

IGB to see limited downside risks — Analysts

KUCHING: IGB Corporation Bhd (IGB) is expected to add more quality assets into its stable this year, with the first being the unveiling of its IGB International School, while analysts are comfortable with the performance of the company on the back of its core attractions which are its investment grade properties and potential earnings growth from new assets.

Public Investment Bank Bhd's research arm (PublicInvest Research) in a report explained that assets in the pipeline include IGB International School (1,400 students capacity), which is expected to open in August, 2014.

"We understand that IGB has targeted 700 enrollments with more than 300 registrants thus far. The circa RM100 million school should be at least generating circa RM14 million to RM15 million per annum (assuming 20 per cent profit after tax, 90 per cent of capacity) in our estimates.

"Meanwhile, the three new hotels which are Cititel Express and St Giles (49 per cent-owned) in Penang and Cititel Express (Ipoh) will add circa 900 rooms upon completion in one to two years.

"In Sydney, IGB is planning to open its St Giles Hotel (49-per cent owned) by 2016. We also understand IGB is in advance stages of a land deal overseas," it said.

It also noted that its quality assets are at a good price. With occupancy rates for its office and retail properties close to 100 per cent, and a full pipeline of new projects, the research firm believed that IGB has solid assets, and is trading unjustifiably at a steep discount to its underlying value.

"We expect IGB's discount to net asset value to narrow, with earnings growth coming especially from new assets such as South Key Megamall, Johor (1.8 million square feet net lettable area) and SouthPoint office (900,000 square feet net lettable area), which combined potentially double the group's earnings in three to five years," it outlined.

Aside from that, PublicInvest Research highlighted that the company's operating costs could be under pressure near term, with hikes in electricity and assessment rates (for assets in KL).

However, it opined that these costs would be eventually passed on to the tenants through maintenance and rental adjustments.

"By using IGB REIT's malls as a guide, we estimate that by increasing the gross revenue (which are rental, car park, and others) by five per cent, operating profit will decrease by only circa three per cent (assuming utilities a 17 per cent increase and assessment 300 per cent).

"If anything, we believe any margins compression should be offset by contribution of new assets in the pipeline," it said.

All in all, the research firm commends IGB for its quality earnings, and believe its dividends and share-buyback will limit any downside risk.