Analysts see improving earnings prospects for IGB REIT

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KUCHING: IGB real estate investment trust's (IGB REIT) prospects remains promising, underpinned by the group's strategically located assets in the heart of Klang Valley, analysts observed.

"Despite a six per cent rebound in the share price following the bottoming out of share price coinciding with the effective date of IGB REIT's removal from MSCI Small Cap Index on May 31, 2023, we believe that there is still room for share price upside.

"This is premised on its improving earnings prospects, which will be supported by favorable rental reversions, resilient tenant sales and near-full occupancy rates of its retail assets," the research team at AmInvestment Bank Bhd (AmInvestment) said in a report.

Historically, it noted that IGB REIT has consistently achieved a stable rental reversion rate ranging from four to six per cent annually for both Mid Valley Megamall and The Garden Mall.

IGB REIT has completed the renewal of a majority of leases expiring in FY23 at a rate of four to six per cent, supported by an improvement in retail sales.

"IGB REIT adopts a proactive approach to rental renewals, typically finalising nine to 12 months ahead of lease expirations.

"With the continued positive sales momentum, we are confident that the majority of leases set to expire in FY24F will be successfully renewed in 2HFY23, with positive rental reversions close to pre-pandemic levels," the research team said.

On the recent fire incident at one of its retail assets, AmInvestment noted that the financial impact on IGB REIT resulting from the incident was negligible as it has only affected the external Tenaga Nasional substation. The losses incurred could be mitigated by an insurance claim.

Meanwhile, AmInvestment said it expected the turnover rent derived from tenant sales to remain resilient in 2HFY23, buoyed by robust footfall traffic from domestic shoppers and an uptick in retail sales.

"Our projection of stronger retail sales is underpinned by the forecast of our in-house economic team of a retail sales growth rate of 6.4 per cent y-o-y in 2HFY23 compared with 5.2 per cent y-o-y in 1HFY23.

"The positive outlook is backed by improving consumer sentiment on the back of expectations of no further interest rate hikes and improvement in the labour market," it said.

Additionally, IGB REIT has effectively mitigated the impact from interest rate hike through the utilisation of fixedrate medium-term notes (MTN) with an interest rate of 4.49 per cent per annum.

"It is worth highlighting that these MTNs will mature only on September 20, 2027, thus ensuring stability in financial cost for the next 4 years," it pointed out

Considering the maximum utilisation of net lettable area and consistent base rent growth, AmInvestment anticipate that the potential acquisition of Mid Valley Southkey mall in Johor to be the key growth catalyst for IGB REIT in the long term.

To recap, IGB REIT has secured the right of first refusal from main shareholder, IGB, for the acquisition of the mall.

All in, AmInvestment maintained its 'buy' call on the stock.

"We like IGB REIT due to its resilient long-term outlook underpinned by the group's strategically located assets in the heart of Klang Valley.

"In addition, it has a better-balanced footfall profile comparatively with moderate exposure to foreign tourists. This positions the group to be able to better capitalise on domestic consumption recovery while international tourist arrivals gradually regain momentum," it said.