

IGB REIT's 3Q drops, but analysts see recovery soon

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KUCHING: IGB Real Estate Investment Trust (IGB REIT) saw its revenue dropping by 26.7 per cent year on year (y-o-y) to RM95.8 million with net property income and pre-tax profit correspondingly reduced by 42.8 per cent y-o-y and 49.9 per cent y-o-y to RM55.9 million and RM38.5 million respectively.

This is due to higher rental support provided to tenants as well as higher allowance for impairment of trade receivables in 3QFY21 arising from the movement control orders (MCOs) and National Recovery Plan.

Quarter on quarter (q-o-q), IGBREIT's gross revenue rose 12.8 per cent, mainly due to the higher rental support provided to tenants in the immediate preceding quarter arising from the full lockdown.

Despite the higher gross revenue in the third quarter of financial year 2021 (3QFY21), its net property income was lower by 11.4 per cent quarter on quarter (q-o-q) at RM55.9 million due to the aforementioned higher allowance for impairment of trade receivables.

Year to date, IGB REIT's

distributable income amounted to RM141 million, consisting of realised profit of RM126.6 million and the non-cash adjustments arising mainly from manager fee payable in units of RM13.4 million.

Since the easing of lockdown restrictions in October, AmInvestment Bank Bhd (AmInvestment Bank) noted that IGB REIT's retail malls – specifically Mid Valley Megamall and The Garden Mall – have seen strong footfall recovery as compared to 3Q, with weekend footfalls recovering to almost 80 per cent of pre-pandemic levels.

"The occupancy rate for Mid Valley Megamall remains excellent at the high range of 90 per cent.

"However, The Garden Mall's occupancy rate was slightly lower at the low 90 per cent range mainly due to the remaining vacant net lettable areas (NLAs) which were previously occupied by the Robinsons store which closed down due to Covid-19 pressure," it said.

To recap, while two-thirds of the NLAs have already been taken up by Isetan, renovations were impacted by construction delays due to the MCOs as discussions in securing new

tenants have also been slow amid the lockdowns.

Moving forward, the company is hopeful that rental assistance given to tenants could be substantially reduced following the reopening of the economy.

"We expect 4Q to be the strongest quarter of the financial year with the easing of lockdown measures and cross-border restrictions, coupled with the year-end shopping and holiday season, which should support footfall recovery and retail spending at the malls," AmInvestment Bank added.

"We like IGB REIT given its more resilient long-term outlook underpinned by strategically located assets in the heart of Klang Valley and better balanced footfall profile with moderate exposure to tourists, which positions the group to capitalise on domestic consumption recovery while waiting for international tourists to return.

"We view IGB REIT as a recovery play with compelling double-digit earnings growth and dividend yields of more than 4.5 per cent for FY2F and beyond the backdrop of the current low interest rate environment."

The team at Kenanga



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Investment Bank Bhd (Kenanga Research) also expects to see a recovery in IGB REIT's 4QFY21 in terms of tenants' revenue and less rental support versus 1Q to 3QFY21.

"We expect earnings to continue to improve gradually from here on and well into

FY22 with the high national vaccination rates," it said in its analysis.

"FY21-22 will see minimal expiries for both malls, at more than 30 per cent which provide some comfort during these economic conditions.

"We do not expect the

acquisition of Southkey Mall in Johor to happen in the near term and reckon that it would take at least one reversion cycle or longer in light of the lingering Covid-19 pandemic for the asset to stabilise before being acquired by IGBREIT, likely by FY22-23."