IGB REIT - No Sign Of Slowing Down; Keep BUY | I3investor

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- **Maintain BUY, new MYR1.93 TP from MYR1.91, 13% upside and c.6% yield.** 9M23 results were slightly ahead of our expectations, with IGB REIT recording high single-digit rental income growth. Occupancy rate remains at almost 100%, and the REIT's higher-than-average proportion of turnover rent should ensure a seasonally strong end to the year. We continue to like the stock as a proxy to the robust domestic consumer spending.

- **Beat expectations.** Excluding a net fair value gain of MYR161.8m, 3Q23 core profit of MYR88.9m (+9.7% QoQ, +6.1% YoY) brought 9M23 earnings to MYR266.4m (+5.6% YoY). This makes up 77% of our full-year estimates, which we consider a beat assuming a seasonally strong 4Q, but in-line with Street's expectations at 74%. Revenue in the quarter increased +5.8% QoQ off a seasonally slower 2Q, and is 6.8% higher YoY. The stronger top line growth led to a higher NPI margin of 74.4% (2Q23: 72.6%, 3Q22: 72.2%), but on a 9M23 basis, NPI margin of 74.6% is lower YoY (9M22: 77.2%) due to higher utility expense this year. A declared DPU of 2.6 sen in 3Q23 led to 9M23 DPU of 7.77 sen (9M22: 7.40 sen).

- **Strong asset quality.** In 3Q23, Mid Valley Megamall's (MVM) gross monthly rental stood at MYR16.26 psf, a 7.3% improvement YoY (-0.1% QoQ), while The Gardens Mall's (TGM) rental rate of MYR15.43 psf was a 10.8% improvement YoY (+0.9% QoQ). We think there are no concerns on non-renewals with only 25-40% of leases by NLA up for renewal in FY24 in TGM and MVM. Management is active in refreshing its offerings with new shops (Echolac and Miniso opened in 3Q23) and its asset enhancement initiatives, which include reconfiguring the lower ground in MVM and repainting parts of TGM.

- **Outlook.** We think that IGB REIT will continue to benefit from the robust domestic consumer spending. All of the REIT's borrowings are also on a fixed rate of 4.49% – protecting it from the increase in interest rates over the past year, but also preventing upside risk from any potential interest rate cuts. The upcoming 5-10% High Value Goods Tax may impact retail sales in TGM as it is positioned as the higher-end mall compared to MVM, but contribution from TGM (c.30% of revenue in FY22) is considerably smaller than MVM.

- **Maintain BUY.** We raise our FY23-25 earnings forecasts by 2-3% after raising our rental reversion assumptions. We lower our ESG score to 3.0 from 3.1 to normalise the ESG scores across our coverage. Our DDMderived TP (Ke: 7.3%) is raised to MYR1.93.

Downside risks include worsethan-expected economic conditions, slowdown in retail sales, and intensifying competition.

Source: RHB Securities Research - 16 Oct 2023