IGB REIT - Occupancy and Rental Rate Surpassed Prepandemic Levels | I3investor

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- Reiterate **Add** rating, with an unchanged DDM-based **TP of RM2.02**, on high occupancy rate, positive rental reversion and strategic asset locations.
- Occupancy rates for both MGM and TGM malls reached 99.9% in 3QFY23, surpassing pre-pandemic levels of 98.9%.
- DPU of 2.6 sen takes 9MFY23 DPU to 7.8 sen, within our FY23F expectation of 10.31 sen. Stock offers FY23F-FY25F yields of 6.0-6.6%.

9MFY23 Core Net Profit Within Expectations

- IGB REIT reported a core net profit of RM88.9m for 3QFY23, (+4.5% yoy; +12.4% qoq), taking 9MFY23 core net profit to RM266.1m (+ 8.9% yoy). 3Q23 core net profit excludes a revaluation surplus of RM161.8m; during a revaluation on its investment properties in 3Q23, Mid Valley Megamall (MVM) and The Gardens Mall (TGM) were revalued at RM3.79bn and RM1.39bn, respectively, as at 30 Sep 23 (from RM3.70bn and RM1.32bn previously), indicating a fair value surplus of RM166m. 9MFY23 core net profit came in within our expectations as it accounts for 74% of our FY23F forecast. The group declared a DPU of 2.6 sen in 3QFY23 (97.5% of its quarterly distributable income), taking 9MFY23 DPU to 7.8 sen, which is within our expectation of 10.31 sen for FY23F.

Monthly Rental Income Surpassed Pre-pandemic Levels

- Occupancy rate of MVM, one of the largest malls in Malaysia with a net lettable area (NLA) of 1.80m sq ft, was 99.94% in 3QFY23, higher than its pre-pandemic level of 99.9% in 2019. Its average gross monthly rental income recovered to RM16.26/sq ft, surpassing the pre-pandemic monthly rental of RM15.03/sq ft in 2019. Similar trends are seen in TGM, which saw its occupancy rate recovering to 99.9% in 3QFY23 and surpassing 2019's level of 98.9%, while its gross monthly rental rose to RM15.43/sq ft, surpassing 2019's level of RM12.93/sq ft. These occupancy rate levels are ahead of the retail mall sector's 2022 average of 70-75%. Retail Group Malaysia (RGM) has revised the Malaysian annual retail industry growth rate down to 2.7% for 2023F (from 4.8% previously), due to the high base effect in 2022 from post-pandemic lockdown spending.

Retain Add Rating, With An Unchanged DDM-based TP of RM2.02

- We make no change to our earnings forecasts. Reiterate Add for the

REIT’s high occupancy rate, positive rental reversions and strategic location of its malls. Our DDMbased **TP** (cost of equity 7.4%; terminal growth 2.0%) is unchanged at **RM2.02**. The stock also offers attractive yields of 6.0-6.6% for FY23-35F. Re-rating catalysts: higherthan-expected retail sales and return of tourism, which will spur spending. Downside risks: less attractive rental reversions and lower-than-expected retail sales.

Source: CGS-CIMB Research - 16 Oct 2023