Strong recovery seen for IGB REIT

Fully tenanted assets, rental structure plus points

REITS

Going strong: IGB REIT-owned Mid Valley Megamall and the neighbouring Gardens Mall in Kuala Lumpur retained robust occupancy of above 90% as at the end of last year.

KUALA LUMPUR: IGB Real Estate Investment Trust (REIT) is expected to see strong recovery prospects ahead despite its recent results that showed some weakness.

A rebound in earnings could come following the mass vaccination exercise that is being deployed to the general public now.

This also includes factors such as the broad reopening of the economy, considering its fully tenanted retail assets, strategic rental structure and its largely domestic shopper profile, said RHB Research.

"We gather from management that occupancy remained robust, at above 90%, at both malls – Mid Valley Mall (MVM) at 99%, and The Gardens Mall (TGM) at 92% as at December 2020 – and that reversions for renewals to date have been flat," it said.

"The vacant space at TGM which represents 12% of total net lettable area, after Robinsons Malaysia's departure, has been divided up to house specialty stores, with two-thirds of the space currently taken up," added the research house.

It said that the mall should be able to regain and enjoy full occupancy soon unless the movement control order (MCO) is reinstated.

The resurgence of cases of late could result in further delays on this front, it said.

"The steady normalisation of shopper volume at MVM and TGM to a circa 80% of pre-pandemic levels, since the MCO's relaxation last month, is an indicator of the REIT's recovery prospects, especially upon mass vaccinations taking place," RHB Research said.

It pointed out that IGB REIT had the biggest revenue-sharing portion out of all the REITs under coverage at more than 10%, and it stands to benefit the most from the return in footfall traffic which is expected during Hari Raya and the year-end festivities in the upcoming second and fourth quarter season.

RHB Research has maintained its buy call and target price of RM1.95, although IGB REIT's recent quarterly earnings were below its expectations.

Meanwhile, AmInvestment Bank Research said it considers IGB REIT's results to be within expectations as it had already anticipated a weaker first quarter due to the recent MCO.

"Moving forward, we anticipate rental rates to recover in stages, underpinned by stronger recovery in footfall at the malls and consumer spending, as the country continues to carry out the immunisation programme, and is targeting to achieve herd immunity by year-end," the research house said.

It has also maintained its buy rating and fair value of RM2.03 for IGB REIT.

This valuation is based on a target yield of 4.5% over its forecast financial year 2022 distributable income, it said.

"We like IGB REIT as we believe its long-term outlook remains positive given its strategically located assets in the heart of the Klang Valley and more balanced footfall profile with only moderate exposure to tourists," it added.