

11 March 2019 | 4QCY18 Earnings Wrap

REITs

Limited upside in the near-term

Maintain NEUTRAL

KEY HIGHLIGHTS

- 4QCY18 earnings of all REITs under our coverage came within expectations
- Earnings forecasts maintained for most of the REITs
- 10-year MGS yield averages at 3.99% thus far in 2019
- Maintain NEUTRAL stance with BUY calls on Al-'Aqar Healthcare REIT (TP: RM1.45), AmanahRaya REIT (TP: RM0.91) and Sunway REIT (TP: RM1.93)

4QCY18 earnings within expectations. All of the REITs under our coverage recorded core net incomes (CNI) that were in-line with our full year forecasts. Al-'Aqar Healthcare REIT is a new addition into our universe since October last year. On year-on-year basis, REITs under our coverage reported mixed earnings with 6 recorded higher and 2 registered lower CNIs compared to the previous corresponding cumulative period. Altogether, the results were within our expectations.

Figure 1: Summary of REITs earnings in 4QCY18

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	29-Jan	4QFY18	135.7	98.1%	-14.0%	Within	Lower occupancy rates and rental income from its Klang Valley malls offset growth in Gurney Plaza and East Coast Mall. Occupancy rate was 93.2% while rental reversion was -2.9%.
2	Axis REIT	23-Jan	4QFY18	112.5	100.0%	22.0%	Within	Contribution from Axis Mega distribution centre and new assets. Rental reversion remained positive while occupancy rate was about 94%.
3	Pavilion REIT	29-Jan	4QFY18	255.1	97.1%	10.8%	Within	Higher CNI due to contribution from Pavilion Elite and positive rental reversion for Pavilion Kuala Lumpur and The Intermark Mall. Revenue for da:mén USJ mall dropped 25.3%yoy.
4	IGB REIT	23-Jan	4QFY18	303.8	99.0%	0.1%	Within	Higher rental income from Mid Valley Megamall and The Gardens Mall are partially offset by higher finance costs. Rental reversion for both malls expected at +5.0%.
5	Sunway REIT	14-Feb	2QFY19	139.4	47.8%	-7.2%	Within	Softer hotel contribution mainly due to renovation at Sunway Resort and Spa, which has since been reopened in mid-November. Office NPI surged 43.4% due to higher occupancy rate at Sunway Putra Tower and Wisma Sunway.
6	KLCCP Staped Group	24-Jan	4QFY18	726.7	99.0%	0.9%	Within	Stable income from the office and retail divisions.
7	AmanahRaya REIT	14-Feb	4QFY18	35.0	97.0%	10.0%	Within	CNI jumped 29.0% yoy in 4QFY18 due to contribution from Vista Tower. During the quarter, the REIT signed SPA to sell off its Gurun warehouse and Wisma AIC.
8	Al-'Aqar Healthcare REIT	20-Feb	4QFY18	61.0	100.0%	2.0%	Within	Higher CNI growth (+1.9%yoy) due to higher rental income and rental contribution from a newly acquired car park block at KPJ Selangor Specialist Hospital

Source: MIDF Research

Earnings forecasts maintained. We maintain most of our earnings assumptions for REITs under our coverage as the 4QCY18 performance for REITs under our coverage are mostly in-line. That said, we have increased the TPs for Axis REIT (from RM1.55 previously to RM1.62), Al-'Aqar (from RM1.45 previously to RM1.49), CMMT (from RM1.02 previously to RM1.08), IGB REIT (from RM1.73 previously to RM1.77) and Pavilion REIT (from RM1.60 previously to RM1.67). The increase in TPs is mainly due to the rollover in base year.

