

27 April 2016 | 1QFY16 Results Review

## IGB REIT

*Off to a good start*

**Maintain BUY**

**Unchanged Target Price (TP): RM1.63**


### INVESTMENT HIGHLIGHTS

- **1QFY16 earnings came in within expectations**
- **Earnings improved 4%oyoy**
- **Earnings estimates maintained**
- **Maintain BUY with unchanged TP of RM1.63**

**1QFY16 earnings came in within expectations.** IGB REIT 1QFY16 core net income of RM72.8m met expectations, at 27% and 26% of our and consensus full year estimates respectively. No distribution per unit was declared due to its historical practice of semi-annual distribution.

**Earnings improved.** On a yearly basis, IGB REIT 1QFY16 core net income climbed 4%oyoy to RM72.8m. The good performance is believed to be due to (i) additional 40k sq ft of net lettable area in Mid Valley Megamall, (ii) positive rental reversion, and (iii) higher turnover rent. Note that turnover rents account for about 13% of IGB REIT's total revenue hence higher consumer spending translated into higher rental income. Meanwhile, on a quarterly basis, core net income surged by 37% mainly due to higher rental income and normalization of borrowing costs (-34%qoq). Note that borrowing costs soared in 4QFY15 due to application of effective interest rate method in accordance with financial reporting standard following the assumption that IGB REIT's option to extend its fixed rate term loan (FRTL) at a higher rate.

**Earnings estimates maintained.** We maintain our earnings forecast for FY16/17. Net profit for IGB REIT is expected to grow steadily at 5.6% in FY16, underpinning by expected positive rental reversion of 3-5%.

**Maintain BUY with unchanged TP of RM1.63**, based on Dividend Discount Model (DDM) valuation (Required rate of return: 7.5%, Perpetual growth rate: 1.5%). Although the expected total returns are lower than our buy call threshold of +15% total returns, we continue to see value in IGB REIT which is a pure retail REITs in Malaysia with retail assets in prime location. We like IGB REIT for its stable rental income from Mid Valley Megamall and The Gardens Mall which enjoyed high occupancy rates. It translates into minimal earnings risk and great stability to unit holders. Besides, dividend yield for IGB REIT is attractive at 5.3%. 

RETURN STATS	
Price (26 April 2016)	RM1.50
Target Price	RM1.63
Expected Share Price Return	+8.7%
Expected Dividend Yield	+5.3%
<b>Expected Total Return</b>	<b>+14.0%</b>
STOCK INFO	
KLCI	1,692.50
Bursa / Bloomberg	5227/ IGBREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3477.67
Par Value (RM)	1.00
Market cap. (RM'm)	5,216.50
Price over NA	1.42
52-wk price Range	RM1.24 - RM1.57
Beta (against KLCI)	0.55
3-mth Avg Daily Vol	2.12m
3-mth Avg Daily Value	RM3.12m
Major Shareholders	
IGB Corp	49.85%
EPF	6.89%
KWAP	6.01%

## INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY13A	FY14A	FY15A	FY16F	FY17F
Gross Revenue	431	462	489	498	523
Net Property Income	286	313	343	352	374
Net Investment Income	396	404	350	358	382
Net Income	312	318	254	268	288
Core Net Income	207	233	254.1	268	288
Realised EPU (sen)	9.14	9.24	7.40	7.81	8.37
Core EPU (sen)	6.07	6.77	7.40	7.81	8.37
Gross DPU (sen)	7.04	7.79	8.19	8.84	9.45
Net DPU (sen)	6.34	7.01	7.37	7.96	8.50
Net Distribution Yield (%)	4.2%	4.7%	4.9%	5.3%	5.7%
Core PER (x)	24.7	22.2	20.3	19.2	17.9
NAV per unit (RM)	1.05	1.07	1.07	1.07	1.07
P/NAV (x)	1.43	1.41	1.41	1.41	1.41
Core ROE	5.9%	6.4%	6.9%	7.3%	7.8%
Core ROA	4.2%	4.6%	4.9%	5.2%	5.5%

Source: Company, MIDF Research Estimate

## IGB REIT: 1QFY16 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY16	%YoY	%QoQ	FY16	%YoY	
Gross Revenue	131.2	5%	8%	131.2	5%	Gross revenue climbed 5%yoy due to additional 40k sq ft net lettable area in Mid Valley Megamall and positive rental reversion.
Net Property Income (NRI)	93.6	4%	15%	93.6	4%	
Net Investment Income	95.9	4%	15%	95.9	4%	
Net Income	72.8	4%	37%	72.8	4%	
Core Net Income (CNI)	72.8	4%	37%	72.8	4%	In line with revenue increase .
Realised EPU (sen)	2.1	3%	36%	2.1	3%	
Core EPU (sen)	2.1	3%	36%	2.1	3%	
Gross DPU (sen)	0.0	n.a	-100%	0.0	n.a	

Source: Company

## DAILY PRICE CHART



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Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.