

IGB's hotel segment to do better with reopening of Boulevard Hotel

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Mid Valley City. Photo credit: www.midvalley.com.my

IGB Bhd's hotel segment is anticipated to recover further, supported by the reopening of the 390-room Boulevard hotel, set amidst Mid Valley City, in July 2023.

The segment will also benefit from a full-year contribution from the St. Giles Southkey hotel in Johor Bahru, which opened on August 31, 2022.

St. Giles Southkey is located within Mid Valley Southkey, which contains a mall, an exhibition hall, and commercial towers. The hotel, which has 575 modern and spacious guest rooms, is managed locally by Cititel Hotel Management Sdn Bhd and is part of the UK-based St. Giles Hotels group.

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IGB began the fiscal year 2023 (FY23) with a net profit of RM56.1 million, up 31.2 per cent year on year (y-o-y) and more than 100 per cent quarter on quarter (q-o-q) in the first quarter, in line with the Public Investment Bank's (PublicInvest) and consensus estimates.

The group's net profit in the first quarter of 2023 (1QFY23) represented around 24 per cent and 26 per cent of the firm's and consensus' full year projections, respectively.

Revenue increased 37 per cent y-o-y due to improved performance across practically all business categories. As a result, its pre-tax profit climbed by 30 per cent y-o-y to RM135 million.

The hotel segment's revenue climbed by more than 100 per cent y-o-y to RM58.5 million, owing to considerable improvements in occupancy and room rate in the current quarter.

IGB owns 53.4 per cent of IGB Real Estate Investment Trust (REIT) and 52.8 per cent of IGB Commercial REIT. The group also owns a portfolio of hotels and land bank primarily in Malaysia, with some in Australia and the UK.

The group's revenue from retail assets via IGB REIT increased 15.5 per cent y-o-y to RM154.6 million, owing to improved tenant retail sales and higher average rents registered during the quarter.

Mid Valley Megamall and The Gardens Mall in Kuala Lumpur are among the properties owned by IGB REIT.

PublicInvest said both assets in the portfolio remain completely occupied, with rental rates beginning to rise in step with increased tenant sales.

As of 1QFY23, the average gross monthly rental revenue for Mid Valley Megamall is RM16.93 per square foot (psf), compared to RM15.28 psf in FY22, and The Gardens Mall is RM15.77 psf, compared to RM13.39 psf in FY22).

According to PublicInvest, Mid Valley Megamall has 165 leases up for renewal, representing 46.2 per cent of total net lettable area (NLA) in FY23, while The Gardens Mall has 85 leases expiring, representing 45.5 per cent of total NLA.

Elsewhere, The Mall, Mid Valley Southkey in Johor Bahru reported total gross revenue and pre-tax profit of RM58.6 million and RM21.2 million, respectively, representing a 54 per cent increase y-o-y and more than thrice.

For the property investment-commercial division, it reported gross revenue and net property income (NPI) of RM51.8 million and RM8.9 million, respectively, due to a higher occupancy rate.

"However, pre-tax profit is lower due to higher property operating expenses and finance costs," the firm noted.

The average occupancy rates as of 1QFY23 for IGB Commercial REIT's portfolio of 10 investment properties were 79.4 per cent, from 77.5 per cent in 4QFY22, with average rental rates at RM6.20 (RM6.18 psf in 4QFY22).

The portfolio comprises Menara IGB, CentrePoint South & North, Boulevard properties, Gardens South & North Towers, Southpoint properties, Menara Tan & Tan, G Tower, and Hampshire Place office.

Meanwhile, IGB's share price has climbed about 80 per cent this year from RM1.69 in September 2021.

In March 2023, the share price reached a new high of RM3.10. While the

stock has lost some ground in recent weeks, it is still up about 30 per cent year to date, compared to a 24 per cent gain in 2022 and a 23 per cent fall in 2021.

PublicInvest said with the current stock price exceeding the firm's target price (TP), it is downgrading IGB from 'Outperform' to 'Neutral' with an unchanged TP of RM2.70, positioned at a 40 per cent discount to the net tangible asset.