

24 April 2018 | 1QFY18 Results Review

IGB REIT

Earnings driven by organic growth


INVESTMENT HIGHLIGHTS

- **1QFY18 earnings in line**
- **Earnings driven by organic growth**
- **Earnings estimates maintained**
- **Maintain BUY with an unchanged TP of RM1.73**

1QFY18 earnings in line. IGB REIT 1QFY18 core net income of RM82.3 came in within expectations, making up 26.8% and 26.2% of our and consensus full year estimates. IGB REIT announced distribution per unit (DPU) of 2.48sen for 1QFY18 as it has changed its distribution policy to quarterly from half-yearly.

Earnings driven by organic growth. On a sequential basis, 1QFY18 earnings grew 6.6%qoq to RM82.3m, mainly due to seasonally higher shopper traffic in first quarter. Similarly, 1QFY18 earnings were higher by 9.1%yoy on the back of higher topline (+2.3%yoy). The higher net income was mainly buoyed by positive rental reversions. Rental reversions of Mid Valley Megamall and the Gardens Mall are at around +5% per annum due to high occupancy rates of the two malls.

Earnings estimates maintained. We maintain our earnings forecasts for FY18/19. Earnings prospect of IGB REIT expected to stay positive, driven by organic growth of positive rental reversion.

Maintain BUY 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 maintain our positive view on IGB REIT as we expect Mid Valley and The Gardens to continue do well due to good connectivity and prime locations of the malls, which should continue to attract footfall. Meanwhile, dividend yield is also attractive at 5.5%. 

Maintain BUY

Unchanged Target Price (TP): RM1.73

| RETURN STATS | |
|------------------------------|------------------|
| Price (23 April 2018) | RM1.52 |
| Target Price | RM1.73 |
| Expected Share Price Return | 13.8% |
| Expected Dividend Yield | 5.5% |
| Expected Total Return | 19.3% |
| STOCK INFO | |
| KLCI | 1,880.36 |
| Bursa / Bloomberg | 5227/ IGBREIT MK |
| Board / Sector | Main / REITs |
| Syariah Compliant | No |
| Issued shares (mil) | 3,518.82 |
| Market cap. (RM'm) | 5,348.6 |
| Price over NA | 1.43 |
| 52-wk price Range | RM1.46 – RM1.8 |
| Beta (against KLCI) | 0.77 |
| 3-mth Avg Daily Vol | 2.15m |
| 3-mth Avg Daily Value | RM3.32m |
| Major Shareholders | |
| IGB Corp | 49.27% |
| EPF | 10.13% |

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 | 403 | 422 |
| Net Investment Income | 350 | 370 | 422 | 414 | 435 |
| 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 | 8.73 | 9.18 |
| Core EPU (sen) | 7.40 | 8.09 | 8.63 | 8.73 | 9.18 |
| Gross DPU (sen) | 8.19 | 8.71 | 9.28 | 9.31 | 9.78 |
| Net DPU (sen) | 7.37 | 7.84 | 8.35 | 8.38 | 8.80 |
| Net Distribution Yield (%) | 4.8% | 5.2% | 5.5% | 5.5% | 5.8% |
| Core PER (x) | 20.6 | 18.8 | 17.6 | 17.4 | 16.6 |
| NAV per unit (RM) | 1.07 | 1.07 | 1.06 | 1.06 | 1.06 |
| P/NAV (x) | 1.42 | 1.42 | 1.43 | 1.44 | 1.43 |
| Core ROE | 6.9% | 7.6% | 8.2% | 8.2% | 8.7% |
| Core ROA | 4.9% | 5.4% | 5.8% | 5.8% | 6.0% |

