

# Worst may be over for IGB

## Three core ops to stage strong recovery in FY22

### CORPORATE

**PETALING JAYA:** The worst may finally be over for IGB Bhd as the economy continues to recover from the pandemic.

Following its recently reported third-quarter results, CGS-CIMB Research said an earnings recovery is underway, noting that this could be an inflection point to sustainable profits from the fourth quarter onwards.

“The maximum impact of Covid-19, which disrupted operations, should have been fully reflected in the third quarter’s reported net loss of RM59mil, being the biggest quarterly loss since the pandemic started,” the research unit said in its latest report.

“Overall, the worst for earnings is over and our forecast financial year 2021 (FY21) net profit of RM38.4mil implies a strong quarter-on-quarter earnings rebound.

“This is with the exception of the hotel segment where losses are likely to take longer to turn around, given the absence of foreign tourist arrivals,” it added.

The research house said it expected IGB’s three core business divi-

***“We expect investors’ lukewarm perception regarding IGB’s ability to reward shareholders with higher dividends to improve.”***

CGS-CIMB Research

sions – property development, commercial assets and retail assets – to stage a strong recovery in FY22.

This may be supported by factors including the improvement in consumer sentiment, recovery in retail sales and footfall, and reduced rental rebates.

CGS-CIMB Research noted that the group’s cash dividend payout had recently surged to 10 sen in the third quarter, which is a historical high and appears to be sustainable in FY22-FY23 with a 5.3% forecast dividend yield.

“We expect investors’ lukewarm perception regarding IGB’s ability to reward shareholders with higher dividends to improve.

“There was a five-fold year-on-year jump in cash interim dividend

per share (DPS) from two sen in the third quarter of 2020 to 10 sen in the most recent third quarter,” it said.

“We expect the 10 sen cash DPS to be the new normal – strongly supported by a 105% increase in end-Sept 21 cash and bank balances to RM1.6bil (or RM1.70 cash per share).

“This is a result of proceeds generated from IGB Commercial REIT’s initial public offering on Sept 21 but IGB has yet to recognise the RM591mil proceeds from a land sale in the United Kingdom on Oct 21,” the research house said.

IGB is also trading at a steep discount to its assets value, it said.

“Based on our revised net assets value (RNAV) estimates for 2022,

IGB currently trades at a deep 81% discount to its fully diluted RNAV of RM10 per share, compared to its peer average of 67% discount to RNAV,” CGS-CIMB said.

“We believe the gap can be narrowed with improving investor engagement, investors’ greater appreciation of the group’s operating model and its ability to leverage on post-Covid-19 opportunities including investor preference potentially moving towards buying undervalued recovery themes,” it added.

CGS-CIMB Research also said there appears to be a valuation mismatch when comparing the market capitalisation of IGB of RM1.7bil against the market capitalisation of a 53% stake in IGB REIT and a 51% stake in IGB Commercial REIT.

“IGB’s market cap is 44% lower than IGB REIT’s market cap and 55% lower than the combined market cap of IGB REIT and IGB Commercial REIT,” it noted.

The research house said it saw deep value in IGB and initiated coverage with an “add” call and RNAV-based target price of RM2.50, which is a 75% discount to its forecast 2022 fully diluted RNAV of RM10 per share with a 33% potential upside.