

COMPANY UPDATE

IGB REIT (IGBREIT MK)

Appealing Yields With A Favourable Risk-Reward Balance

In anticipation of a market consolidation, IGB REIT offers a favourable risk-reward balance. The stock should appeal to investors with its earnings recovery trajectory in addition to its share price still hovering at the pandemic trough. We like IGB REIT for its resilient assets and faster-than-peers' recovery pace. The REIT still offers attractive yields of at least 5.6% from 2022 onwards. Maintain BUY and target price of RM1.90.

WHAT'S NEW

- **High yielders should outperform in anticipation of market consolidation.** The FBMKLCI's near-term outlook may be affected by the anticipated US equity consolidation amid the tightening US monetary policy. High-yield stocks would appeal and should outperform. With earnings to recover 54% for 2022 (-2.4% vs 2019), coupled with attractive yields of 5.6-6.0% for 2022-23, IGB REIT should re-rate as share price is still depressed since the pandemic. The earnings growth is mainly on the back of reduced rental assistance, further boosted by the economic and border reopening. Moreover, we are expecting 1Q22 results to be similar to 4Q21 as consumer sentiment was spurred by the Lunar New Year festivities.
- **Interest rate hike priced in.** We think most of the negative impact (from the interest rate hike and lingering COVID-19 aftereffects) has been priced in as IGB REIT's yield spread to 10-year Malaysia Government Securities (MGS) widened to 2.8ppt, above the spread during the last overnight policy rate hike in 2018 (spread of 2.2ppt), before narrowing to 2ppt currently. Even with the imminent interest rate hikes locally and internationally, the impact on IGB REIT should be manageable as its earnings recovery should overcome it. Additionally, its gearing is the lowest among stocks under our coverage at 0.23x.

STOCK IMPACT

- **Lower risk of rental assistance to tenants.** The border reopening to travellers would increase inbound and outbound tourism, which would in turn spur consumer sentiment. Hence an increase in footfall traffic at malls translates to higher tenant sales. Rental assistance to tenants would be substantially lower or none compared with previous years. Having said that, revenue portion from tenant sales is about 10-15%.
- **4Q21 financial results an indication of "business-as-usual" operations.** Tenant sales for 4Q21 recovered at a higher pace than footfall in comparison to pre-COVID-19 levels, which led to lower rental assistance provided. For 2021, net property income (NPI) margin remained at 69%, still lower than pre-COVID-19 levels of 72%. Occupancy remained resilient with Mid Valley and The Gardens both at 99%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	465	400	549	567	579
EBITDA	286	246	357	375	385
Operating profit	284	245	356	373	382
Net profit (rep./act.)	237	200	308	326	335
Net profit (adj.)	237	200	308	326	335
EPU (sen)	6.6	5.6	8.7	9.1	9.4
DPU (sen)	6.8	6.0	8.5	9.0	9.3
PE (x)	23.1	27.3	17.6	16.7	16.3
P/B (x)	1.4	1.4	1.4	1.4	1.4
DPU Yld (%)	4.4	3.9	5.6	5.9	6.1
Net margin (%)	50.9	50.1	56.1	57.4	58.0
Net debt/(cash) to equity (%)	26.1	26.1	25.9	25.4	24.8
Interest cover (x)	6.1	5.5	7.5	7.9	8.2
ROE (%)	6.2	5.3	8.1	8.5	8.8
Consensus DPU (sen)	n.a.	n.a.	7.8	8.7	9.2
UOBKH/Consensus (x)	-	-	1.09	1.04	1.01

Source: IGB REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.53
Target Price	RM1.90
Upside	+24.2%

COMPANY DESCRIPTION

IGB REIT is a real estate investment trust. Its portfolio consists of the Mid Valley Megamall and The Gardens Mall in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	IGBREIT MK
Shares issued (m):	3,575.4
Market cap (RMm):	5,470.4
Market cap (US\$m):	1,293.1
3-mth avg daily t'over (US\$m):	1.2

Price Performance (%)

