KrisAssets' malls worth RM4.6b

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Written by Chua Sue-Ann

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KUALA LUMPUR: The keenly anticipated real estate investment trust (REIT) offering by IGB Corp Bhd could fetch valuations of between RM4.3 billion and RM4.6 billion for the two prime retail malls currently held under IGB's subsidiary KrisAssets Holdings Bhd, sources said.

Sources said the deal is structured on a capitalisation rate of 5.3%.

The valuation is said to have exceeded the management's earlier expectations of around RM4 billion and a capitalisation rate of 5.5%, a source said.

The IPO for the retail REIT is expected to come in the second half of 2012, more than half a year after bankers began vying to secure the deal from the low profile Tan family that controls IGB Corp.

It is understood that CIMB Investment Bank Bhd has clinched the deal and will ac

The retail REIT is expected to start with two key assets, Mid Valley Megamall ar City area developed by IGB.

KrisAssets completed its acquisition of The Gardens Mall from IGB Corp last Jul million, apart from taking over the holding company's liabilities.

Prior to that, KrisAssets only had Mid Valley Megamall in its portfolio.

Although both malls are next to each other, they serve different segments of the positioned for the mass market consumer segment while The Gardens Mall targe

Mid Valley Megamall has a net lettable area (NLA) of over 1.7 million sq ft spread from that, it also houses a 48,300 sq ft exhibition space.

The large retail mall has over 430 tenants, anchored by its major tenants Carrefo
Jaya Jusco and Metrojaya.

According to KrisAssets' 2010 annual report, Mid Valley Megamall recorded over
occupancy rate of 99.86%.

The Gardens Mall, meanwhile, is a five-storey shopping complex with an NLA of

Most of its 200 tenants are upper-mid to upper-range retail boutiques, and food a
are GSC Signature cinema, Cold Storage supermarket, Robinsons and Isetan de

Following a recent revaluation of the two retail malls, The Gardens Mall and Mid
revised market value of about RM3.29 billion.

In an announcement to Bursa Malaysia on Feb 21, KrisAssets said the valuations
following a revaluation exercise undertaken at the end of December 2011.

Separately, the revised market value for Mid Valley Megamall is RM2.36 billion w
value was RM930 million.

Nevertheless, an industry observer said the valuations for both assets could be fu
exercise given that such valuations would place an emphasis of the assets' earnir

A close comparison for IGB's retail REIT could be Pavilion REIT — which owns P
block — listed in December last year.

Based on an earlier calculation by The Edge Financial Daily, Pavilion KL is valued
purchase consideration of RM3.19 billion and the NLA of 1.335 million sq ft, maki
a property trust.

However, Pavilion KL mall's appraised value is even higher at RM3.415 billion or

A simple calculation of KrisAssets' malls shows that the RM2.36 billion revised m
roughly RM944 psf, which is grossly undervalued compared with Pavilion REIT.

Nevertheless, analysts concur that if the REIT exercise prices the two malls at up
around RM1,840 psf — still lower than Pavilion REIT's pricing.

Analysts concur that the potential REIT exercise, if it materialises, would provide
75.66%-owned by IGB.

Expectation of an impending REIT had awoken both KrisAssets and IGB's share

For most of 2011, KrisAssets shares had been trading at between RM4 and RM4
started to pick up.

KrisAssets' share price hit an all-time high of RM7.10 on March 14. Yesterday, it

IGB, meanwhile, saw its share price climb from early December last year to a fo
Yesterday, IGB closed unchanged at RM2.80.

Analysts say investors had bought into KrisAssets and IGB hoping for a windfall p
special dividend or dividend in specie.

"KrisAssets' current market capitalisation of RM3.11 billion means there is a pote
assuming the retail REIT is packaged at RM4.3 billion," says a property analyst.

After IGB's REIT plans come to fruition, question marks remain over KrisAsset's

Market observers have long anticipated the move to inject the retail assets into a
to be largely inefficient.

Though KrisAssets' current structure resembles a REIT, it is not eligible for the ta

A property trust is exempt from corporate tax if it distributes at least 90% of its t
enjoy a lower withholding tax rate of 10% on distribution.

"If KrisAssets ends up as just a holding company largely for the REITs, it may be
shareholders," opines the analyst.

"That will enable KrisAssets' shareholders to realise the unlocked value of their in
through to IGB, where the major shareholders have a direct interest", he said.

Meanwhile, IGB is understood to be not keen to inject its hotel assets into anothe
report.

IGB still has room to grow its hotel assets, especially the ones overseas. There's

"It will also be quite difficult to sell the hotel REIT story to investors shortly after s
observer.

What's for certain, injecting KrisAssets' malls into the REIT would free up capital
other plans.

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