High occupancy rate set to steer IGB-REIT

PETALING JAYA: CGS-CIMB Research is making no change to its earnings forecasts and reiterating its "add" rating on IGB Real Estate Investment Trust (IGB-REIT).

The research house said this is premised on IGB-REIT's high occupancy rate, positive rental reversion and strategic locations of its malls.

IGB REIT reported a core net profit of RM88.9mil for the third quarter (3Q23), which as up 4.5% year-on-year (y-o-y), and 12.4% quarter-on-quarter (q-o-q), taking the real estate investment trust's nine months core net profit to RM266.1mil, an increase of 8.9% y-o-y.

"The occupancy rate of Mid Valley Megamall, one of the largest malls in Malaysia with a net lettable area of 1.8 million sq ft, was 99.94% in 3Q23, higher than its pre-Covid-19 pandemic level of 99.9% in 2019," it said.

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Its average gross monthly rental income recovered to RM16.26 per sq ft, surpassing the pre-pandemic monthly rental of RM15.03 per sq ft in 2019.

Similar trends are seen in The Gardens Mall, which saw its occupancy rate recovering to 99.9% in 3Q23 and surpassing 2019's level of 98.9%, while its gross monthly rental rose to RM15.43 per sq ft, surpassing 2019's level of RM12.93 per sq ft, the research house said.

"Our dividend discount model - based target price (cost of equity 7.4%; terminal growth 2%) is unchanged at RM2.02.

The stock also offers attractive yields of 6% to 6.6% for the forecast FY23 to FY35.

The re-rating catalysts include higher-than-expected retail sales and return of tourism, which will spur spending.

The downside risks include less attractive rental reversions and lower-than-expected retail sales," CGS-CIMB Research added.