

05 December 2018 | 3QCY18 Earnings Wrap

REITs

Unappealing yield spread

Maintain NEUTRAL

KEY HIGHLIGHTS

- **3QCY18 earnings of REITs mostly in-line**
- **Earnings forecast maintained for most of the REITs**
- **10-year MGS yield averages at 4.06%**
- **NEUTRAL stance maintained. Our BUY calls are on Al-'Aqar Healthcare REIT (TP: RM1.45), AmanahRaya REIT (TP: RM0.91) and Sunway REIT (TP: RM1.93)**

3QCY18 earnings of REITs mostly in-line. Core net income (CNI) of the six out of the eight REITs under our coverage were in-line with our full year forecasts. During the quarter, we have added Al-'Aqar Healthcare REIT into our universe. The REITs that announced CNI that missed our expectations were CMMT and AmanahRaya REIT. All REITs under our coverage registered positive on-year CNI growth except for CMMT (-12.0%), Sunway REIT (-7.8%) and KLCCP Stapled Group (-1.2%).

Figure 1: Summary of REITs earnings in 3QCY18

No	Stock	Date of earnings released	Period Under Review	Cumulative Qtr Core Net Income (RM m)	Core Net Income % of our estimate	Earnings growth (yoy)	Against Estimates	Comment
1	CMMT	24-Oct	3QFY18	102.2	64.1%	-15.0%	Below	Lower occupancy rates and rental income from its Klang Valley malls.
2	Axis REIT	22-Oct	3QFY18	80.7	72.0%	17.0%	Within	Contribution from Axis Mega distribution centre and new assets.
3	Pavilion REIT	25-Oct	3QFY18	166.8	72.0%	12.9%	Within	Higher CNI due to contribution from Pavilion Elite and positive rental reversion for Pavilion Kuala Lumpur.
4	IGB REIT	25-Oct	3QFY18	228.2	74.0%	0.9%	Within	Higher rental income from Mid Valley Megamall and The Gardens Mall
5	Sunway REIT	1-Nov	1QFY19	73.0	24.4%	-7.3%	Within	Softer hotel contribution mainly due to renovation at Sunway Resort and Spa. Office segment seen improvement.
6	KLCCP Stapled Group	13-Nov	3QFY18	541.2	74.0%	-1.2%	Within	Stable income from the office and retail divisions.
7	AmanahRaya REIT	29-Nov	3QFY18	26.2	72.0%	4.8%	Slightly below	Contribution from Vista Tower partially offset by higher property and non-property expenses.
8	Al-'Aqar Healthcare REIT	30-Nov	3QFY18	47.3	78.0%	2.0%	Within	Driven by higher property income and lower financing costs

Source: MIDF Research

Earnings forecast maintained for most of the REITs. We maintain most of our earnings assumptions as the 3QCY18 performance for REITs under our coverage are mostly in-line. Nonetheless, we have reduced the target price for CMMT to RM1.02 from RM1.11 previously and Amanahraya REIT to RM0.91 from RM0.94 previously as we reduce our earnings estimates for these two REITs. Meanwhile, we had initiated coverage on Al-'Aqar Healthcare REIT with a BUY recommendation and TP of RM1.45. We like Al-'Aqar for its unique position as a defensive healthcare REIT in Malaysia.

