

25 October 2018 | 3QFY18 Results Review

IGB REIT

Marginal earnings growth


INVESTMENT HIGHLIGHTS

- **9MFY18 earnings in line**
- **Marginal earnings growth**
- **Earnings estimates maintained**
- **Maintain NEUTRAL with an unchanged TP of RM1.73**

9MFY18 earnings in line. IGB REIT 9MFY18 core net income of RM228.2m came in within expectations, making up 74% and 73% of our and consensus full year estimates. IGB REIT announced distribution per unit (DPU) of 2.29sen for 3QFY18, bringing cumulative DPU to 6.91sen for 9MFY18. Note that IGB REIT has changed its distribution policy to quarterly from half-yearly.

Marginal earnings growth. On a sequential basis, 3QFY18 core net income climbed 8%qoq, primarily due to higher shopper traffic in 3Q as a result of festive season (Hari Raya Aidilfitri). Meanwhile, 3QFY18 core net income was lower by 8.8%yoy despite higher gross revenue of RM133.7m (+3.2%yoy) as last year's earnings were boosted by one-time write-back of step-up interest arising from fixed rate term loan. On cumulative basis, core net earnings remained stable at RM228.2m (+0.9%yoy) due to higher rental income from Mid Valley Megamall and the Gardens Mall.

Earnings estimates maintained. We maintain our earnings forecasts for FY18/19. Earnings outlook for IGB REIT is expected to remain steady due to positive rental reversion outlook for Mid Valley Megamall and the Gardens Mall. Rental reversion of the two malls expected to remain at around +5% per annum, underpinned by high occupancy rates of the two malls.

Maintain NEUTRAL with an unchanged TP of RM1.73. We maintain our target price for IGB REIT at RM1.73, based on Dividend Discount Model (DDM) valuation (Required rate of return: 7.5%, Perpetual growth rate: 1.5%). We think that the stable earnings outlook for IGB REIT is priced in at the moment while dividend yield is expected to be moderate at 4.9%. Hence, we are maintaining our Neutral recommendation on IGB REIT. 

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.73

RETURN STATS	
Price (24 October 2018)	RM1.70
Target Price	RM1.73
Expected Share Price Return	1.8%
Expected Dividend Yield	4.9%
Expected Total Return	6.7%
STOCK INFO	
KLCI	1,690.04
Bursa / Bloomberg	5227/ IGBREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,524.58
Market cap. (RM'm)	6000
Price over NA	1.6
52-wk price Range	RM1.46 – RM1.8
Beta (against KLCI)	0.6
3-mth Avg Daily Vol	2.2m
3-mth Avg Daily Value	RM2.6m
Major Shareholders	
IGB Corp	49.12%
EPF	10.38%

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	489	507	525	557	579
Net Rental Income	343	361	374	404	422
Net Investment Income	350	370	422	414	436
Net Income	254	278	343	307	323
Core Net Income	254.1	278	303	307	323
Realised EPU (sen)	7.40	8.09	9.77	8.74	9.19
Core EPU (sen)	7.40	8.09	8.63	8.74	9.19
Gross DPU (sen)	8.19	8.71	9.28	9.32	9.79
Net DPU (sen)	7.37	7.84	8.35	8.39	8.81
Net Distribution Yield (%)	4.3%	4.6%	4.9%	4.9%	5.2%
Core PER (x)	23.0	21.0	19.7	19.5	18.5
NAV per unit (RM)	1.07	1.07	1.06	1.06	1.06
P/NAV (x)	1.59	1.59	1.60	1.61	1.60
Core ROE	6.9%	7.6%	8.2%	8.3%	8.7%
Core ROA	4.9%	5.4%	5.8%	5.8%	6.0%

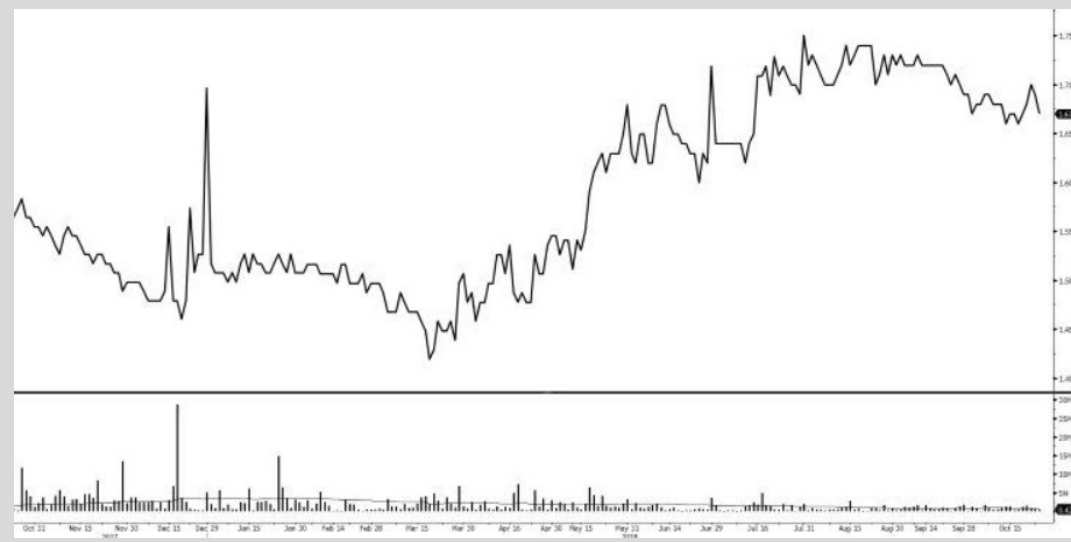
Source: MIDF Research

IGB REIT: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	133.7	3.2%	4.5%	398.5	2.0%
Net Property Income (NRI)	96.6	2.4%	6.4%	289.8	4.1%
Net Investment Income	98.1	1.6%	6.6%	294.9	3.6%
Net Income	75.8	-8.8%	8.0%	228.2	0.9%
Core Net Income (CNI)	75.8	-8.8%	8.0%	228.2	0.9%
Realised EPU (sen)	2.1	-9.4%	7.9%	6.5	0.3%
Core EPU (sen)	2.1	-9.4%	7.9%	6.5	0.3%
Gross DPU (sen)	2.3	N/A	7.0%	6.9	N/A

Source: Company, MIDF Research

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 >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.