

IGB REIT - Bounced Back Higher | I3investor

Clipped from:

https://klse.i3investor.com/web/blog/detail/hleresearch/2022-11-04-story-h1651163131-IGB_REIT_Bounced_Back_Higher

IGB REIT's core net profit of RM252.2m (+99.3% YoY) beat ours and consensus expectations due to higher-than-expected rental income arising from significantly lower rental rebates and improving retail sales. Declared 3QFY22 DPS of 2.44 sen. We are cognisant of the looming economic slowdown risks and persistent inflationary pressure. However, we expect IGB REIT to sustain its robust showing, driven by sturdy shoppers' footfall and impending festive seasons. Raised our FY22-24 earnings forecast by 7-11% to reflect higher revenue assumptions. Maintain BUY with higher TP of RM1.89 (RM1.77).

Exceed expectations. 3QFY22 core net profit of RM83.4m (-0.1% QoQ, +116.4% YoY) lifted 9MFY22 sum to RM252.2m (+99.3% YoY). The results beat ours (84.9%) and consensus expectations (79.4%) due to higher-than-expected rental income.

Dividend. Declared 3QFY22 DPS of 2.44 sen, bringing 9MFY22 to 7.40 sen (SPLY: 1.18 sen and 3.86 sen, respectively).

QoQ. Revenue rose marginally (+4.8%) while property opex climbed +38.8% mainly due to significantly higher reimbursement and upgrading costs (+38.8%), which led to a slight decline in NPI (-4.3%). Offset by a recognition of interest income amounting RM4.9m, core net profit remained flattish (-0.1%).

YoY/YTD. Top line grew strongly (46.3% YoY, 45.5% YTD) arising from the meaningful decline in rental rebates and improving retail sales; in comparison SPLY was marred by MCO2.0 and 3.0. Conversely, total operating expenses dipped marginally (-2.4% QoQ, -5.7% YoY), which subsequently doubled core bottom line (+116.4%% YoY, +99.3% YTD).

Occupancy and gearing. Both properties, Midvalley Megamall and The Gardens Mall's occupancy remained robust, at >99%. Gearing stood at 23%.

Outlook. We are cognisant of the looming economic slowdown risks and persistent inflationary pressure, which may potentially weaken retail spending. However, we expect IGB REIT to sustain its strong showing, at least in the near term, driven by robust shoppers' footfall and impending festive seasons in 4Q22 and 1Q23.

Forecast. We raised our FY22-24 earnings forecasts by 7-11% to reflect higher rental revenue assumptions.

Maintain BUY, TP: RM1.89. Post earnings adjustment, we maintain

HOLD with higher **TP of RM1.89** (from RM1.77). Our TP is based on FY23 DPU on targeted yield of 5.7% which is derived from 5-year historical average yield spread between IGB REIT and 10-year MGS yield. We continue to like IGB REIT due to (i) its prime asset location to capitalise on the strong recovery in domestic footfall, (ii) robust occupancy rates and (iii) monthly rental income returning to pre-pandemic levels.

Source: [Hong Leong Investment Bank Research](#) - 4 Nov 2022