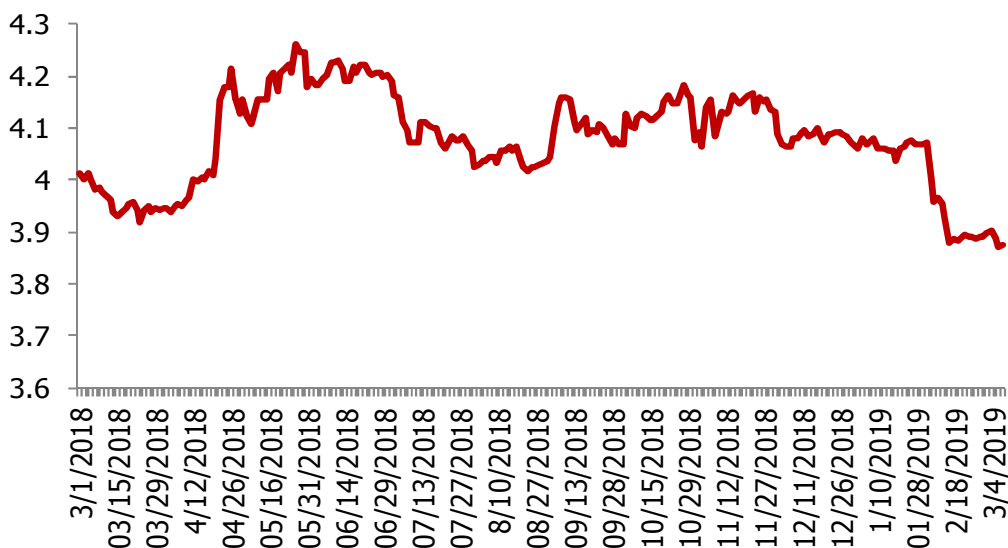
Figure 2: Peers comparison

Stock	FYE	Rec.	Price @ 6 Mar	Target Price (RM)	Core EPU (sen)			Core PE (x)		Net DPU		Net Dvd Yield	
					FY18	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
AXREIT	Dec	NEUTRAL	1.74	1.62	9.1	9.9	10.3	17.6	16.9	8.7	9.0	5.0	5.2
CMMT	Dec	NEUTRAL	1.10	1.08	6.8	6.9	7.3	15.9	15.1	7.0	7.4	6.4	6.7
IGBREIT	Dec	NEUTRAL	1.74	1.77	8.6	9.2	9.7	18.9	17.9	8.5	8.9	4.9	5.1
PAVREIT	Dec	NEUTRAL	1.74	1.67	8.4	9.6	9.6	18.2	18.1	8.8	8.9	5.1	5.1
KLCC	Dec	NEUTRAL	7.84	7.76	40.3	41.9	41.9	18.7	18.7	36.4	37.5	4.6	4.8
SUNREIT	Jun	BUY	1.76	1.93	9.6	9.9	10.5	17.7	16.8	9.0	9.4	5.1	5.4
ARREIT	Dec	BUY	0.85	0.91	6.1	6.8	7.0	12.5	12.0	5.9	6.1	7.0	7.3
AL-'AQAR	Dec	BUY	1.35	1.49	8.4	8.3	8.6	16.2	15.7	7.0	7.2	5.2	5.3
Average												5.4	5.6

Source: MIDF Research

10-year MGS yield averages at 3.99% to-date from 4.06% in the previous quarter. MGS yield has eased by -0.07ppt during the period. We believe that the yield would stay within the range and we keep our 10-year MGS yield assumption of 4.0% for now.


Figure 3: 10-Year MGS yield



Source: Bloomberg, MIDF Research

Lack of strong catalysts. Based on our estimates, average yield for REITs under our coverage come in at 5.4%. The current yield spread of 1.5ppts is deemed unexciting, as it is lower than the three-year mean of 1.7ppts between MREITs and 10-year MGS yield. Moreover, REIT unit prices have strengthened since beginning of the year, narrowing the upside potential in capital gains.

Stock	YTD Gain (%)
AXREIT	12.5
CMMT	13.8
IGBREIT	3.1
PAVREIT	8.2
KLCC	3.3
SUNREIT	2.5
ARREIT	3.1
AL-'AQAR	4.6
Average	6.4

NEUTRAL stance maintained with BUY calls on Al-'Aqar Healthcare REIT (TP: RM1.45), AmanahRaya REIT (TP: RM0.91) and Sunway REIT (TP: RM1.93). We maintain Neutral 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. Moreover, 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 attractive dividend yield of 6.9% and Al-'Aqar (TP: RM1.45) for its unique position as a defensive healthcare REIT. 

Ng Bei Shan
ng.bs@midf.com.my
03-2173 8461

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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.