

**DESCRIPTION**

IGB Berhad is an asset builder focused on harnessing recurring income from its property investment and hospitality businesses. The Group also invests in and manages a diverse portfolio of long term commercial, retail, residential and hospitality assets in Asia, Australia, the United States and Europe.

12-Month Target Price	RM3.45
Current Price	RM2.63
Expected Return	+31%
Market	Main
Sector	Property
Bursa Code	5606
Bloomberg Ticker	IGBB MK
Shariah-compliant	No

SHARE PRICE CHART

52 Week Range (RM)	2.33 - 4.03
3-Month Average Vol ('000)	58.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	3.5	-0.8	9.5
Relative Returns	-0.8	-1.3	-7.6

KEY STOCK DATA

Market Capitalisation (RM m)	2,318.4
No. of Shares (m)	881.5

MAJOR SHAREHOLDERS

	%
Tan Chin Nam Sdn Bhd	25.6
Wah Seong (M) Trading	16.0
Tan Kim Yeow Sdn Bhd	10.0

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Hotels Still Struggling

IGB Berhad (IGB) swung back into profitability in 3QFY20 with RM17.0m (-74.4% YoY, +213.4% QoQ) registered though the results are still below expectation as the Group hotels are still suffering losses from low occupancy. Its new mall, Mid Valley Southkey in Johor, remains a drag as well. YTD, Group net profit of RM19.7m (-86.7% YoY) only constitutes ~20% of our full year estimates. Albeit the COVID-19 vaccine hopes, we believe that its investment assets especially hotels could take longer than expected to normalize over the next few quarters. As such, we cut our FY20/FY21/FY22 earnings by 51%/15%/12% with more losses from the hotel division and longer than expected gestation period for Mid Valley Southkey, Johor. All told, we maintain our **Outperform** call with TP of RM3.45 however, pegged at c.65% discount to our RNAV estimates. Key catalyst near term is the proposed listing of its commercial assets and also potential sale of non-core assets.

§ **Group revenue dropped by 23% YoY in 3QFY20** due to lower contributions from most of its assets except offices as the pandemic-induced restrictions are still weighing on consumer sentiment. Correspondingly, Group pre-tax profit dropped 46%. In 3QFY20, its listed retail asset, IGB REIT reported total gross revenue and net property income of RM130.7m and RM97.8m respectively, a decrease of about 4% and 3% YoY respectively. The Mall, Mid Valley Southkey, Johor contributed revenue of RM76.4m to the Property Investment-Retail division but recorded pre-tax loss of RM24.1m (after accounting for depreciation of RM27.2m and finance cost of RM35.6m). Hotel division meanwhile saw its 3QFY20 revenue slump 77% to RM16.2m due to lower average occupancy rates across all hotels as most of the Group's hotels have not been able to operate at full capacity during the various stages of the MCO.

Group offices are resilient with the division contributing gross revenue and pre-tax profit of RM43.3m and RM19.3m respectively, showing only marginal drops of c.0.5% in both revenue and pre-tax profit YoY. Despite the challenging economic conditions, average occupancy rates for 3QFY20 for the Group's commercial buildings were above 70%.

§ **Listing of its commercial assets.** To recap, IGB had previously proposed the listing of "IGB Commercial REIT", mainly comprising the 9 buildings mostly located within Mid Valley City. The Group has also proposed a restricted offer for sale and distribution-in-specie. We reckon the value of the commercial assets is estimated to be in excess of RM3bn. Assuming IGB keeps a 51% stake, the listing could monetize at least RM1.5bn for shareholders. Despite the pandemic-induced slowdown, management has said it will go ahead with the REIT listing this year.

