IGB REIT - as Solid as Ever; Maintain BUY | I3investor

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- **Maintain BUY and MYR1.85 TP, 20% upside and c.6% yield.** IGB REIT reported another strong set of results, with improved QoQ revenue from higher rental income, backed by its two fully occupied malls. We continue to like the REIT for its domestic shopper profile and strong assets, which should be able to withstand the risk of a potential slowdown in retail sales in the coming year.

- **Within expectations.** 3Q22 core profit of MYR83.4m (-0.2% QoQ, >100% YoY) brought 9M22 earnings to MYR252.2m (+99% YoY). This is in line with our expectations at 76% of our full-year estimates, but ahead of consensus' at 79%. A DPU of 2.44 sen was declared for the quarter (2Q22: 2.45 sen), representing 97.5% of total distributable income.

- **Tenant sales remained strong.** Despite the strong 2Q22, which was attributed to the full reopening of the economy and *Aidilfitri* festivities, tenant sales remained strong in 3Q22, resulting in a higher revenue of MYR140.1m (+4.8% QoQ). However, NPI margin normalised to 72% (2Q22: 79%) due to higher maintenance expenses during the quarter. This is equal to the pre- pandemic NPI margin in FY19. Some of the asset enhancement initiatives conducted during the quarter were for upgrading restrooms and rooftop waterproofing.

- **Asset quality on display.** The occupancy rates for Mid Valley Megamall (MVM) and The Gardens Mall (TGM) remained effectively full at 99.7% and 99.9% respectively. In FY23, 40.7% of MVM's NLA are up for renewal, and 44.2% for TGM. IGB REIT has benefited from the high turnover rent portion, recording a gross monthly rental income of MYR15.15psf for MVM (2Q22; MYR14.83psf), and MYR13.92psf for TGM (2Q22: MYR13.07psf). Despite the encouraging performance so far, management was reluctant to provide guidance on the rental reversion rate for next year, given the challenging outlook from high inflation and increasing interest rates.

- **Maintain BUY.** We keep our earnings forecasts unchanged. Our TP incorporates a 2% ESG premium, given the REIT's excellent scores in the environment and social pillars. We remain positive on IGB REIT for its asset quality and domestic shopper profile, which should mitigate the downside risks from the tough operating environment. With a low gearing level of 26% and almost all of its debt on a fixed financing rate, there is minimal impact from the interest rate hikes.

- **Key risks** to our call are weaker-than-expected retail performance and negative rental reversions.

Source: RHB Research - 4 Nov 2022