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IGB REIT reports strong showing in second quarter

Ronnie Teo

KUCHING: IGB Real Estate Investment Trust's (IGB REIT) results were broadly in line with consensus, reporting a strong 2Q attributed to the country's economic reopening and festive celebrations.

Its second quarter of 2022 (2Q22) core profit of RM83.5 million brought its first half (1H) earnings to RM169 million, which is at 55 per cent of RHB Investment Bank Bhd (RHB Research) and consensus estimates.

"Despite 2Q typically being a seasonally slower quarter, the strong performance was attributed to the full reopening of the economy, as well as the Eid festivities that boosted retail sales," it said in its analysis yesterday.

"The performance during this quarter was similar to pre-pandemic levels, with revenue and net profit making up 99 and 107 per cents of 2Q19's numbers."

RHB Research saw that IGB REIT's recovery this year remains on track with marginal rental support provided to tenants during the current quarter – this is thanks to the improved retail environment.

"We continue to like the REIT as a recovery proxy, given its largely domestic profile and big turnover rent portion," it added.

"We think there is still room to grow – management guided that turnover rent portion remains below pre-pandemic levels of 12 to 15 per cent.

"While the inflationary environment is a key downside to retail performance – as customers' purchasing power may weaken – we think retail sales in 3Q may still be boosted by the remaining effect of the Employees Provident Fund savings withdrawal."

Occupancy rates remains a non-issue for the REIT, RHB Research said, with both Mid Valley Mall (MVM) and The Gardens Mall (TGM) remaining at close-to-full occupancy.

Most of the tenancies up for expiry in FY22 have been renewed, with only 15 and 37 per cent of leases up for expiry of MVM and TGM's NLA still due for renewal.

"While we do not expect positive rental reversions this year, as tenants' recoveries remain uneven, we are hopeful that reversions could be positive next year if tenant sales continue to be strong."

AmInvestment Bank Bhd (AmInvestment Bank) was confident in IGB REIT's ability in maintaining its high occupancy rate due to its malls' strategic location and lower gross monthly rental rates of RM13 to RM15 per square feet.

"We expect rental reversion to be flattish upon the renewal of tenancies in FY22F as tenants will still require some time to recover to their pre-pandemic sales level.

"Nevertheless, we foresee a positive rental reversion in FY23 and FY24 with the assumption of a gradual normalisation of economic and social activities following the transition to the endemic phase of Covid-19."

IGB REIT's net debt-to-asset ratio fell slightly to 18.6 per cent, below the 60 per cent statutory threshold required by the Securities Commission. It has the lowest net debt-to-asset ratio among the REITs under our coverage.

"We like IGB REIT given its more resilient long-term outlook underpinned by strategically located assets in the heart of Klang Valley and better balanced footfall profile with moderate exposure to tourists, which position the group to better capitalise the domestic consumption recovery while international tourist arrivals regain momentum."