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RHB Investment Research Reports

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- **Keep BUY and MYR1.92 TP, implying 23% upside and c.5% yield.** Results were slightly ahead of expectations, with IGB REIT reporting strong earnings thanks to the improved retail outlook from the economic recovery, and lower rental support given to tenants. We continue to like IGB REIT for its solid recovery prospects, backed by its fully tenanted retail assets, strategic rental structure, and domestic shopper profile.

- **Ahead of expectations.** 1Q22 core profit of MYR85.4m (+16% QoQ, +95.3% YoY) was ahead of expectations at 29-30% of our and consensus' estimates. 1Q22 revenue grew by 12.1% QoQ from the broad economic recovery, leading to lower rental support during the quarter. 1Q22 earnings grew by 16% QoQ, with higher net property income from a reversal for impairment of trade receivables. A DPU of 2.51 sen was declared for the quarter, compared to 1.33 sen in 1Q21. The performance for the quarter is similar to pre-pandemic levels, with the revenue and net profit making up 95% and 103% of 1Q19 numbers respectively,

- **Proxy for recovery...** We remain optimistic on IGB REIT's prospect as a recovery proxy, given its largely domestic shopper profile, quality assets, and big turnover rent portion at >10%, which will allow it to capitalise on the pick-up in sales – such as during the *Aidil Fitri* celebrations in 2Q22. Management guided that despite the surge in COVID-19 cases due to the Omicron variant in February, footfalls remained stable with only a seasonal drop after the Lunar New Year celebrations. Therefore, the downside risk from the pandemic seems to be mitigated, thanks to the successful vaccination program. The announced transition to an endemic phase by the Government, and steady relaxation of SOPs is a further boost to the sector, with Retail Group Malaysia expecting retail sales to grow by 6.3% in FY22.

- **...but challenges remain.** Occupancy remains a key strength for the REIT with both Mid Valley Mall (MVM) and The Gardens Mall (TGM) remaining at close-to-full occupancy. Half of the tenancies up for expiry in FY22 have already been renewed, with 24% and 45.4% of MVM and TGM's NLA still due for renewal. However, we do not think rental reversion will return to pre- pandemic levels (positive mid-single digit), as some tenants will take time to recover completely. The expected interest rate hikes and volatile commodity prices are a risk to the positive retail outlook, as consumers' purchasing power is affected, and may delay tenant recovery.

- **We keep our TP at MYR1.92.** Our TP incorporates a 2% ESG premium, given the REIT's excellent scores in the environment and social pillars. A key risk to our call is a slower-than-expected economic recovery.

Source: RHB Research - 28 Apr 2022