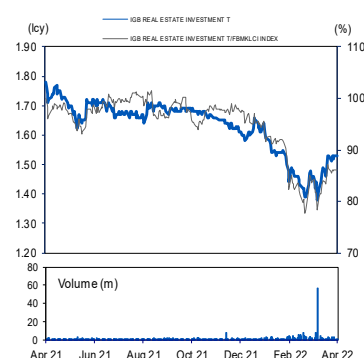
52-week high/low	RM1.78/RM1.38			
1mth	3mth	6mth	1yr	YTD
5.5	(6.7)	(9.5)	(14.0)	(7.3)

Major Shareholders

	%
IGB Corp Berhad	48.6
Employees Provident Fund	10.4
Kumpulan Wang Persaraan	7.5

FY22 NAV/Share (RM)	1.07
FY22 Net Debt/Share (RM)	0.28

PRICE CHART



Source: Bloomberg

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- **To also benefit from the return of office crowds.** Both Mid Valley Megamall and The Gardens Mall would also benefit from the return of office crowds. The F&B segment and, to some extent, the fashion segment would gain from the spillover of the office crowds. The fashion and F&B segments make up about 43% and 31% of total portfolio NLA respectively.

- **In a better position to weather uncertainties.** We continue to like IGB REIT due to its lean balance sheet with a low gearing level of 0.23x, which is still well below the 0.6x threshold set by the Securities Commission (limit increased to 0.6x from 0.5x until Dec 22).

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** Our projected 2022 earnings growth of 54% yoy (-2% vs 2019) is based on: a) flat rental reversion, and b) minimal rental assistance.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.90.** We believe that IGB REIT's quality assets will allow it to experience faster earnings recovery compared with other retail REITs (as observed during the RMCO). Our target price is based on a dividend discount model (required rate of return: 6.8%, terminal growth: 1.8%), with an implied dividend yield of 4.5%. Dividend yields of 5.6% and 5.9% for 2022 and 2023 respectively are decent in this current environment.

- Forward yield spread with 10-year MGS is at +0.3SD, indicating that the current yield of 5.6% has priced in the expectations of rising MGS. IGB REIT's faster-than-peers' recovery pace would further boost earnings recovery and translate into higher dividends.

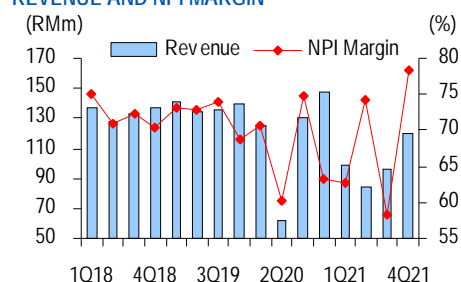
SHARE PRICE CATALYST/RISKS

- **Faster-than-expected recovery in consumer spending, and higher-than-expected rental reversions.**
- **Risk:** Rising COVID-19 cases which could dampen sentiment.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

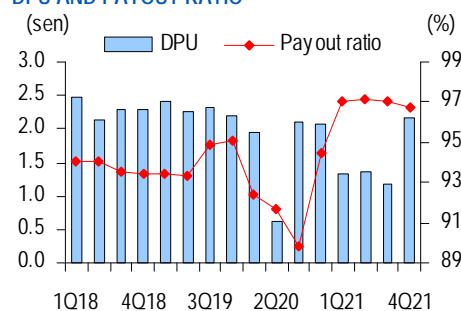
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Remains committed to exploring ways to continue to reduce energy consumption and monitor total electricity consumed on a monthly basis. Electricity consumption has been on a downtrend since 2016 (base year).
<ul style="list-style-type: none"> • Social <ul style="list-style-type: none"> - Responded swiftly to the pandemic, implementing business continuity management plans across all operations. - Saw a steady decline in the number of health and safety incidents that have occurred in the malls.
<ul style="list-style-type: none"> • Governance <ul style="list-style-type: none"> - The Board comprises six non-executive directors and three executive directors. There are four Board Committees – Audit Committee, Nomination Committee, Remuneration Committee and Sustainability Committee. - Subscribes to IGB Group's Anti-Bribery and Corruption Policy, which adheres to the Malaysian Anti-Corruption Commission Act 2018.

