

16 July 2018 | 2QFY18 Results Review

IGB REIT

Earnings on track


INVESTMENT HIGHLIGHTS

- 1HFY18 earnings on track
- Earnings on track
- Earnings estimates maintained
- **Downgrade to NEUTRAL with an unchanged TP of RM1.73**

1HFY18 earnings on track. IGB REIT 1HFY18 core net income of RM152.4m came in within expectations, making up 50% and 48% of our and consensus full year estimates. IGB REIT announced distribution per unit (DPU) of 2.14sen for 2QFY18, bringing cumulative DPU to 4.62sen for 1HFY18. Note that IGB REIT has changed its distribution policy to quarterly from half-yearly.

Earnings on track. On a sequential basis, 2QFY18 core net income dropped 14.7%qoq to RM70.2m mainly due to seasonally lower shopper traffic in 2Q as festive season helped to draw higher shopper traffic in 1Q. Meanwhile, 2QFY18 earnings were solid on yearly basis, growing by 3.6%yoy. That brought cumulative earnings in 1HFY18 to RM152.4m (+6.5%yoy). The solid earnings growth was supported by positive rental reversion in Mid Valley Megamall and the Gardens Mall. Rental reversion of the two malls is at around +5% per annum, underpinned by high occupancy rates of the two malls (close to 100% occupied). Going forward, we expect rental reversion of the two malls to remain solid due to high occupancy rates.

Earnings estimates maintained. We make no changes to our earnings forecasts for FY18/19. Earnings prospect of IGB REIT expected to remain positive, driven by organic growth of positive rental reversion.

Downgrade to 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%). While we like stable rental incomes from Mid Valley Megamall and The Gardens Mall that translate into minimal earnings risk to unit holders, dividend yield had tapered off to 5% following the recent increase in share price. In view of the limited upside and narrowing dividend yield after the recent price run, we are downgrading our call on IGBREIT to Neutral from Buy. 

Downgrade to NEUTRAL
(Previously BUY)
Unchanged Target Price (TP): RM1.73

RETURN STATS	
Price (13 July 2018)	RM1.67
Target Price	RM1.73
Expected Share Price Return	3.6%
Expected Dividend Yield	5.0%
Expected Total Return	8.6%
STOCK INFO	
KLCI	1,721.93
Bursa / Bloomberg	5227/ IGBREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,524.58
Market cap. (RM'm)	5,886.05
Price over NA	1.58
52-wk price Range	RM1.46 – RM1.8
Beta (against KLCI)	0.59
3-mth Avg Daily Vol	2.15m
3-mth Avg Daily Value	RM2.57m
Major Shareholders	
IGB Corp	49.19%
EPF	10.37%

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 (%)	4.4%	4.7%	5.0%	5.0%	5.3%
Core PER (x)	22.6	20.7	19.3	19.1	18.2
NAV per unit (RM)	1.07	1.07	1.06	1.06	1.06
P/NAV (x)	1.57	1.56	1.58	1.58	1.57
Core ROE	6.9%	7.6%	8.2%	8.2%	8.7%
Core ROA	4.9%	5.4%	5.8%	5.8%	6.0%

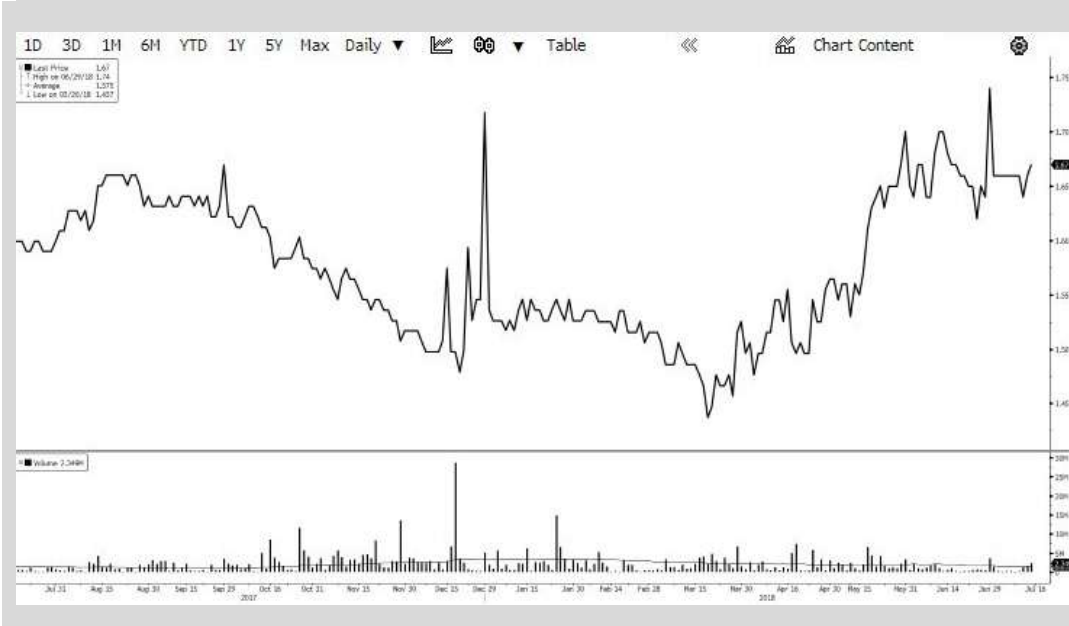
Source: MIDF Research

IGB REIT: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	128.0	0.5%	-6.4%	264.8	1.4%
Net Property Income (NRI)	90.7	3.1%	-11.5%	193.2	5.0%
Net Investment Income	92.1	2.3%	-12.1%	196.8	4.6%
Net Income	70.2	3.6%	-14.7%	152.4	6.5%
Core Net Income (CNI)	70.2	3.6%	-14.7%	152.4	6.5%
Realised EPU (sen)	2.0	3.0%	-14.8%	4.3	5.9%
Core EPU (sen)	2.0	3.0%	-14.8%	4.3	5.9%
Gross DPU (sen)	2.1	N/A	-13.7%	4.620	5.5%

Source: Company, MIDF Research

DAILY PRICE CHART



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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.