PROPERTY

Robust occupancy rates to spur IGB-REIT

Company's assets remain fully occupied

PETALING JAYA: IGB Real Estate Investment Trust (IGB-REIT) is expected to remain resilient for the remainder of 2023, on the back of its robust occupancy rates and positive rental reversion for leases that are due for renewal this year.

Hong Leong Investment Bank (HLIB) Research in a report said financing costs should remain stable.

"IGB-REIT is largely insulated from the impact arising from overnight policy rate hikes over the past year due to its near full composition of fixed rate borrowings."

The research house added that both the company's properties, Mid Valley Megamall and The Gardens Mall, remain fully occupied.

"Gearing stands at 23%," said HLIB Research.

Meanwhile, Kenanga Research said the first quarter of this year saw average gross monthly rental income already surpassing 2019 levels for both malls.

"As the operating environment has normalised post-pandemic, IGB-REIT will likely see a more stable earnings pattern going forward, notwithstanding the prevalence of the challenging macroeconomic outlook and elevated inflationary environment.

MIDF Research meanwhile said it expects IGB-REIT's earnings in the second quarter of 2023 to remain solid, due to the shopping spree for the Hari Raya festive holidays.

"Meanwhile, we continue to see a positive earnings outlook for IGB-REIT as rental reversion outlook for Mid Valley Megamall and The Gardens Mall remain positive.

"The high occupancy rate of the two malls and high shopper footfall should continue to underpin earnings growth, going forward."

For its first quarter ended March 31, 2023, IGB-REIT's net profit grew to RM96.23mil from RM85.39mil in the previous corresponding period, while revenue improved to RM154.62mil from RM133.81mil a year earlier.

Kenanga Research said earnings were above expectations.

"While the top-line performance was lifted mainly by stronger-than-expected rental income, after accounting for higher property operating expenses mainly arising from higher utilities expenses and reimbursement costs, net property income (NPI) was up 10% year-on-year to RM118.6mil.

"By segmental contribution, Mid Valley Megamall registered an NPI of RM84.7mil while The Gardens Mall contributed the balance NPI of RM33.9mil."

Kenanga Research said this comes as both property assets continued to enjoy high occupancy rates of 100% as at end-March 2023, with gearing unchanged (at 23%) quarter-on-quarter.

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>
> Hong Leong Investment Bank Research

HLIB Research noted that total revenue improved in tandem with the broad recovery of the retail sector.

"However, property operating expenditure escalated 38.2% due to rising utilities expenses arising from increased electricity tariff surcharge, as well as reimbursement and upgrading costs.

"As such, the company's core bottomline rose at a slightly slower clip of 12.7%."

In a filing with Bursa Malaysia on its first quarter performance, IGB-REIT said it remains cautious on the challenges for growth of retail sales in 2023.

The company said the potential challenges could affect its tenants' performance at shopping malls and also, the financial performance of IGB-REIT.

"The biggest challenge in 2023 could be the rising cost of living. Other domestic challenges include a shortage of workers, higher operating costs, new competition and aggressive expansion plans.

"Higher material, production, staff, rent and transportation costs continue to deplete retailers' profit margins unless such cost escalations could be passed onto domestic consumers in the form of cost-pushed price hikes," it said.