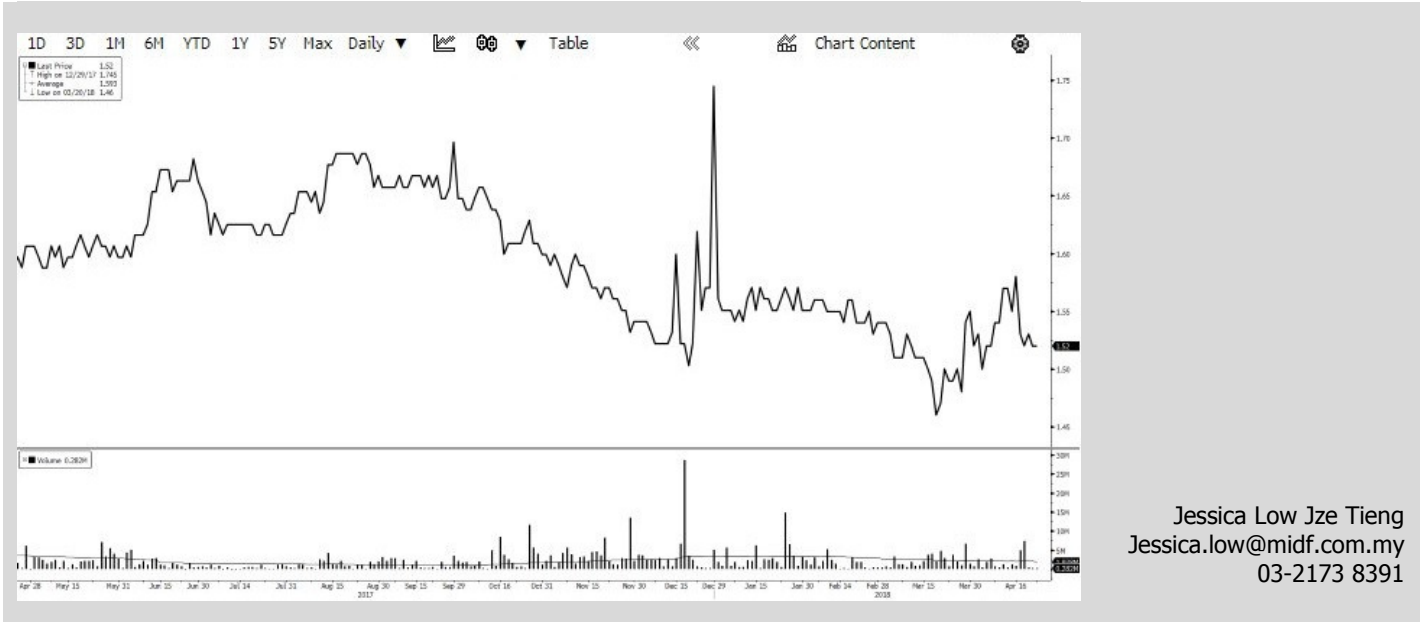
Source: MIDF Research

IGB REIT: 1QFY18 RESULTS SUMMARY

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | |
|---|-------------------|------|--------|------------|------|
| | 1QFY18 | %YoY | %QoQ | FY18 | %YoY |
| Gross Revenue | 136.8 | 2.3% | 1.8% | 136.8 | 2.3% |
| Net Property Income (NRI) | 102.5 | 6.7% | 7.7% | 102.5 | 6.7% |
| Net Investment Income | 104.7 | 6.8% | -23.7% | 104.7 | 6.8% |
| Net Income | 82.3 | 9.1% | -29.8% | 82.3 | 9.1% |
| Core Net Income (CNI) | 82.3 | 9.1% | 6.6% | 82.3 | 9.1% |
| Realised EPU (sen) | 2.3 | 8.5% | -29.9% | 2.3 | 8.5% |
| Core EPU (sen) | 2.3 | 8.5% | 6.5% | 2.3 | 8.5% |
| Gross DPU (sen) | 2.5 | N/A | N/A | 2.5 | N/A |

Source: Company, MIDF Research

DAILY PRICE CHART



Jessica Low Jze Tieng
Jessica.low@midf.com.my
03-2173 8391

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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. |