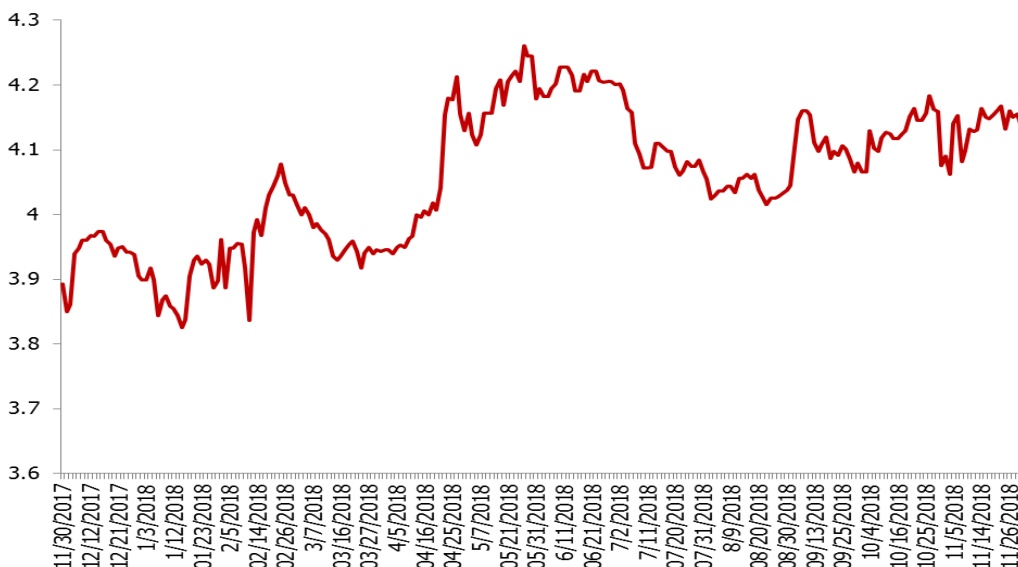
Figure 2: Peers comparison

Stock	FYE	Rec.	Price @ 30 Nov	Target Price (RM)	Core EPU (sen)			Core PE (sen)		Net DPS		Net Dvd Yield	
					FY17	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
AXREIT	Dec	NEUTRAL	1.53	1.55	11.1	9.1	10.0	16.8	15.3	8.0	8.8	5.2	5.8
CMMT	Dec	NEUTRAL	1.01	1.02	7.8	6.8	7.4	14.9	13.6	7.0	7.1	6.9	7.0
IGBREIT	Dec	NEUTRAL	1.72	1.73	8.6	8.7	9.2	19.7	18.7	8.4	8.8	4.9	5.1
PAVREIT	Dec	NEUTRAL	1.59	1.60	7.7	8.7	9.7	18.3	16.5	8.0	8.9	5.1	5.6
KLCC	Dec	NEUTRAL	7.68	7.59	39.9	40.7	41.9	18.9	18.3	35.4	36.4	4.6	4.7
SUNREIT	Jun	BUY	1.64	1.93	9.2	9.6	9.9	17.0	16.5	8.7	8.9	5.3	5.5
ARREIT	Dec	BUY	0.83	0.91	5.5	6.3	6.8	13.2	12.2	5.6	6.4	6.8	7.7
AL-'AQAR	Jan	BUY	1.25	1.45	11.6	8.3	8.4	15.0	14.9	6.9	7.0	5.5	5.6
Average												5.5	5.9

Source: MIDF Research


10-MGS yield averages at 4.06% to-date from 4.05% in the previous quarter. MGS yield has changed little quarter-on-quarter. We believe that the yield should stay within the range in the near-term.

Figure 3: 10-Year MGS yield



Source: Bloomberg, MIDF Research

Yield spread between REITs and MGS yield unattractive at the moment. Based on our estimates, average yield for REITs under our coverage come in at 5.5%. The current yield spread of 1.4-ppt is deemed unexciting, as it is lower than the three-year mean of 1.7-ppt between MREITs and 10-year MGS yield.

NEUTRAL stance maintained. Our BUY calls are on Al-'Aqar Healthcare REIT (TP: RM1.45), AmanahRaya REIT (TP: RM0.91) and Sunway REIT (TP: RM1.93). We maintain Neutral stance on the REITs sector due to the lack of near-term catalysts. Our top pick for the sector is Sunway REIT (BUY; TP: RM1.93) due to the stable earnings supported by its crown jewel Sunway Pyramid. We believe its office segment may improve during the financial year. We also have Buy call on AmanahRaya REIT (TP: RM0.91) for its diversified assets base with exposure to education property and an attractive dividend yield of 6.8% and Al-'Aqar (TP: RM1.45) for its unique position as a defensive healthcare REIT. 

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.