Steady occupancy rates a positive for IGB-REIT

PETALING JAYA: IGB Real Estate Investment Trust's (IGB-REIT) operational assets are still resilient, underpinned by stable occupancy rates and rental reversions.

Its main assets are Mid Valley Megamall (MVM) and The Gardens Mall (TGM).

CGS International (CGSI) Research said the retail REIT managed to record an average rental reversion in the range of mid-single digits for the leases renewed in the financial year 2024 (FY24), backed by tenants' higher sales.

The occupancy rates of both MVM and TGM is close to 100%.

"During the fourth quarter of FY24 (4Q24) results briefing, management guided for FY25 average rental reversion to be maintained at mid-single digits amid a promising retail outlook ahead.

"Hence, we have pencilled in average rental reversion rates of 2.5% to 4% for FY25 to FY27," the research house said in a report recently.

CGSI Research estimates that 22% of MVM's net lettable area (NLA) and 61.2% of TGM's NLA are due for renewal, including key anchor tenants.

For MVM, this includes AEON Big and MR DIY Plus.

On the other hand, TGM will see expiries for Isetan, Jaya Grocer and Aurum Theatre.

"We believe IGB-REIT can successfully renew these leases with a guided mid single-digit rental reversion, supported by resilient footfall and steady tenant sales growth," the research house said.

Nevertheless, CGSI Research noted the compound annual growth rate of 4% for IGB-REIT's earnings per unit in FY23 to FY25 is lukewarm and merely in line with the sector average, offering little room for outperformance.

"While we believe the potential acquisition of The Mall, Mid Valley Southkey offers earnings growth opportunities where IGB-REIT has the first right of refusal, there is still lack of clarity on valuation and acquisition timeline," the research house said.

CGSI Research noted beyond the mall itself, organic growth drivers are at play, with the resilient traffic that can be drawn by other components within the Mid Valley Southkey integrated development (total gross development value of RM6bil), including the St Giles Southkey Hotel and five office towers.

"There are also several residential projects within proximity which further complement the ecosystem, driving higher footfall and boosting retail spending.

"Riding on the back of Johor's vibrant economy and stronger tourism flows, especially from Singapore, the mall also stands to benefit from a steady influx of visitors," the research house said.

As of end-December 2023, the book value of The Mall stood at RM1.3bil (equivalent to RM845 per sq ft).

CGSI Research said assuming a valuation of RM1.3bil and a net property income (NPI) yield of 8.4% (in line with IGB-REIT's FY24 portfolio NPI yield), it estimated the acquisition could contribute an additional NPI of about RM106.5mil per annum.

"This represents a 20% to 22% uplift to our projected FY25 to FY27 NPI.

"Our estimates assume the acquisition must be at least yield-accretive to secure minority unitholder approval," the research house said.

CGSI Research has downgraded its call on IGB-REIT to "hold", but with a higher target price of RM2.21 a unit.

The research house said the downgrade was due to limited upside potential after its strong rally in 2024.