IGB embarks on hotel and office projects

► **Recommendation: Outperform**

TARGET Price: RM3.85

by Public Investment Bank Bhd (Dec 02)

Highlights

IGB Corp Bhd registered 3Q13 net profit of RM57.5m (-6.3% QoQ, +52.4%YoY), taking YTD net profit to RM166.3m (+10.2% YoY). The third-quarter performance was above our estimates but within the consensus due to lower than expected administrative costs.

IGB is an asset builder focused on harnessing recurring income from its property investment and hospitality businesses. The group also invests in and manages a diverse portfolio of long-term commercial, retail, residential and hospitality assets in Asia, Australia, the US and Europe. YTD, the 9M13 net profit constituted c.79% and c.74% of our and consensus estimates. The administrative expenses dropped by c.-37%, even with revenue increase of c.+17% QoQ.

Earnings from Rental and Retail Space

Rental income from retail space and offices continued to drive earnings, contributing c. 63% of the total operating profit YTD. An interim dividend of five sen was declared, which will be paid on Dec 24, 2013.

Separately, the group also announced cancellation of treasury shares totalling 125.5m shares.

Earnings growth from new investment properties include its new office block at Midvalley ie Southpoint (GDV RM1b, expected completion 2015) and a new mall in Johor, Mid Valley Southkey (GDV RM6b, expected completion 2016), which is located at Flagship Zone A, within Iskandar Malaysia. The product mix is similar to Mid Valley City, KL, albeit smaller in size.

Embarks on 3 Hotels

Upon the completion of the 1.8m sq ft mall in 2016, IGB will embark on constructing three hotels (Cititel Johor 675 rooms, St Giles Hotel 450 rooms and The Gardens Hotel 450 rooms), four offices and one service apartment (180 units).

IGB intends to keep all properties as investment properties. We expect massive value creation from these projects upon completion.

Other divisions also delivered as expected, with property development which saw its 474 units at G residence, Ampang more than 95% sold and in the hotel division, average room rates were higher (with exception of two overseas hotels) which contributed to total revenue growth of 9%.

Going forward, IGB will continue to sell the remaining units of Three28 Tun Razak (166 units, RM96m GDV, more than 50% sold) and Park Manor (41 units bungalows, c.RM97m GDV, launch is expected soon).

In addition, the other project in the pipeline is 18Medini (RM2b GDV, mixed development), which is located in Zone A, with Phase 1 comprising offices and shop lots and Phase 2 will unveil a neighbourhood mall. The 18-acre project could be launched in FY14, pending authority approvals.

Maintain 'Outperform'

We believe the price-to-book gap will narrow eventually through share buyback and mature assets disposal via outright disposal or IPO.

► IGB CORP BHD

FYE DEC	2012A	2013F	2014F	2015F
REVENUE (RM mil)	993.9	1,088.3	1,223.7	1,464.0
NET PROFIT (RM mil)	180.1	209.2	237.3	251.5
EPS (sen)	13.2	15.3	17.3	18.4
P/E (x)	20.6	17.7	15.6	14.7