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THE long-anticipated move by IGB Bhd (IGB) to sell its Johor mall, held via indirect subsidiary Southkey Megamall Sdn Bhd, into the group's real estate investment trust (REIT), IGB-REIT, injected some excitement into an otherwise dull week on the local bourse.

Analysts were quick to crunch the numbers, and nearly all issued glowing reports highlighting how the deal is accretive to IGB-REIT.

At least six investment banks, including JP Morgan, have upgraded their ratings on the stock to "buy". The analysts' consensus target price stands at RM2.48 with the more bullish forecasts seeing upside potential between RM2.75 and RM2.81.

Both counters – IGB and IGB-REIT – saw active buying, hitting new highs on Wednesday.

To recap, IGB-REIT has proposed to buy The Mall, Mid Valley Southkey (MVS Mall) in Johor Baru from its sponsor IGB for RM2.65bil.

It will be paid for using a mix of RM1bil cash and RM1.65bil by way of issuance and allotment of new units in IGB-REIT at RM2.36 per unit.

The deal is notable on two fronts: it marks IGB-REIT's first-ever acquisition since its listing and stands as the largest asset acquisition in the history of Malaysian REITs.

IGB-REIT was set up and listed in 2012 comprising two shopping malls, The Gardens Mall and Mid Valley Megamall.

Coming back to the deal, RM1bil is expected to reduce IGB's borrowing costs, effectively retiring the bonds that were used to finance the building of the mall.

IGB-REIT itself will raise a new medium-term note programme, backed by the mall, as a means to raise funds for the acquisition.

Analysts covering IGB-REIT note that the acquisition offers the REIT a strong boost through inorganic growth.

It will also provide long-term earnings diversification beyond the mature Klang Valley market by tapping into the fast-growing Johor Baru region.

Looking ahead, the RTS Link, scheduled for completion by end-2026, is expected to boost cross-border traffic from Singapore, while the Johor-Singapore Special Economic Zone is drawing business and investment activity, further supporting the mall's growth prospects.

The purchase price translates to an attractive net property income (NPI) yield of 7.2% based on MVS Mall's NPI for the financial year ended Dec 31, 2024, with MVS Mall projected to contribute about 30% to the REIT's total revenue.

In a nutshell, analysts generally view the proposed acquisition as favourable for IGB-REIT.

But what about the vendor, IGB? Are its shareholders getting fair value for their asset?

For Tan Boon Lee, the group chief executive officer of IGB and scion of founder, the late Datuk Tan Chin Nam, what the market does seem to be less aware of is the fact that IGB shareholders will be "handsomely" rewarded in IGB-REIT units via a distribution in specie after the sale is completed.



The Mall, Mid Valley Southkey in Johor Baru

## IGB unlocks value with record REIT deal

"It also offers IGB shareholders dual exposure – at the parent company and its yield-accretive REIT vehicle," Tan tells *StarBiz 7*.

According to him, the IGB-REIT units will be distributed in a manner that ensures IGB retains a controlling 51% stake in IGB-REIT, while improving the former's overall cost of capital.

As for the RM2.65bil price tag, Tan says it's fair, noting that it exceeds the net book value of RM1.1bil. However, the earnings impact on IGB is expected to be minimal, as the gain will be eliminated upon consolidation.

"We have been planning to unlock the value of this asset but couldn't secure a good price previously, as it wasn't yet a mature asset. The mall has now been in operation for six years and generates stable income," explains Tan, who took over the reins at IGB about two and a half years ago.

It is noteworthy that IGB, which has grown from being solely a property developer into a diversified group with a portfolio of long-term commercial, retail, residential and hospitality assets across Asia, Australia, the United States and Europe, remains a tightly-held stock largely owned by the Tan family.

He shares that the five-storey MVS Mall, the largest in Johor, was opened in 2019 just before the Covid-19 pandemic broke out.

Like many others, the mall faced challenges during the lockdown period, but has since recovered strongly with occupancy at 95% as of May 2025.

Anchored by Village Grocers and GSC cinema, the mall also

houses upscale beauty brands such as Dior, YSL, Armani and Chanel, making it a favourite spot for both affluent locals and Singaporeans.

"We replicated the Mid Valley City concept in Johor through Mid Valley Southkey, which is an integrated development anchored by a premium retail

mall, complemented by office towers and a hotel. Why reinvent the wheel when that model has proven to work well?" Tan says.

He expresses confidence that the southern township will follow a similar long-term growth trajectory as Mid Valley City, which was launched in November 1999 with the opening of Mid Valley Megamall.

The REIT's gearing is expected to rise from 21.2% to 26.5%, but analysts say this is still comfortably below regulatory thresholds and provides headroom for future acquisitions. Tan says the REIT can borrow at significantly lower rates than its parent, IGB, because of stronger credit profile and more stable cash flow.

However, further acquisitions appear unlikely in the near term not because the REIT lacks the financial capacity.

"IGB has no other mall assets in Malaysia. Yield-accretive retail assets outside the group are also hard to come by given the scarcity of high-quality malls that meet our investment criteria," he adds.

The acquisition of MVS Mall is set to lift IGB-REIT's asset base to about RM8bil.

In contrast to IGB, its REIT has a broader investor base and counts the Employees Provident Fund and Retirement Fund Inc as major shareholders.

Insurance companies also have minority stakes in IGB-REIT according to its latest annual report.

■ The Mall, Mid Valley Southkey marks IGB-REIT's first-ever asset purchase after a decade; also the largest mall purchase by a REIT

■ IGB Bhd shareholders to benefit through a distribution in specie of IGB-REIT units

Tan: We are confident Southkey will mirror Mid Valley City's growth success

