IGB REIT sees better times as rent, footfall improves

Ronnie Teo

KUCHING: IGB Real Estate Investment Trust's (IGB REIT) 9MFY22 core net earnings for the first nine months of financial year 2022 (9MFY22) of RM252.2 million came in within expectations, making up 79 per cent of consensus full year forecasts.

Sequentially, 3QFY22 core net income for its third quarter (3Q) for FY22 was stable at RM83.4 million as the higher operating expenses offset higher rental income.

On yearly basis, 3QFY22 core net income more than doubled to RM83.4 million as earnings recovered from adverse impact of rental support to tenants. That brought cumulative core net income to RM252.2 million in 9MFY22.

MIDF Amanah Investment Bank Bhd (MIDF Research) said the strong earnings recovery was underpinned by recovery in rental income following lower rental support to tenants.

"Besides, the recovery in shopper footfall also led to higher turnover rent and car park income. Similarly, the lower property expenses also contributed to earnings growth," it said.

"On the other hand, finance cost was little-changed despite the hike in OPR as its borrowings are on fixed cost."

MIDF Research remained sanguine on earnings outlook for IGB REIT as rental income from Mid Valley Megamall and The Gardens Mall is expected to benefit from positive rental reversion and high shopper footfall.

"We expect rental reversion to be positive due to high occupancy rates of the two malls.

"We continue to favor IGB REIT for its good quality retail assets namely Mid Valley Megamall and The Gardens Mall with high occupancy rates," it added.

"That would support rental reversion into positive territory thus translates into higher rental income going forward."

AmInvestment Bank Bhd (AmInvestment Bank) was equally confident of IGB REIT's ability to maintain its high occupancy rate due to its malls' strategic location and lower gross monthly rental rates of RM13 to RM15 per square feet compared to other shopping malls in Klang Valley, such as Suria KLCC, Pavilion Kuala Lumpur Mall and Sunway Pyramid Shopping Mall.

"The rental reversion in FY22 is expected to be mildly positive for both malls with increments ranging from zero to three per cent.

"Nevertheless, we foresee a positive rental reversion in FY23 and FY24 of one to three per cent with the expectation of stronger tenants' sales as compared to pandemic level, which will provide opportunity for the group to negotiate for higher rentals in subsequent years."

AmInvestment Bank liked IGB REIT due to its resilient long-term outlook underpinned by the group's strategically located assets in the heart of Klang Valley. In addition, it has a better balanced footfall profile comparatively with moderate exposure to tourists.

"This positions the group to be able to better capitalise on domestic consumption recovery while international tourist arrivals gradually regain momentum."

MIDF Research remains sanguine on earnings outlook for IGB REIT as rental income from Mid Valley Megamall and The Gardens Mall is expected to benefit from positive rental reversion and high shopper footfall.

> Besides, the recovery in shopper footfall also led to higher turnover rent and car park income. Similarly, the lower property expenses also contributed to earnings growth.
>
> MIDF Research