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

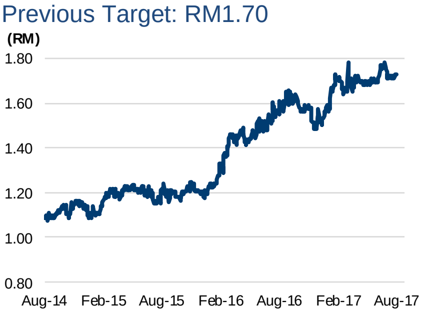
RM1.73 @ 2 Aug 2017

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*	
NPI margin (%)	*69.1*	*(2.8)*	*(0.4)*	*70.5*	*0.06*	1H17 NPI margin sustained yoy, as revenue growth outpaced expense growth.
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*	
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*	1H17 realized net profit accounted for 45% of our prior full-year net profit forecast of RM317.3m (before revisions), though within consensus.
Distributable income	**76.8**	*(9.5)*	*1.8*	**161.7**	*2.2*	
Per share:						
Realized EPU (sen)	**1.94**	*(10.2)*	*2.1*	4.1	*2.5*	
DPU (sen)	**4.38**	*n.m.*	*(0.7)*	4.38	*(0.7)*	An interim DPU of 4.38 sen was proposed in 2Q17.
Distributable income (sen)	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%
DPU payout ratio (%)	95%	*n.m.*	*(2.3)*	95%	*(2.3)*	
DPU yield (%)	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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