IGB Commercial REIT - The Largest Office REIT Player - HLBank Research Highlights | I3investor

Wednesday, December 8, 2021

Clipped from: https://klse.i3investor.com/blogs/hleresearch/2021-12-08-story-h1595481612-IGB_Commercial_REIT_The_Largest_Office_REIT_Player.jsp

IGB Commercial REIT was listed on 20 Sep 2021 and is the largest standalone office REIT in Malaysia. It comprises 10 properties, located strategically in KL City and KL Suburban area, with stable high occupancy rates and quality tenants. It has strong backing by its sponsor and its highly experienced manager. We expect IGB Commercial REIT's FY22 core net profit to grow 25% YoY (backed by improved occupancy and positive rental reversion). We initiate coverage with a BUY rating and TP of RM0.79 (FY22 DPU on 6.3% target yield).

Sizable office REIT listing. IGBCR was constituted on 31 Mar 2021 and has been successfully listed on Bursa Malaysia on 20 Sep 2021. The book-building price under the institutional offering was at RM0.71 per unit. It is the largest standalone office REIT with an asset market value of RM3.2bn.

Prime location of 10 properties. IGBCR comprises of 10 properties, situated in 2 strategic locations; KL Suburban (seeing increasing demand arising from the current decentralisation trend) and KL City (preferred by MNCs, O&G and financial services companies). Besides that, the properties benefit from the superior connectivity and excellent accessibility to other key business districts and public transportation.

Portfolio. IGBCR's properties have a balanced geographical mix and house multiple sectors, without relying heavily on a single source, which reduces sectorial and concentration risk in the event of any sector-specific downturn. Overall, average portfolio occupancy for the past 3 years (FY18-FY20) stood steadily at 79%. IGCR possesses high quality tenants inclusive of multinational companies, public listed companies, embassies, government linked companies as well as IGB itself. Moreover, some anchor tenants have been with them for over 10 years.

Strong backing. IGBCR has been granted the right of first refusal (ROFR) from the Sponsor. This entitles them the chance to be the first in line to acquire accretive properties if IGB Bhd decides to sell. The Manager (wholly-owned subsidiary of the sponsor), has vast experience managing IGB REIT (a pure retail REIT) since 2012. Helmed by a team of experienced and long serving commercial property professionals, puts IGBCR in a prime position to capture future growth.

Ample debt headroom. SC's Guidelines on Listed REITs states that gearing must not exceed 60% (temporary increment till 31 Dec 2022). IGB Commercial REIT has a conservative gearing level of 26.3%, with ample debt headroom for potential future acquisitions as compared to its peer's average of 32.9%.

Forecasts. We project FY21 core net profit to fall slightly (-6% YoY) on expectations of higher property operating costs, and Phase 1 restrictions that delayed occupancy ramp up. For FY22, we foresee core net profit to grow by 25% (YoY) backed by improved occupancy as well as positive rental reversion in its portfolio, aligned with expectations of economic recovery in an "endemic reopening".

Initiate with a BUY, TP RM0.79. We initiate coverage on IGB Commercial REIT with a **BUY** call and **TP RM0.79**. Our TP is based on FY22 forward DPU on targeted yield 6.3%, suggesting a 6.8% return. Our targeted yield of 6.3% is derived from ascribing a 150bp premium to the targeted yield of 5-year historical average yield spread of pure office REITs in Malaysia (consisting Sentral REIT & UOA REIT). In our opinion, the premium is fair considering that IGB Commercial REIT's properties are more strategically located vs peers, and it is the largest standalone office REIT, with market value asset of RM3.2bn. While we expect flattish rental reversion for FY21, we are optimistic for a better showing in FY22, driven mainly by positive rental reversions paired with improved occupancy, in line with economic recovery momentum.

Source: Hong Leong Investment Bank Research - 8 Dec 2021