

IGB to gain from international border reopening

PETALING JAYA: IGB Bhd will benefit from the re-opening of international borders, with a robust recovery in retail assets – particularly for Mid Valley Megamall and The Gardens under IGB real estate investment trust or REIT – and lower losses for hotels, says CGS-CIMB Research.

The hotel segment registered a RM56mil loss before interest and taxes or LBIT in the financial year ended Dec 31, 2021 (FY21).

The research unit has maintained its “add” call on IGB’s stock and believes further upside risks to the share price could be realised with new disclosures on plans for a potential new asset injection into IGB REIT (this might involve Mid Valley Southkey in Johor which is operational since April 2019), and more clarity on the prospect of higher dividends.

The downside risks are weaker earnings and prolonged losses for the hotel division.

According to the group’s website, IGB is engaged in all aspects of the property industry, with its core businesses in retail, commercial, residential, construction and hospitality.

The group also has investments in water treatment, information technology and data analytics and education.

CGS-CIMB Research said its target price for IGB is hiked by 11 sen from RM2.50 to RM2.61, as the research unit removed the redeemable convertible cumulative preference share (RCCPS) dilution effect (unchanged 75% discount to revalued net asset value or RNAV).

The research unit noted that IGB’s share price had risen 22.3% (42 sen) since December 2021, fuelled recently by the RCCPS full redemption scheme, which removes the overhang on the share price from the RCCPS dilution.

“At current levels, IGB’s stock still trades at a compelling 78% discount to our revised RNAV per share of RM10.45 (increased 44 sen or 4.4%, adjusted for full RCCPS redemption),” said the research unit.

IGB had earlier announced that it has opted to fully redeem its RCCPS prior to its seven-year maturity in March 2025. The one-for-one RCCPS was part of the consideration relating to the Goldis-IGB Corp privatisation deal in 2017 that led to the formation of IGB.

Upon full redemption, holders of the RCCPS will receive total cash of RM3.30 per RCCPS (RM3.28 per RCCPS – redemption amount equal to RCCPS issue price) plus 1.58 sen dividend (at a 4.3% implied yield)).

As IGBB’s closing share price of RM2.30 per share as at April 1 was 30% lower than the RCCPS redemption price, this theoretically implies that the majority of the RCCPS holders are likely to take the full redemption option rather than converting into ordinary shares.

Book closure and redemption dates for the 39.6 million outstanding RCCPS (4.4% of current share base) have been set for April 4 and April 11, respectively.

CGS-CIMB Research also said its dividend per share (DPS) forecast of 10 sen per annum in FY22 to FY24 were intact, as the research unit assumed there would be no special dividends from the British land sale.

In October 2021, IGB sold its 50% stake and shareholder debt in a freehold title in London to a unit of global real estate group Hines for £104.3mil (RM600mil).

“This translates into FY22 to FY24 estimated dividend yield of 4.4%, which should be supportive of the share price,” it said.