



Outthink. Outperform.

Rental income normalizes, 2H17 outlook intact

IGBREIT's 2Q17 and 1H17 realized net profit of RM67.7m (+2.7% yoy) and RM143m (+3.1%) were slightly below our expectations, though in-line with consensus. Despite the moderation in rental revenue as seen at other retail REITs, IGB REIT had no issues with occupancy rates (almost 100%) and renewals, whereby the average rental reversion is estimated to be in the range of 9-10%. 2H17 should bode well for IGB REIT given: i) upcoming tenancy renewals; and ii) higher retail spending (mega sale carnival and year-end holidays). Maintain **HOLD**, with a revised TP of RM1.68. A 4.38 sen DPU was proposed.

2Q17 rental income normalizes vs. 1Q17; net profit up 2.7% yoy

IGBREIT's 1H17 realized net profit of RM143.1m (+3.1% yoy) was within consensus estimate, though slightly below our expectation due to a more robust other income estimate. Meanwhile, 2Q17 revenue and realized net profit were lower by 4.7% and 10.2% qoq, as rental income normalized in the absence of the festive spending (which boosted 1Q17's turnover rent). 1H17 operating expenses increased by 1.8% yoy due to higher maintenance works and quit rent/assessment costs incurred in 2Q17. Nonetheless, IGB REIT was able to grow its 1H17 net property income by 2.1% yoy and maintained a margin of 70.5%.

Maintain **HOLD**. Target price revised to RM1.68 from RM1.70

We are revising down our 2017-19E realized net profit by 4.2%/3.7%/3.2% as we lower our revenues by 2.5-2.8%. On distribution payout, we also lower our assumption from 96% to 95%, as management conserves more cash for future capex. Reiterate **HOLD** on IGB REIT with our 10-year DDM-based 12-month TP revised from RM1.70 to RM1.68 (based on a cost of equity of 8.2%, risk-free-rate of 4% and growth rate of 3%). We believe that IGB REIT's 2H17 outlook remains intact, with upcoming tenancies being renewed while the occupancy rates remain close to 100% (underpinned by a diverse mix of old and new tenants). For 2017, IGBREIT has 40% of Megamall's and 42% of Gardens Mall's Net-Lettable-Area up for renewal. Near-term catalysts remain lacking, with an asset-injection (Southkey Megamall in Nusajaya) expected to materialize after 2020.

Key risks – moderation in spending; higher rental reversion

Downside risks: i) moderation in consumer spending; ii) competition from new retail space supply (2017-21). Upside risks: i) higher rental reversion.

Earnings & Valuation Summary

| FYE 31 Dec (RMm) | 2015 | 2016 | 2017E | 2018E | 2019E |
|-------------------------|-------|-------|-------|-------|-------|
| Revenue | 489.2 | 507.3 | 543.7 | 561.0 | 580.9 |
| Net property income | 342.8 | 361.1 | 385.7 | 399.6 | 415.8 |
| Reported net profit | 254.0 | 277.8 | 304.1 | 317.6 | 334.1 |
| Realised net profit | 254.0 | 277.8 | 304.1 | 317.6 | 334.1 |
| Distributable income | 291.0 | 316.0 | 337.0 | 351.3 | 368.7 |
| EPU (sen) | 7.3 | 8.0 | 8.7 | 9.0 | 9.4 |
| Realised EPU (sen) | 7.3 | 8.0 | 8.7 | 9.0 | 9.4 |
| Realised EPU growth (%) | 8.6 | 8.6 | 8.8 | 3.8 | 4.5 |
| Realised PER (x) | 23.6 | 21.7 | 19.9 | 19.2 | 18.4 |
| DPU (sen) | 8.19 | 8.71 | 9.12 | 9.44 | 9.85 |
| DPU Yield (%) | 4.7 | 5.0 | 5.3 | 5.5 | 5.7 |
| DPU payout ratio (%) | 98% | 96% | 95% | 95% | 95% |
| NAV (RM) | 1.06 | 1.05 | 1.05 | 1.06 | 1.06 |
| P/NAV (x) | 1.64 | 1.65 | 1.64 | 1.63 | 1.63 |
| Chg in EPU (%) | | | (4.2) | (3.7) | (3.2) |
| Affin/Consensus (x) | | | 1.1 | 1.0 | 1.0 |

