Analysts maintain 'buy' on IGB REIT after 9M net income met expectations

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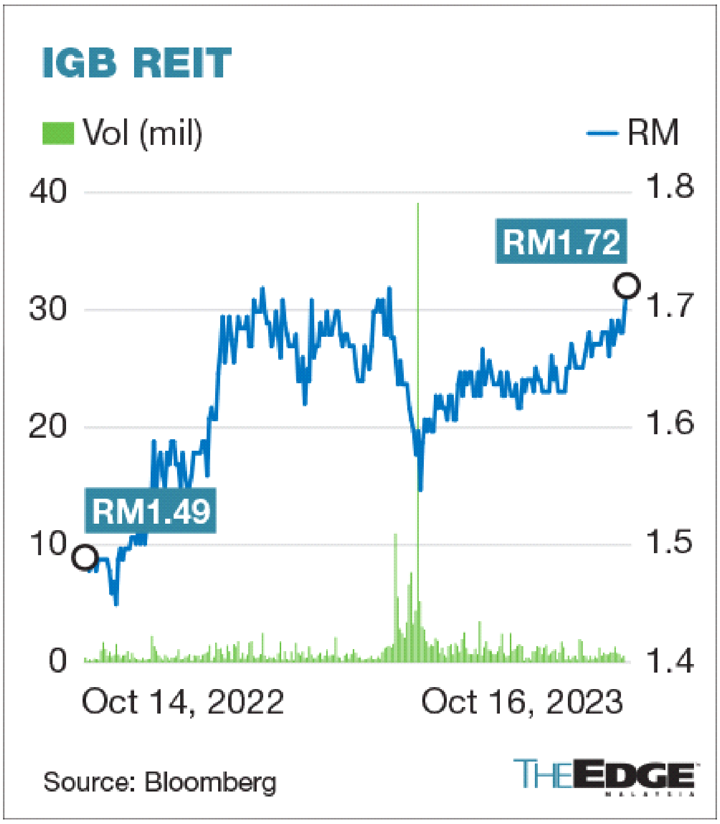
KUALA LUMPUR (Oct 16): Analysts maintained their "buy" calls on IGB Real Estate Investment Trust (REIT) after its quarterly net income came within expectations for the cumulative nine months ended Sept 30, 2023 (9MFY2023), translating into a 5.5% increase compared to a year ago.

The earnings growth was mainly supported by higher tenant sales and positive rental reversion due to high shopper footfall at the Mid Valley Megamall and The Gardens Mall, they said.

With the stable performance of IGB REIT, Hong Leong Investment Bank (HLIB) and MIDF Research reiterated that they see positive earnings prospects, and maintained their "buy" calls on the REIT.

Target prices (TP) were also unchanged, with HLIB's TP at RM1.88, and MIDF's at RM1.86.

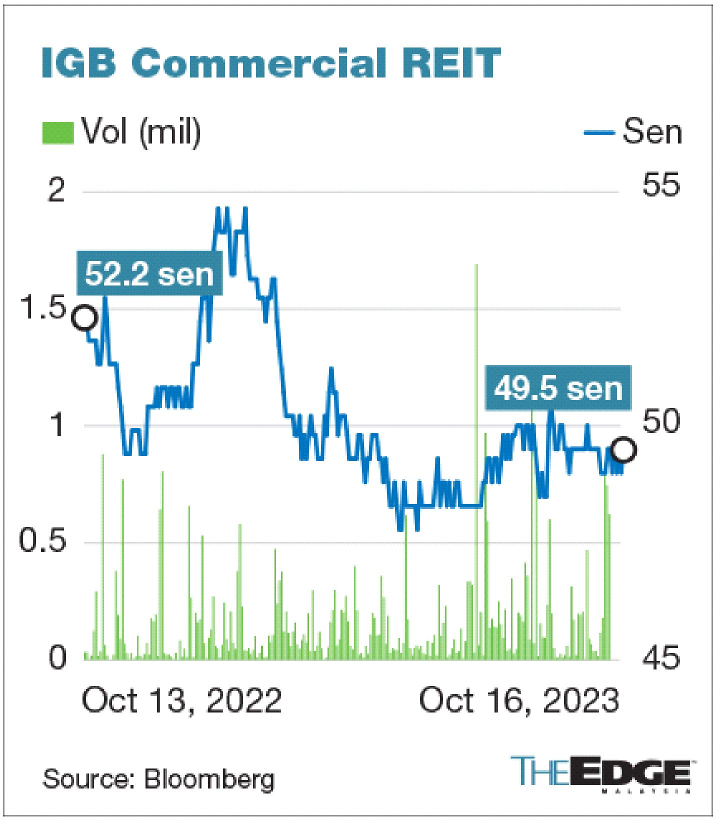
MIDF estimated distribution yields to be at 4.9% for FY2023, and 5.61% for FY2024.



Additionally, HLIB said its recommendation was based on its estimated FY2024 dividend per unit (DPU) on a targeted yield of 6.1%, which was derived from a five-year historical average yield spread between IGB REIT and the 10-year Malaysian Government Securities' yield.

IGB REIT, consisting of the Mid Valley Megamall and The Gardens Mall, announced a DPU of 2.6 sen for 3QFY2023, with the ex-date falling on Oct 26.

"We continue to like IGB REIT due to: i) its prime asset location to capitalise on a strong recovery in domestic footfall; ii) robust occupancy rates; and iii) monthly rental income returning to pre-pandemic levels," said HLIB.



Nonetheless, HLIB maintained its "hold" position for IGB Commercial REIT (IGBCR), which has 10 properties scattered in two strategic prime locations , namely surburban Kuala Lumpur and the Kuala Lumpur city, with an unchanged TP of 49 sen.

"Our TP is based on [our estimated] FY2024 DPU on a targeted yield of 6.9%, which is derived from ascribing a 150-basis-point narrower spread to the five-year average yield of pure office REITs in Malaysia. In our opinion, the narrower spread (the premium) is fair, considering that IGBCR's properties are more strategically located versus its peers, and it is the largest stand-alone office REIT, with total asset market value of RM3.2 billion," HLIB said.

IGB REIT was two sen or 1.2% higher at RM1.72 at Monday's noon market break, translating into a RM6.2 billion market capitalisation, while IGBCR gained half a sen or 1% to settle at 49.5 sen, valuing the REIT at RM1.2 billion.

Read also:
[IGB REIT's NPI up 10% while sister company IGB Commercial REIT's NPI jumps 22%]