

► IGB CORP BHD				
FYE DEC	2012A	2013A	2014F	2015F
REVENUE (RM mil)	993.9	1,091.1	1,223.7	1,464.0
NET PROFIT (RM mil)	180.1	210.1	237.3	251.5
EPS (sen)	13.2	15.4	17.4	18.4
PER (x)	19.9	17.1	15.1	14.3

# IGB expects good returns from investment grade properties

## ► Recommendation: Outperform

**TARGET Price: RM4.10**

by Public Investment Bank Bhd (March 14)

## Highlights

IGB Corp Bhd is expected to add a few more quality assets into its stable this year, with the first to be unveiled is IGB International School (IGBIS). Other new assets are Cititel Express (Penang), St Giles Hotel (Penang) and Cititel Express (Ipoh).

Separately, higher operating costs from hike of electricity (17% for commercial) and assessment rate in KL (c. +200%-300%) although could dent the margins near term, we believe the costs would be eventually passed on with higher maintenance charges/rental adjustments.

All told, we still like IGB for its core attractions ie investment grade properties and potential earnings growth from the new assets.

Assets in the pipeline include IGBIS (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 c.RM100m school should be at least generating c.RM14m-15m pa (assuming 20% PAT, 90% of capacity) in our estimates.

Meanwhile, the three new hotels ie Cititel Express and St Giles (49%-owned) in Penang and Cititel Express (Ipoh) will add c.900 rooms upon completion in 1-2 years.

## New Hotel in Sydney

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

Operating costs could be under pressure near term, with hikes in electricity and assessment rates (for assets in KL), but we believe these costs will 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 (ie rental, car park, etc) by 5%, operating profit will decrease by

only c.-3% (assuming utilities +17% and assessment +300%). If anything, we believe any margins compression should be offset by contribution of new assets in the pipeline.

**Quality assets at good prices.** With occupancy rates for its office and retail properties close to 100%, and a full pipeline of new projects, we believe 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 (1.8m sf NLA) and SouthPoint office (900k sf NLA), which combined potentially double the group's earnings in 3-5 years.

## Valuation

Maintain 'Outperform', but maintain RM4.10 TP, with unchanged 30% discount to our RNAV estimate of RM5.85.

We still like IGB for its quality earnings, and believe dividends and share-buyback will limit any downside risk.