2019, driven by higher rent-related income, in line with steady average rental rate growth and near full occupancy. While NPI for FY 2020 is expected to be lower owing to rental support granted to eligible tenants during the Movement Control Order (MCO), we have maintained our sustainable cashflow assumption pending further visibility on recovery prospects post-MCO. Based on RAM's sustainable cashflow assumption of RM290 mil, the Property's adjusted valuation continues to provide superior credit support for the AAA rating. The transaction's loan-to-value and stressed debt service coverage ratios stood at 33.10% and 2.84 times, respectively for FY 2019. Additionally, all relevant financial covenants had been met during the review period.

Rental support extended by the Mall's management to the eligible tenants affected by the pandemic-induced MCO between March and June 2020 had caused NPI to drop 36% y-o-y to RM94.2 mil in 1H 2020. Excluding rental support, NPI would have increased 5% y-o-y. Given its diverse tenant mix, almost half of the Mall's tenants (as a percentage of net lettable area) – considered essential service providers – were able to operate under the MCO. This had moderated the adverse impact of the MCO.

While we observed improving footfall and tenant sales following the relaxation of the MCO in June 2020, we remain cognisant of the recent surge in COVID-19 cases. This coupled with the loan repayment moratorium having ended in September 2020 is anticipated to further dampen consumer sentiment. Cross-district travel restrictions under the four-week Conditional MCO imposed on Selangor and the Federal Territories of Kuala Lumpur and Putrajaya in October and November, together with heightened public concern, is anticipated to impact the Mall's performance despite tenants being open for business. As the effect of these developments remains fluid at this juncture, we will continue to monitor and reassess the impact on the transaction when more information is made available.

The rating is underpinned by various structural features and financial covenants to initiate the disposal of the Mall (upon a trigger event) while meeting ongoing coupon obligations on the MTN. These include performance triggers at both the REIT and the Mall levels, cash reserve in the debt service reserve account (DSRA) and a two-year tail period (between expected and legal maturity dates). We believe the Mall's cashflow together with the DSRA balance provide adequate buffers to facilitate an orderly disposal of the Property to meet redemption of the MTN by the legal maturity date.

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Rating Rationale

Ratings on IGB REIT Capital Sdn Bhd