

## Is conversion into a REIT next for KrisAssets?

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### Home business

## Is conversion into a REIT next for KrisAssets?

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**KUALA LUMPUR:** With The Gardens finally being injected to KrisAssets Holdings Bhd from its parent IGB Corporation Bhd, will this eventually lead to the establishment of a retail real estate investment trust (REIT) to underpin transparency of maturing rental income and take advantage of better REIT tax benefits?

Analysts note that KrisAssets already has a structure akin to a REIT, with its sole property asset being the 10-year old Mid Valley Megamall.

An industry source said Mid Valley Megamall currently fetched a rental yield higher than most of the retail REITs listed on the local bourse. The Gardens is believed to have yield similar to prevailing industry average of retail listed REITs, added the source.

The prevailing industry average of retail listed REITs is around 6% to 8%. According to the source, the rental rates were revised every three years and the yield of The Gardens could probably go up when its revision is due.

In view of the high rental yield KrisAssets can fetch, will the establishment of a REIT be possibly on the table?

KrisAssets had on Monday announced it was entering into a heads of agreement with its parent IGB Corp to buy The Gardens, which has an indicative value of RM820 million.

"There would be potential synergistic benefits arising from the



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KrisAssets had on Monday announced it was entering into a heads of agreement with its parent IGB Corp to buy The Gardens, which has an indicative value of RM820 million.

proposed acquisition which include amongst others cost savings, operational streamlining and collaborative marketing strategies in Mid Valley City as a whole," said KrisAssets.

This announcement came after both IGB Corp and KrisAssets were suspended from trading last Friday pending a material announcement. IGB holds a 77.5% stake in KrisAssets.

According to the announcement, the purchase of The Gardens was to be financed via cash. With KrisAssets' recent issuance of RM300 million convertible secured bonds, the company would have some RM500 million cash.

However, AmResearch, in a research note to clients on Monday,

said the divestment of other assets may take some time as KrisAssets would be faced with funding issues to acquire the remaining of the Mid Valley City's assets such as Mid Valley and Gardens office towers and hotels, which had an estimated combined value of RM2 billion to RM3 billion.

"Thus we think the establishment of a REIT may not materialise," it said. Nonetheless, a conversion to REIT for KrisAssets is beneficial from a taxation angle. To qualify as a REIT, a fund must have most of its assets and income tied to real estate investment and must distribute at least 90% of its total income to unitholders annually.

In Malaysia, REITs are exempted

from corporate tax if it distributes at least 90% of its total income. REIT unitholders also enjoy a lower 10% withholding tax on distribution.

To recap, KrisAssets, which is a hardly-traded counter, saw its trading volume pick up substantially in early December last year following the approval by the Securities Commission to issue up to RM300 million seven-year redeemable convertible secured bonds.

KrisAssets closed at RM3.90 while its parent IGB Corp closed at RM2.32 prior to being suspended. Notably, KrisAssets is trading at a historical PER of 6.61 times, which is below prevailing industry average in the REITs sector and also the property sector.