IGB Commercial REIT

Strong Momentum Sustained In 2QFY26

Results Note – 2QFY26

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Summary

- **Earnings above expectations.** IGBCR registered a 2QFY26 core PAT of RM31.8m, bringing the 1HFY26 core PAT to RM60.6m (after stripping off the revaluation gain of RM3.3m). The results came in above our expectations, accounting for 61.0% and 57.4% of our and consensus estimates, respectively. Key deviations were mainly attributed to higher-than-expected occupancy and rental rates and also lower-than-expected finance cost.

- **YoY.** IGBCR's 2QFY26 core PAT increased 7.1% YoY, from RM29.6m in 2QFY25 to RM31.8m in 2QFY26, primarily due to improved occupancy and higher rental rates. Revenue rose 10.3% YoY to RM71.2m, while NPI surged 18.5% YoY to RM45.1m. Meanwhile, finance costs declined 17.1% YoY from RM10.4m to RM8.6m, providing additional earnings uplift.

- **QoQ.** Revenue increased 3.4% QoQ to RM71.2m from RM68.9m in 1QFY26, while NPI rose 1.5% QoQ to RM45.1m. Core PAT surged 10.2% QoQ from RM28.8m in 1QFY26, mainly attributed to higher rental income and occupancy levels recorded during the quarter.

- **Income distribution.** RM32.8m was declared as income distribution for 2QFY26, implying a DPU of 1.35 sen per unit (vs RM24.9m distributable income in 2QFY25, implying a DPU of 1.03 sen). Cumulative 1HFY26 DPU stands at 2.68 sen (vs 2.10 sen in 1H25).

- **Portfolio occupancy rate increased to 94.1%.** Mid Valley City's occupancy rate rose from 96.0% in 2QFY25 to 98.0% in 2QFY26, while KL City improved from 84.2% to 87.4% over the same period. Meanwhile, overall portfolio's occupancy rate increased from 91.6% to 94.1%.

- **Average rental rate increased as well.** The average rental rate for Mid Valley City increased from RM6.85/sqft in 2QFY25 to RM7.10/sqft in 2QFY26. Simultaneously, the average rental rate for KL City also increased from RM5.72/sqft to RM5.93/sqft. On a portfolio basis, the average monthly rental rate increased from RM6.46/sqft to RM6.70/sqft.

- **Weighted average lease expiry (WALE) stood at 1.85.** As at 2QFY26, IGBCR's WALE stood at 1.85 years. Overall portfolio tenancy expiry profile is ranging from 7% to 43% over FY26-29.

- **Gearing ratio remains conservative at 26%.** Total borrowings stood at RM881.3m as at 2QFY26 (vs RM881.4m in 1QFY26), bringing the gearing ratio to 26.0%. The REIT remains well-protected from interest rate volatility as 97% of its debt is on fixed rates.

- **Outlook.** We maintain a positive outlook on IGBCR as it continues to benefit from the "flight to quality" trend, supported by its build-to-lease model and Green Building Index (GBI) certification across its entire 10-property portfolio. With portfolio occupancy at 94.1% and approaching full occupancy at Mid Valley City (98.0%), we see scope for continued positive rental reversions, underpinned by management's

BUY

Share price	**RM0.605**
Target price	**RM0.760**
Previous TP	**RM0.700**
Capital upside	25.6%
Dividend return	8.4%
Total return	34.0%

Company profile

Principally involved in the income-generating commercial properties in Malaysia, with a portfolio comprising ten office towers in Mid Valley City and Kuala Lumpur City.

Stock information

Bursa Code	5299
Bloomberg ticker	IGBCR MK
Listing market	MAIN
Share issued (m)	2,425.4
Market Cap (m)	1,467.4
52W High/Low	0.650 / 0.580
Est. Free float (%)	21.6
Beta (x)	0.4
3-mth avg vol ('000)	271.5
Shariah compliant	No

Major shareholders %

IGB Berhad	49.9
Wah Seong (Malaya) Trading Co. Sdn. Bhd.	7.2
Tan Chin Nam Sdn. Bhd.	4.2

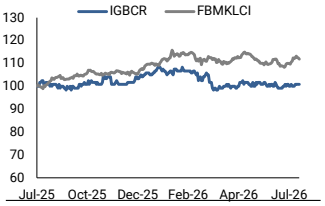
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	1.7	0.8	0.8
Relative	-0.2	1.4	-9.9

Earnings snapshot

FYE (Dec)	FY25	FY26f	FY27f
PAT (m)	95.5	114.0	120.5
EPU (sen)	3.9	4.7	5.0
P/E (x)	14.4	12.0	11.3

Relative performance chart



ongoing AEIs and resilient office demand in strategic and prime locations.

Quarterly performance 2QFY26

Quarterly performance FYE Dec (RM m)	2QFY25	1QFY26	2QFY26	QoQ (%)	YoY (%)	1HFY25	1HFY26	YoY (%)
Revenue	64.6	68.9	71.2	*3.4*	*10.3*	126.9	140.1	*10.4*
Net Property Income	38.1	44.4	45.1	*1.5*	*18.5*	76.9	89.5	*16.4*
PBT	29.6	28.8	31.8	*10.2*	*7.1*	53.6	60.6	*12.9*
Core PAT	29.6	28.8	31.8	*10.2*	*7.1*	53.6	60.6	*12.9*
EPU (sen)	1.2	1.2	1.3	*10.2*	*7.1*	2.2	2.5	*12.9*
NPI margin (%)	58.9	64.5	63.3			60.6	63.9	
PBT margin (%)	45.9	41.9	44.6			42.3	43.2	
Core PAT margin (%)	45.9	41.9	44.6			42.3	43.2	

Source: IGBCR, M+ Research

Valuation & Recommendation

- **Forecast.** Following the positive results surprise, we raise our FY26-FY28 forecasted core PAT upward by 14.8%/15.3%/16.9%, from RM99.3m/RM104.1m/RM108.8m to RM114.0m/RM120.5m/RM127.2m.

