IBG REIT off to a solid start

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KUCHING: IGB Real Estate Investment Trust's (IGB REIT) core net income for the first quarter of financial year 2023 (1QFY23) of RM96.2 million came in within expectations, making up 27.3 per cent of consensus full year estimates.

Sequentially, 1QFY23 core net income was higher at RM96.2 million, in line with higher topline. The sequential earnings growth was mainly underpinned by shopping spree for Chinese New Year in 1QFY23.

"Besides, earnings growth was also helped by lower property expenses of 16.3 per cent quarter on quarter (q-o-q)," said analysts with MIDF Investment Bank Bhd (MIDF Research).

"On yearly basis, 1QFY23 earnings were solid at RM96.2 million (hike of 12.7 per cent y-o-y) mainly due to higher rental income as a result of positive rental reversion and higher shopper footfall.

"Nevertheless, earnings growth was partly mitigated by higher property expenses as a result of higher utilities expenses."

MIDF Research maintained its earnings forecast for IBG REIT in FY23, FY24 and FY25. It expect earnings in 2QFY23 to remain solid due to shopping spree for Hari Raya festive holidays.

"Meanwhile, we continue to see positive earnings outlook for IGB REIT as rental reversion outlook for Mid Valley Megamall and The Gardens Mall remains positive. The high occupancy rate of the two malls and high shopper footfall should continue to underpin earnings growth going forward."

On a quarterly comparison, AmInvestment Bank Bhd (AmInvestment Bank) saw that IGB REIT's 1QFY23 gross revenue expanded by four per cent while net property income (NPI) grew 12 per cent.

"The lower property operating expenses were mainly due to the decline in upgrading and reimbursement costs in 1QFY23," it said.

"In 1QFY23, the occupancy rates for Mid Valley Megamall and The Gardens Mall are close to 100 per cent. We are confident of IGB REIT's ability to maintain its high occupancy rate due to the mall's strategic location."

To date, IGB REIT has completed the renewal of a majority of leases that are expiring in FY23.

Kenanga Investment Bank Bhd (Kenanga Research) optimistically saw that IBG REIT's first quarter saw average gross monthly rental income already surpassing the 2019 levels for both malls by 13 and 22 per cents respectively.

"As the operating environment has normalised post-pandemic, IGB REIT will likely see a more stable earnings pattern going forward, notwithstanding the prevalence of the challenging macroeconomic outlook and elevated inflationary environment.

"Following the results, we have tweaked our net profit forecasts to RM362.1 million (6.2 per cent) for FY23 and RM375.4 million (5.7 per cent) for FY24.