IGB Commercial REIT's FY22 earnings to grow by 25%

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by SHAFIQQUL ALIFF

HONG Leong Investment Bank (HLIB) forecast IGB Commercial Real Estate Investment Trust (IGBCR) net profit for the financial year 2022 (FY22) to grow by 25%, backed by improved occupancy, as well as positive rental reversion in its portfolio, aligned with expectations of economic recovery in an "endemic reopening".

Its analyst Farah Diyana Kamaludin stated that the main driver for the REIT would be from Southpoint properties where occupancy of 59.3% (FY20) is expected to increase close to 80%, considering they have secured some new tenancies and are actively in negotiations for more new tenants to move in.

IGBCR's revenue is solely derived from rental income. In FY20, the highest revenue contributor was from GTower, representing 26% of IGBCR's total revenue, followed by Gardens South and North Towers with contribution of 16% and 14% respectively.

The gross revenue and net property income came in at RM7.1 million and RM4.8 million respectively, while its core profit after tax stood at RM2.8 million.

Over 50% of the portfolio consists of tenants in the growth sectors namely Oracle, Shopee and WeChat, additionally the tenancy portfolio has a high proportion of large and established tenants inclusive of multinational companies, public listed companies, embassies, government linked companies, as well as IGB itself as these company would typically have larger economic reserves.

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"We expect the completion of Asset Enhancement Initiatives would also contribute to higher occupancy. Furthermore, we foresee improvement in occupancy, following the economic recovery momentum, with more workers coming back to office," the analyst wrote in a report yesterday.

Farah added that IGBCR is backed by IGB Bhd, a reputable sponsor with a long proven track record as the company is one of the largest listed property companies in the country and a market capitalization of RM2.1 billion and international presence.

"With IGB having a renowned brand coupled with award winning projects (like Mid Valley City and Sierramas), IGBCR would have the ability to leverage on the sponsor's track record, financial strength, market reach and network," she stated.

IGBCR net profit fell by 6% year-on-year (YoY) in FY21 on flattish rental reversion and higher expectations on property operating costs, and Phase 1 restrictions that delayed occupancy ramp-up.

Analysts have forecast the REIT's FY23 core net profit to grow by 6% YoY mainly backed by strong occupancy and positive rental reversion on further normalcy in the economy and business day-to-day operations.

"In our opinion, this is a conservative projection as the average rental reversion historically was 5%. As for occupancy rates. We expect this to remain high, backed by prime locations of the properties paired with concurrent improvements in the economy, leading to more business demand for office space," Farah wrote.

HLIB has a 'Buy' call on IGBCR with a target price of 79 sen based on its FY22 target yield of 6.8% return.

The investment bank noted the targeted yield of 6.3% is derived from ascribing a 150bp premium to the targeted yield of five-year historical average yield spread of pure office REITs in Malaysia, consisting of Sentral REIT and UOA REIT.

"The premium is fair considering that IGB Commercial REIT's properties are more strategically located versus peers, and it is the largest standalone office REIT with a market value asset of RM3.2 billion.

"While we expect flattish rental reversion for FY21, we are optimistic for a better showing in FY22, driven mainly by positive rental reversions paired with improved occupancy, in line with economic recovery momentum," the analysts stated.