

COMPANY RESULTS

IGB REIT (IGBREIT MK)

4Q22: Within Expectations

IGB REIT posted a strong 4Q22 performance on the back of robust consumer spending amid the festivities. Even with the expected continuation of the decent performance moving forward, our 2023 flattish earnings growth has taken into account rising opex. We opine current share price has priced in the recovery (and potentially less-than-expected OPR hikes) with forward yield spread to MGS already narrowing to its historical mean. Maintain HOLD. Target price: RM1.75.

3Q22 RESULTS

Year to 31 Dec (RMm)	4Q22	3Q22	qoq % chg	yoy % chg	2022	yoy % chg
Total Income	148.7	140.1	6.1	24.6	556.4	39.3
Operating Expenses	(43.1)	(38.9)	10.6	67.6	(136.2)	9.4
Net Property Income	105.6	101.2	4.4	12.8	420.2	52.8
Normalised PAT	83.9	83.4	0.7	14.1	336.2	68.0
EPU (sen)	2.4	2.4	0.7	14.1	9.5	68.0
DPU (sen)	2.5	2.4	0.8	13.4	9.9	63.5
Margins	(%)	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
NPI Margin	71.0	72.2	(1.2)	(7.4)	75.5	6.7
Normalised PAT	56.4	59.5	(3.1)	(5.2)	60.4	10.3

Source: IGB REIT, UOB Kay Hian

RESULTS

- Results in line with expectations.** IGB REIT reported 4Q22 turnover of RM148.7m (+6.1% qoq, +24.6% yoy) and net profit of RM83.9m (+0.7% qoq, +14.1% yoy). Cumulatively, 2022 core net profit of RM336.2m (+68.0% yoy) accounted for 103% and 102% of our and consensus full-year estimates respectively. The strong earnings momentum was attributed to the continued strong consumer spending amid the festivities.
- Declared 2.46 sen dividend for the quarter** (+0.8% qoq, +13.4% yoy). 2022 dividends of 9.86 sen represent a dividend payout ratio of 97% of distributable income.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	400	556	589	603	618
EBITDA	246	382	386	397	407
Operating profit	245	382	386	397	407
Net profit (rep./act.)	200	396	339	349	359
Net profit (adj.)	200	336	339	349	359
EPU (sen)	5.6	9.5	9.6	9.9	10.1
DPU (sen)	6.0	9.9	10.0	10.3	10.5
PE (x)	31.5	18.7	18.5	18.0	17.5
P/B (x)	1.6	1.6	1.6	1.7	1.7
DPU Yld (%)	3.4	5.6	5.6	5.8	6.0
Net margin (%)	50.1	71.2	57.6	57.9	58.2
Net debt/(cash) to equity (%)	26.1	24.7	26.1	26.9	28.5
Interest cover (x)	5.5	8.3	8.3	8.3	8.5
ROE (%)	5.3	10.3	8.8	9.2	9.5
Consensus DPU (sen)	n.a.	n.a.	9.8	9.9	n.a.
UOBKH/Consensus (x)	-	-	1.02	1.04	-

Source: IGB REIT, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.77
Target Price	RM1.75
Upside	-1.1%

COMPANY DESCRIPTION

IGB REIT is a real estate investment trust. Its portfolio consists of the Mid Valley Megamall and The Gardens Mall in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	IGBREIT MK
Shares issued (m):	3,586.9
Market cap (RMm):	6,348.8
Market cap (US\$m):	1,473.9
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low RM1.77/RM1.38

1mth	3mth	6mth	1yr	YTD
7.3	12.0	13.5	12.7	7.3

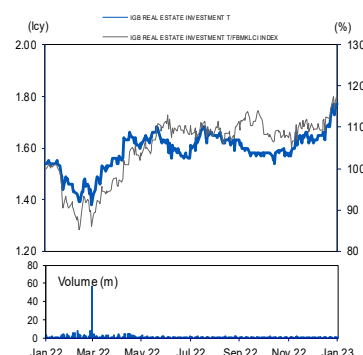
Major Shareholders

	%
IGB Corp Berhad	48.6
Employees Provident Fund	10.4
Kumpulan Wang Persaraan	7.5

FY23 NAV/Share (RM) 1.08

FY23 Net Debt/Share (RM) 0.28

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Businesses continue to thrive.** 2022 net property income (NPI) margin improved to 76% (2021: 69%). NPI margins should normalise downwards towards pre-COVID-19 levels of 70-75% as expenses are expected to increase. Occupancy remained resilient at both Mid Valley and The Gardens at almost 100%. On lease expiry, about 50% of NLA are due for renewal in 2023.
- **Well-managed debt; minimal impact from interest rate hike.** We continue to like IGB REIT due to its lean balance sheet with a low gearing level of 0.23x, which is well below the 0.5x threshold set by the Securities Commission. In terms of its debt structure, almost all its debt is on fixed financing rate.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** Our projected 2023 earnings growth of 1% yoy (+7.4% vs 2019) is based on low-single-digit rental reversion, and offset by higher operating expenses.
- **Risk:** Rising COVID-19 cases or inflation that could dampen sentiment.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM1.75.** Our target price is based on a dividend discount model (required rate of return: 8.1%, terminal growth: 2.0%), with an implied dividend yield of 5.4%. IGBREIT's forward yield spread to MGS of 1.5ppt has already narrowed to its historical mean (1.8ppt), given that share price has appreciated 7.3% ytd.