REVENUE AND NPI MARGIN



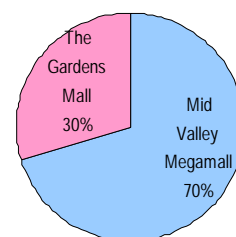
Source: IGB REIT, UOB Kay Hian

DPU AND PAYOUT RATIO



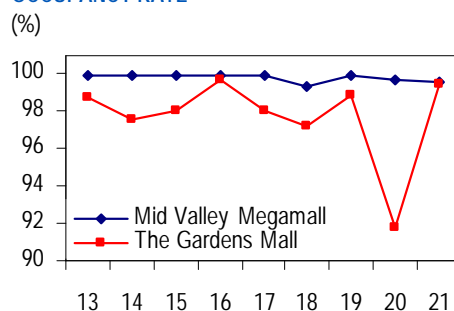
Source: IGB REIT, UOB Kay Hian

2021 REVENUE CONTRIBUTION



Source: IGB REIT, UOB Kay Hian

OCCUPANCY RATE



Source: IGB REIT, UOB Kay Hian

FORWARD YIELD SPREAD TO MGS



Source: IGB REIT, Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	400	549	567	579
EBITDA	246	357	375	385
Deprec. & amort.	1	1	2	2
EBIT	245	356	373	382
Associate contributions	0	0	0	0
Net interest income/(expense)	(44)	(47)	(47)	(47)
Pre-tax profit	200	308	326	335
Tax	0	0	0	0
Minorities	0	0	0	0
Net profit	200	308	326	335
Net profit (adj.)	200	308	326	335

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	4,960	4,960	4,960	4,960
Other LT assets	3	5	6	6
Cash/ST investment	223	230	246	267
Other current assets	47	78	83	77
Total assets	5,233	5,272	5,295	5,311
ST debt	1,215	16	16	16
Other current liabilities	214	249	269	281
LT debt	0	1,199	1,199	1,199
Other LT liabilities	0	0	0	0
Shareholders' equity	3,805	3,808	3,811	3,815
Minority interest	0	0	0	0
Total liabilities & equity	5,233	5,272	5,295	5,311

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	257	389	386	399
Pre-tax profit	200	308	326	335
Tax	0	0	0	0
Deprec. & amort.	1	1	2	2
Associates	0	0	0	0
Working capital changes	(9)	32	11	14
Other operating cashflows	64	47	47	47
Investing	8	(3)	(3)	(3)
Capex (growth)	0	(3)	(3)	(3)
Investments	0	0	0	0
Others	8	0	0	0
Financing	(265)	(349)	(366)	(376)
Distribution to unitholders	(212)	(296)	(313)	(322)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(53)	(53)	(53)	(53)
Net cash inflow (outflow)	1	36	17	20
Beginning cash & cash equivalent	193	193	230	246
Changes due to forex impact	30	0	0	0
Ending cash & cash equivalent	223	230	246	267

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	61.5	64.9	66.1	66.5
Pre-tax margin	50.1	56.1	57.4	58.0
Net margin	50.1	56.1	57.4	58.0
ROA	3.8	5.9	6.2	6.3
ROE	5.3	8.1	8.5	8.8
Growth				
Turnover	(14.1)	37.5	3.3	2.0
EBITDA	(14.1)	45.1	5.0	2.6
Pre-tax profit	(15.5)	54.0	5.6	3.0
Net profit	(15.5)	54.0	5.6	3.0
Net profit (adj.)	(15.5)	54.0	5.6	3.0
EPU	(15.1)	54.4	5.4	2.9
Leverage				
Debt to total capital	24.2	24.2	24.2	24.2
Debt to equity	31.9	31.9	31.9	31.8
Net debt/(cash) to equity	26.1	25.9	25.4	24.8
Interest cover (x)	5.5	7.5	7.9	8.2

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