IGB REIT - Steady Amid Challenges | I3investor

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IGBREIT's 9MFY23 results met expectations. Its portfolio of premium assets is well positioned to withstand a challenging economic environment. The absence of an immediate plan to dial back the subsidy on the RON95 petrol is positive to consumer spending. We maintain our forecasts, TP of RM1.66 (based on a 6.5% target yield) and MARKET PERFORM call.

Within expectations. Its 9MFY23 core net earnings of RM266.1m made up of 73% and 74% of our full-year forecast and the full-year consensus estimates, respectively. The distribution per unit is also within our expectations at 2.60 sen (YTD 7.77 sen), on track to meet our full-year expectation of 10.5 sen.

YoY, its 9MFY23 revenue rose 9% primarily driven by stronger rental income. It is noted that occupancy rate has maintained at 100% in 3QFY23 at both Mid Valley Megamall and The Gardens Mall. Investment income surged c.2,700%, solely attributed by fair value gains of RM161.8m from both Mid-Valley Megamall and The Gardens Mall. As a result, net profit increased by 70%. Adjusting for the abovementioned fair value gains, core net profit and distributable income would come in at RM266.1m (+6%) and RM286.0m (+5%), respectively.

Outlook. Spending power of consumers may be dented by the sustained high inflation, though cushioned by the absence of an immediate plan by the government to dial back the subsidy on the RON95 petrol. Meanwhile, retailers could still face challenges in maintaining their profitability due to increasing labour and utility costs. However, it's worth noting that both the group’s malls cater to the midto-higher income group, and the higher income bracket is expected to remain relatively unaffected, given their financial stability. As a result, we reckon IGBREIT is well-positioned to maintain a stable earnings pattern moving forward, even in the face of a challenging economic outlook and a high-inflation environment.

Forecasts. Maintained.

Maintain **MARKET PERFORM** with a **TP of RM1.66**. Our TP is derived from our FY24F gross DPU of 10.8 sen against an unchanged target yield of 6.5% (derived from a 2.5% yield spread above our 10-year MGS assumption of 4.0%). This considers IGBREIT’s strong asset portfolio, evident in its high occupancy rates. However, this is likely reflected into the share price given the recent interest in the stock even in the face of inflationary challenges. There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us (see Page 4).

Risks to our call include: (i) bond yield expansion, (ii) lowerthanexpected rental reversions, (iii) lower-than-expected occupancy rates, and (iv) loss of footfall to new malls.

Source: Kenanga Research - 16 Oct 2023