SHARE PRICE CATALYST

- Higher-than-expected rental reversions and consumer spending.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

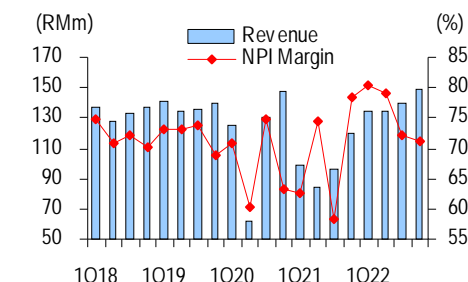
Environmental <ul style="list-style-type: none"> - Remains committed to exploring ways to continue to reduce energy consumption and monitor total electricity consumed on a monthly basis. Electricity consumption has been on a downtrend since 2016 (base year).
Social <ul style="list-style-type: none"> - Responded swiftly to the pandemic, implementing business continuity management plans across all operations. - Saw a steady decline in the number of health and safety incidents that have occurred in malls.
Governance <ul style="list-style-type: none"> - The Board comprises six non-executive directors and three executive directors. There are four Board Committees – Audit Committee, Nomination Committee, Remuneration Committee and Sustainability Committee. - Subscribes to IGB Group's Anti-Bribery and Corruption Policy, which adheres to the Malaysian Anti-Corruption Commission Act 2018.

YIELD SPREAD TO 10YR MGS



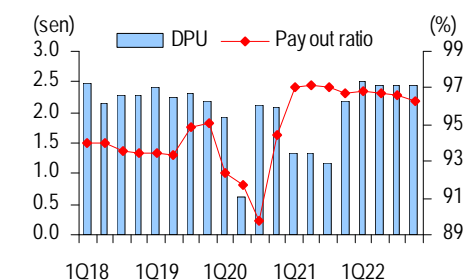
Source: Bloomberg, IGB REIT, UOB Kay Hian

REVENUE AND NPI MARGIN



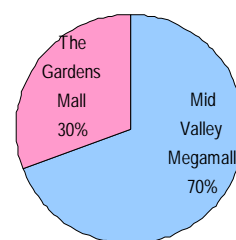
Source: IGB REIT, UOB Kay Hian

DPU AND PAYOUT RATIO



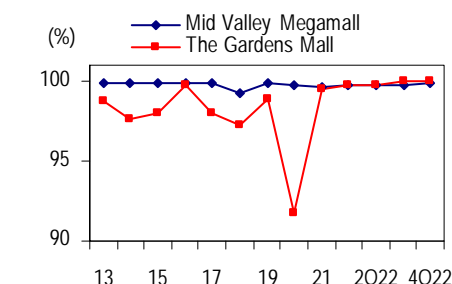
Source: IGB REIT, UOB Kay Hian

4Q22 REVENUE CONTRIBUTION



Source: IGB REIT, UOB Kay Hian

OCCUPANCY RATE



Source: IGB REIT, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	556	589	603	618
EBITDA	382	386	397	407
Deprec. & amort.	0	0	0	0
EBIT	382	386	397	407
Associate contributions	0	0	0	0
Net interest income/(expense)	(46)	(46)	(48)	(48)
Pre-tax profit	396	339	349	359
Tax	0	0	0	0
Minorities	0	0	0	0
Net profit	396	339	349	359
Net profit (adj.)	336	339	349	359

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	5,020	5,020	5,020	5,020
Other LT assets	2	5	8	11
Cash/ST investment	258	216	194	147
Other current assets	37	77	66	64
Total assets	5,318	5,317	5,288	5,242
ST debt	15	15	15	15
Other current liabilities	232	271	281	276
LT debt	1,199	1,199	1,199	1,199
Other LT liabilities	0	0	0	0
Shareholders' equity	3,871	3,832	3,792	3,751
Minority interest	0	0	0	0
Total liabilities & equity	5,318	5,317	5,288	5,242

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	425	411	412	398
Pre-tax profit	336	339	349	359
Tax	0	0	0	0
Deprec. & amort.	0	0	0	0
Associates	0	0	0	0
Working capital changes	35	25	15	(9)
Other operating cashflows	54	46	48	48
Investing	6	(3)	(3)	(3)
Capex (growth)	0	(3)	(3)	(3)
Investments	0	0	0	0
Others	7	0	0	0
Financing	(397)	(420)	(431)	(442)
Distribution to unitholders	(343)	(367)	(378)	(389)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(54)	(53)	(53)	(53)
Net cash inflow (outflow)	35	(12)	(22)	(47)
Beginning cash & cash equivalent	193	228	216	194
Changes due to forex impact	30	0	0	0
Ending cash & cash equivalent	258	216	194	147

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	68.6	65.5	65.8	66.0
Pre-tax margin	71.2	57.6	57.9	58.2
Net margin	71.2	57.6	57.9	58.2
ROA	7.5	6.4	6.6	6.8
ROE	10.3	8.8	9.2	9.5
Growth				
Turnover	39.3	5.8	2.4	2.4
EBITDA	55.4	1.0	2.9	2.7
Pre-tax profit	97.9	(14.4)	3.0	2.9
Net profit	97.9	(14.4)	3.0	2.9
Net profit (adj.)	68.0	0.9	3.0	2.9
EPU	69.0	0.9	3.0	2.9
Leverage				
Debt to total capital	23.9	24.1	24.3	24.5
Debt to equity	31.4	31.7	32.0	32.4
Net debt/(cash) to equity	24.7	26.1	26.9	28.5
Interest cover (x)	8.3	8.3	8.3	8.5

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