IGB REIT - Earnings Rebound Continues | I3investor

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9MFY22 net profit of RM252.2m (+99% YoY) is on track to meet our full-year expectation as overall performance was lifted by a stronger topline. YTD DPU of 7.40 sen is also within our FY22 estimate of 9.73 sen. No change to our earnings forecasts. Maintain MARKET PERFORM with unchanged TP of RM1.65 based on a target yield of 6.0% (which implies a 1.5% yield spread above our 10-year MGS assumption of 4.5%).

Within our expectation as 9MFY22 net profit of RM252.2m (up 99% YoY) represented 76% of our full-year estimate but marginally ahead of consensus (at 79% of full-year number). 3QFY22 DPU of 2.44 sen brought 9MFY22 DPU to 7.40 sen (or 76% of our full-year estimate).

Results' highlights. YoY, net profit nearly doubled to RM252.2m, rising in tandem with a 46% jump in gross revenue to RM407.7m in 9MFY22. The stronger YTD performance was attributed to minimal rental support provided to tenants (since 4QFY21) following the reopening of the economy and improved tenant sales. Meanwhile, property operating expenses dipped 6% to RM93.1m during the nine month period as lower "reimbursement costs" (mainly related to staff costs, which declined 46% to RM27m) was partially offset by higher utilities (+78% to RM32m) and maintenance (+20% to RM18m) costs.

By asset, Mid Valley Megamall contributed net property income (NPI) of RM224.2m (or 71% of total NPI) while The Gardens Mall made up the balance of RM90.4m (or 29% of NPI). Both malls continued to enjoy high occupancy rate of 99.7% and 99.9%%, respectively, as of end September 2022. Gearing level stood unchanged QoQ at 23%.

Outlook. With average gross monthly rental income already surpassing slightly the 2019 levels for both malls, IGBREIT will likely see normalised earnings momentum from 4QFY22 onwards as the base effect dissipates (recall that the strong earnings rebound started in 4QFY21 following the post Covid-19 transition into Phase 4 of the national recovery plan on 18 October 2021). Notwithstanding the upcoming year-end festive spending, the final quarter performance may be weighed down by weaker purchasing power amid the elevated inflationary pressure and economic recession fears as well as persistent industry headwinds (such as manpower shortage).

Keeping our forecasts. Post the 9MFY22 results, we are maintaining our net profit projections at RM333.4m for FY22 and RM341.1m for FY23 as we anticipate a broadly flattish final quarter. Our FY22 and FY23 gross DPU forecasts remain at 9.7 sen and 9.9 sen, respectively, which imply yields of 6.3% and 6.4%.

Still a MARKET PERFORM with an unchanged **TP of RM1.65** based on a target yield of 6.0% (which is derived from a 1.5% yield spread above our 10-year MGS assumption of 4.5%). This takes into consideration IGBREIT's quality asset portfolio (as reflected by the high occupancy rates) amid the competitive retail industry environment. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

Risks to our call include: (i) bond yield contraction/expansion, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower than-expected occupancy rates.

Source: Kenanga Research - 4 Nov 2022