IGB REIT - Value Emerging; Upgrade to BUY | I3investor

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- **Upgrade to BUY from Neutral, new MYR1.91 TP from MYR1.88, 15% upside with c.6% yield.** Post its share price correction, we believe this is a good opportunity for investors to accumulate this stock. IGB REIT's outlook remains positive, thanks to the strength of its assets and the stable domestic economy. We are expecting single digit rental reversion as the retail momentum is expected to remain strong, with further upside risks as the REIT has a higher-than-average proportion of turnover rent.
- **Proxy to the strong retail momentum.** In 1Q23, the average rental rate per sqf at Mid Valley Megamall (MVM) and The Gardens Mall (TGM) was 10.7% and 17.7% higher than its average rental in 2022. This was attributed to the festive season and the REIT's high turnover rent portion (>10%), which helps it to benefit from the seasonal uptick in sales. Despite the strong 1Q, our rental reversion assumption is at 4-6% for FY23-25F to account for the lower base of 1Q22. On a macroeconomic scale, the country's easing inflationary pressure, and improving labour market are positives for the retail market. We believe MVM's and TGM's prominent location, solid occupancy rates and high footfall make them well-placed to benefit from the strong retail momentum.
- **Not resting on its laurels.** IGB REIT spent MYR12.2m in FY22 on improvement measures such as ceiling and toilet upgrades, with the most recent asset enhancement being done in TGM. We believe, despite the incoming supply of new malls such as Warisan Merdeka Mall @ 118 which is close to Mid Valley City, management's proactive strategy to refresh its offerings should keep its malls competitive. That said, in the longer term and once the new malls are more matured, we think the injection of new shopping malls into the field may place some downward pressure on rental reversions – especially as the bigger and more popular tenants have more options to choose from.
- **Protected from the rise in interest rates.** All of IGB REIT's borrowings consist of medium-term notes at a fixed rate of 4.49% pa, and its gearing level is low at only 23% as of March. Therefore, despite the 125bps interest rate hikes so far since 2022, we expect minimal increases in the REIT's interest expense.
- **Earnings forecast.** We tweak FY23-25F earnings by 1-4% after adjusting our rental reversion and cost assumptions. The REIT's share price should also be supported by its c.6% dividend yield, which is 210bps above the 10- year Malaysia Government Securities yield. Downside risks: Worse-than- expected economic conditions, slowdown in retail sales, and intensifying competition.

Source: RHB Research - 3 Jul 2023

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