- **BUY recommendation with a higher TP of RM0.76.** We maintain our BUY recommendation with a higher target price of RM0.76 (from RM0.70). The target price is derived based on a targeted yield of 6.5% (from 6.0%) on its FY27f EPU of 4.97 sen, following the upward revision to our earnings forecasts. The targeted yield was increased from 6.0% to 6.5% to account for softer investor demand for IGBCR and the broader REIT sector following the removal of the preferential 10% withholding tax (WHT).

  Nevertheless, despite the WHT removal, IGBCR's fundamentals remain intact, supported by its increasing occupancy and rental rates, and we view current price level as an attractive entry point for investors, offering compelling dividend yields between 8.4%-9.3% over FY26-28.

- **Downside risks.** Risks to our recommendation include (i) reduction in occupancy rate due to oversupply in the office market and structural shifts in workplace demand, (ii) downward pressure on rental reversion amid economic slowdown, and (iii) rising electricity tariffs weighing on operating margins.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY76f	FY28f
Cash	129	103	93	127	135	142
Receivables	6	16	9	13	14	14
PPE	3,161	3,161	3,244	3,161	3,161	3,161
Others	6	16	9	13	14	14
Assets	**3,296**	**3,280**	**3,346**	**3,301**	**3,310**	**3,318**
Debts	853	850	881	881	880	880
Payables	146	141	145	148	154	160
Others	-	-	-	(32)	(32)	(32)
Liabilities	**1,000**	**991**	**1,027**	**997**	**1,003**	**1,008**
Unitholder's equity	2,296	2,289	2,319	2,304	2,307	2,310
Minority interest	-	-	-	-	-	-
Equity	**2,296**	**2,289**	**2,319**	**2,304**	**2,307**	**2,310**

Cash Flow Statement

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Profit before taxation	65	63	95	114	120	127
Changes in working capital	10	(15)	11	(1)	6	5
Share of JV profits	-	-	-	-	-	-
Taxation	-	-	-	-	-	-
Others	54	89	60	-	-	-
Operating cash flow	**129**	**137**	**166**	**113**	**126**	**133**
Net capex	-	-	-	-	-	-
Others	2	(5)	(91)	-	-	-
Investing cash flow	**2**	**(5)**	**(91)**	**-**	**-**	**-**
Changes in borrowings	1	(3)	31	(1)	(0)	(1)
Issuance of shares	16	17	10	2	-	-
Dividends paid	(83)	(87)	(102)	(123)	(129)	(136)
Others	(55)	(85)	(42)	-	-	-
Financing cash flow	**(121)**	**(158)**	**(103)**	**(121)**	**(130)**	**(137)**
Net cash flow	**10**	**(25)**	**(27)**	**34**	**8**	**8**
Forex	-	-	-	-	-	-
Others	-	-	-	-	-	-
Beginning cash	119	129	103	93	127	135
Ending cash	129	103	93	127	135	142

M+ Research

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
Revenue	**215**	**231**	**260**	**277**	**289**	**300**
Net investment income	129	125	155	168	175	181
Net finance income/ (cost)	(46)	(45)	(41)	(34)	(35)	(35)
Profit before tax	**65**	**63**	**95**	**114**	**120**	**127**
Tax	-	-	-	-	-	-
Net profit	**65**	**63**	**95**	**114**	**120**	**127**
Minority interest	-	-	-	-	-	-
Distributable income	**84**	**88**	**106**	**125**	**132**	**139**
Exceptional items	-	-	-	-	-	-
Distributed income	79	83	87	87	123	129

Valuation & Ratios

FYE Dec (RM m)	FY23	FY24	FY25	FY26f	FY27f	FY28f
EPU (sen)	2.7	2.6	3.9	4.7	5.0	5.2
P/E (x)	17.8	16.9	14.4	12.0	11.3	10.8
EV/EBITDA (x)	17.2	17.7	14.3	13.2	12.7	12.2
DPU (sen)	3.4	3.6	4.2	5.1	5.3	5.6
Distribution yield	5.6%	5.9%	6.9%	8.4%	8.8%	9.3%
BVPS (RM)	0.95	0.94	0.96	0.95	0.95	0.95
P/B (x)	0.6	0.6	0.6	0.6	0.6	0.6
Net investment income margir	59.9%	54.2%	59.7%	60.5%	60.5%	60.4%
PBT margin	30.3%	27.1%	36.7%	41.1%	41.7%	42.4%
Net margin	30.3%	27.1%	36.7%	41.1%	41.7%	42.4%
ROE	3.7%	3.8%	4.6%	5.4%	5.7%	6.0%
ROA	2.6%	2.7%	3.2%	3.8%	4.0%	4.2%
Net gearing	31.6%	32.7%	34.0%	32.7%	32.3%	31.9%

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Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned