IGB REIT's strong neighbourhood appeal remains a key recovery risk despite OPR hike

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IGB REAL ESTATE INVESTMENT TRUST

CGS-CIMB Research retained its 'Add' call on the company with a higher target price of RM1.94 from RM1.54 previously.

KUALA LUMPUR: IGB Real Estate Investment Trust's flagship malls' strong neighbourhood appeal remains a key recovery risk despite the inflationary headwinds and Overnight Policy Rate (OPR) hikes.

CGS-CIMB Research noted that the company's net property income (NPI) grew by 70 per cent year-on-year (YoY) for its nine-month period to RM315 million, translating into an NPI margin of 77 per cent, which was still on par with pre-pandemic levels.

"In terms of operating statistics, occupancy rates stood at 99.7 per cent for Mid Valley Megamall (MVM) and 99.9 per cent for The Gardens Mall (TGM).

"These levels are well ahead of the retail sector's average of 65-70 per cent.

"Tenancy renewal outlook continues to improve, while expired tenancies in MVM and TGM for 2022 have all been renewed at marginally positive rental reversions, supported by buoyant retail activities," the research firm said in a report.

It added that Retail Group Malaysia (RGM) forecasted 2022 retail sales growth of 31.7 per cent YoY would benefit IGB REIT.

For the financial year 2023, 41 per cent of MVM's net lettable area and 44 per cent of The Gardens are due for renewal.

Additionally, it said that tenant sales and retail footfall in the first nine months of this year have recovered to pre-pandemic levels.

The firm raised its FY22–24 earnings per share and distribution per unit forecasts by 1.8–12.2 per cent on stronger revenue and higher NPI margins.

It retained its 'Add' call on the company with a higher target price of RM1.94 from RM1.54 previously.

Downside risks for the company are subdued tenancy renewals with negative rental reversions.