REIT

IGB REIT well-prepared to face uncertainties

Property trust has low gearing level of 0.23 times

PETALING JAYA: IGB Real Estate Investment Trust (REIT) is in a better position to weather uncertainties as it has a lean balance sheet, said UOB Kay Hian Research.

"We continue to like IGB REIT with a low gearing level of 0.23 times, which is still well below the threshold set by the Securities Commission of 0.6 times (limit is increased to 0.6 times from 0.5 times until December 2022)," UOB Kay Hian said in its report.

The trust recently reported a fourth-quarter 2020 revenue of RM147.5mil, which was a 5.7% year-on-year (y-o-y) growth, and a net profit of RM72.1mil (a -4.2% y-o-y decline).

"IGB REIT's full-year net profit came in above our and consensus' expectations of full-year net profit forecasts at 111% and 110%, respectively.

"The surprise came from the reversal of over-provision for rental support during the quarter," it said.

However, UOB Kay Hian noted that the outlook for IGB REIT may be impacted by the resurgence of Covid-19 cases.

The research house said net property income (NPI) margins declined to 63.1% from 68.8% in the same quarter a year ago mainly due to the higher allowance for impairment of trade receivables.

Meanwhile, CGS-CIMB said the trust's full-year 2020 results came in above expectations.

"Its core net profit of RM260.2mil was above expectations at 106% of our full-year forecast and 121% of consensus. The key driver was higher-than-expected NPI margin of 68% compared to our forecast of 65%, though still a drop from financial year 2019's (FY19) 72%," CGS-CIMB said.

It said a flattish rental reversion for the trust is good news during a pandemic season.

"IGB REIT recorded a flattish rental reversion for FY20, which we deem positive and somewhat resilient compared to its retail mall peers in the Klang Valley," it said.

"The average occupancy rate for FY20 stood at circa 95%, taking into account the dropping out of Robinsons as one of the anchor tenants at The Gardens Mall.

"We gathered that 50% of the vacant space has been taken up by Isetan, while negotiations on the remaining untenanted space are ongoing," it added.

For tenancies expiring in FY21 – namely 44% of Mid Valley's net lettable area (NLA), and 35% of The Garden's NLA – the group has achieved an average 50% renewal rate based on unchanged rental rates, CGS-CIMB said.

The research house said there are risks with the ongoing MCO 2.0 and it expected selective rental assistance to still be on the cards over this period of time.

UOB Kay Hian has maintained it "buy" call on IGB REIT with a target price of RM1.90, while CGS-CIMB retained its "add" call with a target price of RM1.89.