Highest return on equity over three years: real estate investment trust: IGB REIT - Prime assets delivering steady returns from strong footfall | The Edge Markets

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IGB Real Estate Investment Trust (IGB REIT), which has remained resilient throughout the Covid-19 pandemic, has once again bagged The Edge Billion Ringgit Club corporate award for the highest return on equity (ROE) over three years in the REIT sector. This marks the sixth consecutive win for the REIT, which owns Mid Valley Megamall (MVM) and The Gardens Mall (TGM).

With an ROE of 9.1% in 2019, 6.9% in 2020 and 5.8% in 2021, it achieved a weighted ROE over three years (FY2019, FY2020 and FY2021) of 6.8%.

At the same time, the group's net property income (NPI) — which was at its highest at RM398.78 million in FY2019 — was RM316.68 in FY2020 and RM275.1 million in FY2021. The decline was a result of the pandemic in 2020 and 2021.

The REIT rewarded its unitholders with a distribution per unit (DPU) of 9.16 sen in FY2019 and 6.75 sen in FY2020, compared with earnings per unit (EPU) of 8.91 sen and 6.65 sen respectively. In FY2021, IGB REIT declared a lower DPU of 6.03 sen, while EPU was at 5.61 sen.

Listed in 2012, IGB REIT's portfolio of two malls has a combined net lettable area (NLA) of 2.69 million sq ft, with MVM offering 1.84 million sq ft and TGM 844,466 sq ft.

The REIT's 2021 annual report says periodic lockdowns and restrictions imposed by the government in 2021 affected the portfolio's turnover. "With stringent restrictions in place during the MCO (Movement Control Order), retail sales and visitor footfall dropped significantly, and IGB REIT understood that it would take time to see improvements.

"Amid these challenges, we adopted various strategic initiatives to continue supporting tenants to stay in business while protecting our revenue stream."

In the financial year ended Dec 31, 2021, IGB REIT's total revenue was RM399.53 million, down 14.12% from RM465.24 million in FY2020. Net profit declined by 15.48% to RM200.1 million from FY2020, owing largely to the rental support that the mall provided to eligible tenants because of the pandemic and resultant MCO.

Despite a tough retail sales environment in 2020 and in 2021, occupancy rates remained high. As at Dec 31, 2021, the occupancy rate was 97.8% at MVM and 90.7% at TGM.

MVM commenced operations in 1999, following the 1997/98 Asian financial crisis, while TGM opened for business in September 2007. In the same month, two other major malls in the Klang Valley opened their doors. Critics who had doubted that the mall would be successful, given the timing of the openings, have been proven wrong, as the retail asset has continued to flourish through the years.

IGB REIT notes that the pandemic has changed the way it conducts its business and daily affairs. For one, it has accelerated the shift towards the adoption of technology. “For our malls to continue to remain relevant, we need to keep an ear to the ground and monitor the evolution of these trends, particularly as they impact the domestic retail market,” the REIT says, adding that it will remain committed to crafting dynamic retail experiences for its customers and ensuring that its offerings remain relevant and exciting.

Following the easing of movement restrictions and the country easing into the endemic phase, the malls’ strategic location and strong shopper traffic, the REIT’s performance is improving. In the six months ended June 30, 2022, IGB REIT’s revenue leapt to RM267.57 million, from RM184.36 million, and net profit surged 91.8% to RM168.85 million, from RM88.03 million.

Hong Leong Investment Bank in its research note dated July 28 said 1HFY2022 performance was mainly due to improving retail sales arising from better shopper footfall with the transition to endemicity. Moreover, the occupancy rate at both malls is above 99%.

“IGB REIT’s prospects continue to be bright, as the lifting of restrictions and reopening of international borders will elevate shopper traffic, which will in turn underpin retail sales.

“We continue to like IGB REIT, owing to its prime asset location to capitalise on the strong recovery in domestic footfall, robust occupancy rates and monthly rental income returning to pre-pandemic levels,” it said.

Meanwhile, RHB Research — which has a RM1.85 target price and “buy” call — said in an Oct 19 note that it liked IGB REIT “for its prime assets, which are close-to-full occupancy, and domestic shopper profile, which should ensure high footfall”.