IGB REIT: The Prime Beneficiary Of Spending Return, CGSCIMB Reiterates Add Call | BusinessToday

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CGSCIMB believes consumers' returning appetite for shopping at physical stores should yield more footfall and spending at IGB REIT's Mid Valley Megamall.

IGB REIT's 10% yoy NPI jump in 1Q23 could be a harbinger for more good things to come, it said in its company Note today (May 30).

"IGB REIT is now one of our two top picks for the REIT sector. We expect the group to benefit greatly from the ongoing themes of consumers flocking to physical stores and potential revitalisation of tourism with the government's ongoing efforts to improve tourist arrivals. In 1Q23 alone, even after the year-end holiday, IGB REIT recorded 10% yoy NPI growth, aided by ancillary revenue and strong rental reversion yoy."

"We revise our FY23- 25F DPU upwards by 5-8% as we raise our expectation of both its FY23-25F tenant sales growth and rental reversions to 4-5% yoy (vs. 3-5% yoy previously), the firm added.

IGB REIT's 12M forward yield spread against the 10-year MGS has exceeded 2%, vs. its 10-year average of 1.7%.

Strong tourism numbers and higher-than-expected retail sales are

potential catalysts for the thrust.

The firm cited that downside risks lie in uninspiring rental reversions and tenant sales' momentum petering out. Hard to argue against Mid Valley Megamall and The Gardens Mall While Mid Valley Megamall (MVM) and The Gardens Mall (TGM) remain popular, it is still notable that in 1Q23, IGB REIT managed to secure for the two malls an average rental rate that surpassed their pre-pandemic FY19 rate by 12.6-22%.

On a yoy basis, the average rental rate for MVM rose 10.8% yoy in 1Q23 and TGM, 20.4% yoy.

Should IGB REIT be able to keep up with this momentum throughout the year, there ought to be more upside risk for the trust as our FY23F rental growth forecast is pencilled in at 5%.

According to the group, nearly half of its rental space is up for lease renewal in FY23F. Earnings and DPU risks minimised with fixed-rate MTNs IGB REIT benefits from having all its borrowings in fixed-rate medium-term notes (MTN) at 4.49% p.a., which eliminates the risk of DPU erosion in the event interest rates continue to ascent.

Its borrowings may not elevate by much for the next few years, in our view, as the trust has done major asset-enhancement initiatives for TGM. Earnings risks are also easing as Covid-19 restrictions are lifted, putting rental assistance in the rearview mirror, in our view.

The possibility of acquiring Mid Valley Southkey in Johor could be a catalyst to its DPU, although the trust is still keeping it close to its chest the acquisition timeline; in 1Q23, Mid Valley Southkey's revenue vaulted 31% yoy while pre-tax profit jumped 75% yoy on the back of lower rental assistance and stronger tenant sales.

"Our forecast of 32.9% CY24F total return puts IGB REIT as one of the most potentially lucrative REITs in our coverage universe."

CGSCIMB reiterates their Add call with a higher DDM-based TP of RM2.02 after revising our forecasts on its FY23-25F DPU and terminal growth rate.

CGS CIMB Cal: ADD (no change) Current price: RM1.60, Target price: RM2.02