KEY FORECAST TABLE

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F	CAGR (%)
Revenue	1,302.0	1,442.7	1,048.7	1,133.0	1,256.7	-0.9%
Operating Profit	559.9	604.3	387.3	491.3	566.0	0.3%
Pre-tax Profit	480.6	463.1	254.3	355.6	433.2	-2.6%
Net Profit	235.5	208.5	47.6	119.0	175.7	-7.1%
EPS (Sen)	26.7	23.7	5.4	13.5	19.9	-7.1%
P/E (x)	9.8	11.1	48.7	19.5	13.2	
DPS (Sen)	2.0	3.0	2.0	2.0	3.0	
Div Yield (%)	0.8	1.1	0.8	0.8	1.1	

Source: Company, PublicInvestResearch estimates

Table 1: Results Summary

<u>FYE Dec (RMm)</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>	<u>YTD FY20</u>	<u>YTD FY19</u>	<u>YoY chg (%)</u>
Revenue	279.8	364.4	168.5	-23.2	66.0	739.7	1015.3	-27.1
Gross profit	142.5	197.8	50.6	-28.0	181.4	336.5	542.2	-37.9
EBIT	119.1	164.7	28.2	-27.7	322.7	244.5	428.0	-42.9
Pretax profit	72.0	134.0	-7.9	-46.3	Nm	125.9	332.4	-62.1
Net profit	17.0	66.5	-15.0	-74.4	+213.4	19.7	148.7	-86.7
Margins (%):								
Gross profit	49.2	52.9	51.1			49.2	52.9	
EBIT	33.3	41.6	41.2			33.3	41.6	
Net Profit Margin	6.1	14.8	14			6.1	14.8	

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	1,302.0	1,436.8	1,048.7	1,133.0	1,256.7
Gross Profit	539.6	560.1	293.8	411.1	468.0
Operating expenses	20.3	54.1	93.6	80.2	98.0
Operating Profit	559.9	614.3	387.3	491.3	566.0
Other Gains / (Losses)	102.8	21.8	40.4	37.5	40.5
Finance Costs	-182.1	-173.0	-173.4	-173.2	-173.3
Pre-tax Profit	480.6	463.1	254.3	355.6	433.2
Income Tax	-97.0	-106.8	-59.2	-85.4	-100.8
Effective Tax Rate (%)	20.2	23.1	23.3	24.0	23.3
Minorities	-155.9	-157.5	-167.0	-177.0	-187.6
Net Profit	235.5	208.5	47.6	119.0	175.7
Growth					
Revenue (%)	8.4	10.3	-27.0	8.0	10.9
Gross Profit (%)	-8.5	3.8	-47.6	39.9	13.9
Net Profit	9.5	-11.4	-77.2	149.9	47.7

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Property, Plant & Equipment	1,630.8	1,428.7	1,443.0	1,457.4	1,472.0
Cash and Cash Equivalents	1,031.8	693.8	706.0	607.2	852.6
Receivables	0.0	0.0	0.0	0.0	0.0
Other Assets	5,886.6	6,522.3	6,252.8	6,415.0	6,443.3
Total Assets	8,549.1	8,644.8	8,401.8	8,479.6	8,767.9
Payables	719.2	843.1	781.2	812.1	796.6
Borrowings	4,046.6	3,843.5	3,854.1	3,848.8	3,851.5
Deferred Tax	142.6	150.1	146.4	148.2	147.3
Other Liabilities	124.6	96.4	89.7	93.1	91.4
Total Liabilities	5,033.0	4,933.1	4,871.4	4,902.2	4,886.8
Shareholders' Equity	3,516.1	3,711.7	3,530.4	3,577.4	3,881.1
Total Equity and Liabilities	8,549.1	8,644.8	8,401.8	8,479.6	8,767.9

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	4.0	4.2	4.0	4.1	4.4
NTA Per Share	4.0	4.2	4.0	4.1	4.4
EPS (Sen)	26.7	23.7	5.4	13.5	19.9
DPS (Sen)	2.0	3.0	2.0	2.0	3.0
Payout Ratio (%)	7.5	12.7	37.0	14.8	15.0
ROA (%)	2.8	2.4	0.6	1.4	2.0
ROE (%)	6.7	5.6	1.3	3.3	4.5

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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Published and printed by:

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