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

IGB REIT

IGBREIT MK
Sector: M-REITs

RM1.73 @ 2 Aug 2017

HOLD (maintain)

Downside 2.9%

Price Target: RM1.68

Previous Target: RM1.70



Price Performance

| | 1M | 3M | 12M |
|-------------|-------|-------|-------|
| Absolute | -1.7% | +1.8% | +5.5% |
| Rel to KLCI | -2.0% | +2.3% | -1.0% |

Stock Data

| | |
|-------------------------------|-----------------|
| Issued shares (m) | 3,503.4 |
| Mkt cap (RMm)/(US\$m) | 6,060.9/1,414.5 |
| Avg daily vol - 6mth (m) | 2.2 |
| 52-wk range (RM) | 1.49-1.79 |
| Est free float | 25% |
| NAV per share (RM) | 1.09 |
| P/NAV (x) | 1.6 |
| Net cash/ (debt) (RMm) (2Q17) | (954.5) |
| ROE (2017E) | 8.6% |
| Derivatives | Nil |
| Shariah Compliant | No |

Key Shareholders

| | |
|-----------------|-------|
| IGB Corporation | 49.6% |
| KWAP | 7.0% |
| EPF | 6.0% |

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

| FYE 31 Dec (RMm) | 2Q17 | QoQ % chg | YoY % chg | 1H17 | YoY % chg | Comment |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--|
| Revenue | 127.3 | (4.7) | 2.2 | 261.0 | 2.0 | 2Q17 revenue rose 2.2% yoy on the back of rental income growth of 3.4% yoy, partially boosted by overall tenancy renewals and reversions. Occupancy rates – MVM 99.9%; TGM 99.7%. Qoq, revenue dipped as turnover rent declined in the absence of robust festive spending. |
| - Gross rental income | 99.2 | (6.8) | 3.4 | 205.7 | 3.2 | |
| - Other income | 28.1 | 3.4 | (1.8) | 55.2 | (2.2) | |
| Operating expenses | (39.3) | 4.6 | 3.6 | (76.9) | 1.8 | 2Q17 expenses increased by 3.6% yoy and 4.6% qoq, due to higher maintenance (for upgrade and enhancement works) and quit rent/assessment costs. |
| Net Property Income | 88.0 | (8.4) | 1.6 | 184.1 | 2.1 | 1H17 NPI margin sustained yoy, as revenue growth outpaced expense growth. |
| <i>NPI margin (%)</i> | 69.1 | (2.8) | (0.4) | 70.5 | 0.06 | |
| Revaluation surplus/others | 2.0 | 0.7 | (8.3) | 4.0 | (9.6) | No revaluation surplus year-to-date. |
| Net Investment Income | 90.0 | (8.2) | 1.3 | 188.1 | 1.8 | 1H17 realized net profit accounted for 45% of our prior full-year net profit forecast of RM317.3m (before revisions), though within consensus. |
| Interest expense | (13.8) | (1.0) | (4.2) | (27.7) | (3.7) | |
| REIT's expenses | (8.5) | (2.5) | 0.3 | (17.3) | 0.6 | |
| Pretax profit | 67.7 | (10.2) | 2.7 | 143.1 | 3.1 | |
| Profit after tax | 67.7 | (10.2) | 2.7 | 143.1 | 3.1 | |
| Realized net profit | 67.7 | (10.2) | 2.7 | 143.1 | 3.1 | |
| Distributable income | 76.8 | (9.5) | 1.8 | 161.7 | 2.2 | |
| Per share: | | | | | | |
| <i>Realized EPU (sen)</i> | 1.94 | (10.2) | 2.1 | 4.1 | 2.5 | An interim DPU of 4.38 sen was proposed in 2Q17. |
| <i>DPU (sen)</i> | 4.38 | n.m. | (0.7) | 4.38 | (0.7) | |
| <i>Distributable income (sen)</i> | 2.19 | (9.6) | 1.2 | 4.62 | 1.6 | 1H17 distributable income below Affin's forecast due to a lower payout ratio of 95% |
| <i>DPU payout ratio (%)</i> | 95% | n.m. | (2.3) | 95% | (2.3) | |
| <i>DPU yield (%)</i> | 2.53 | n.m. | (0.02) | 2.53 | (0.02) | |

Source: Affin Hwang, Company



Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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