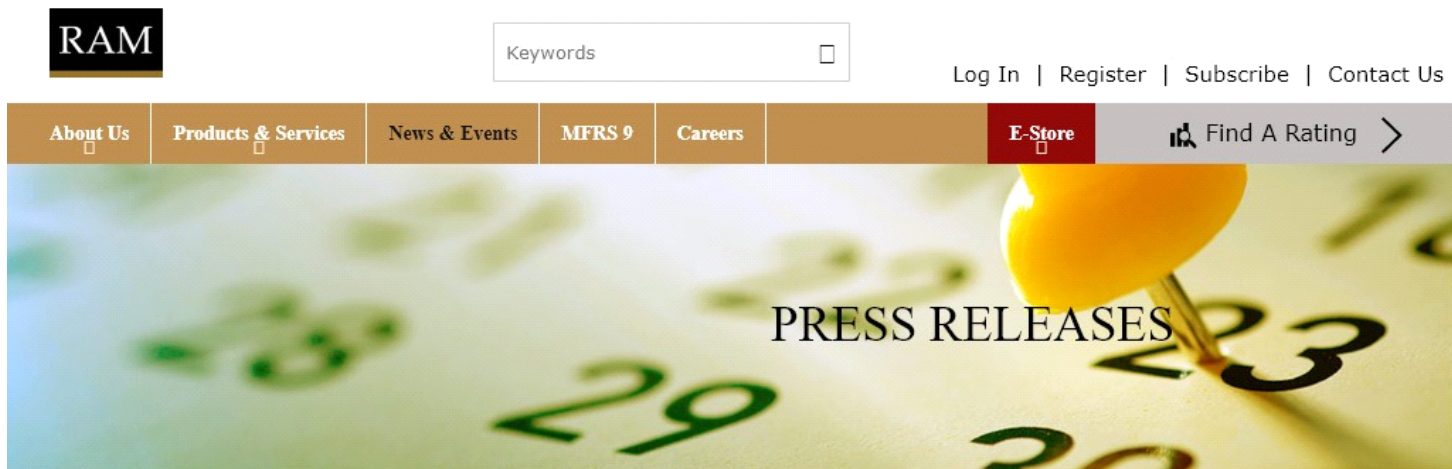


RAM Ratings assigns preliminary ratings to IGB Commercial REIT Capital's MTNs

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RAM Ratings has assigned preliminary ratings (see table) to the proposed RM850.0 mil First Tranche Medium Term Notes (First Tranche MTN) under IGB Commercial REIT Capital Sdn Bhd's (the Issuer) perpetual RM5.0 bil MTN Programme (the Programme). The Issuer is a special-purpose entity incorporated by IGB Commercial REIT (the REIT) to facilitate the funding exercise under the Programme.

First Tranche MTN	Preliminary Rating/ Outlook	Issue Amount (RM mil)	LTV (%)	DSCR (times)
Class A	AAA/Stable	700.0	43.97	2.31
Class B	AA ₂ /Stable	65.0	48.06	2.11
Class C	AA ₃ /Stable	85.0	53.40	1.90
Total		850.0		

LTV = Loan-to-value ratio

DSCR = Debt service coverage ratio

The First Tranche MTN will be secured against nine office properties with varying features and value propositions, with a combined market value of RM3,082.50 mil as at end-December 2020. The Properties are located mainly in the established Mid Valley City integrated development (62% by market value) and along Jalan Tun Razak in Kuala Lumpur (38% by market value), with good accessibility.

Overall, the asset quality of the Properties is above average, as reflected by the assigned RAM Property Score of 0-3.85 to 0-4.55 (out of a maximum of 0-5.00). Based on RAM's sustainable cashflow assumption of RM137.30 mil per annum and the resultant adjusted valuation of RM1.59 bil (52% of the valuer's appraised market value) provide adequate credit support (reflected in the LTV and DSCR) for the respective class of MTN commensurate with the ratings assigned. Our assessment of the Properties takes into account their respective attributes as well as the current and future operating environment in the office market.

The Properties' performance has remained resilient despite the growing supply-demand mismatch in the office market which has been exacerbated by the pandemic. This is attributed to the portfolio's diversity, broad tenant mix and management's efforts to maintain and enhance the Properties. In the past three years, the Properties' average occupancy rate (AOR) has ranged between 75% and 80% while the average rental rate (ARR) was between RM5.80 psf and RM6.30 psf. The portfolio recorded an AOR of 75% and ARR of RM5.73 psf for FY Dec 2020. This, coupled with lower expenses, resulted in an improved y-o-y net property income (NPI) of RM129.20 mil and a NPI margin of 68% after accounting for rental rebates.

As at end-December 2020, the portfolio's lease maturity profile was well spread out, with a healthy weighted average lease expiry of 1.85 years. Tenancy renewals were satisfactory at 61% between March and December 2020, albeit lower than the typical 90% in prior years. Following initiatives to attract and retain tenants, the management saw positive rental reversion for leases renewed and new tenants took over 26% of expired leases. For 2021, the Group expects a better renewal rate of about 77%.

The ratings also consider the transaction's various structural features and financial covenants to initiate the disposal of the Properties upon the occurrence of a trigger event or during the tail period. These include performance triggers at both the REIT and Issuer levels to pre-empt the risk of a decline in credit support due to sustained deterioration in NPI and material devaluation of the Properties. The First Tranche MTN incorporates a longer tail period of 3.5 years to allow for disposal of the Properties. If proceeds from the disposal of all or part of the Properties are sufficient to settle all outstanding amounts, the First Tranche MTN shall be redeemed early.

The Properties to be secured to include... (text is partially cut off)

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The transaction is exposed to location concentration risk as six out of the nine Properties are located within Mid Valley City. Nonetheless, this is moderated by the well-established branding of the integrated development. It remains to be seen whether remote working arrangements, that have been accelerated by the pandemic and diminished demand for office space, will endure going forward.

The REIT is part of IGB Berhad's (the Sponsor or the Group) initiative to create a leaner and efficient corporate structure to be listed on the Main Market of Bursa Malaysia in 2H 2021. With an initial portfolio of 10 assets valued at RM3,160.50 mil, the REIT will be the largest office real estate investment trust domestically by market capitalisation, substantially owned by its Sponsor (50%). This will be IGB Berhad's second REIT after IGB REIT which holds the Group's retail assets, Mid Valley Megamall and The Gardens Mall.

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