

27 June 2016 | Sector Update

REITs

A safe haven in times of uncertainty

Maintain NEUTRAL (positive bias)

KEY HIGHLIGHTS

- REITs were minimally impacted from Brexit
- Stable MGS yield despite lower ringgit
- Fundamental of REITs intact
- Maintain Neutral with positive bias on the sector
- Top picks being IGBREIT (BUY; TP: RM1.63) and CMMT (BUY; TP: RM1.69)

REITs were minimally impacted from Brexit – Voters have voted in favor of Brexit last Friday, sending global stocks including Kuala Lumpur Composite Index (KLCI) lower. While KLCI suffered from volatile trade last Friday, we witnessed the performance of REITs were comparatively resilient with minor losses than benchmark index. REITs have been benefiting from the flight to safety during market uncertainties arose by Brexit, thanks to its characteristics of high defensiveness and low beta which implies lower sensitivity to global market movement.

Figure 1: Share price of REITs

REITs	Price (RM)*	Price change (%)	YTD (%)
Amanah Harta Tanah PNB	1.03	0.0%	3.0%
Al-Aqar Healthcare REIT	1.55	-0.6%	10.0%
Al-Salam REIT	1.02	1.0%	11.8%
AmFirst REITs	0.75	0.0%	1.4%
Atrium REITs	1.07	-0.9%	-3.6%
Axis REIT	1.73	-0.6%	4.9%
CapitalLand Malaysia Mall Trust (CMMT)	1.59	-1.3%	13.8%
Hektar REIT	1.52	-0.7%	-0.7%
IGB REIT	1.58	-1.3%	16.4%
KLCCP Stapled Group	7.59	-0.8%	6.5%
MRCB-Quill REIT	1.15	-0.9%	5.6%
Pavilion REIT	1.65	2.4%	8.4%
Sunway REIT	1.61	1.2%	11.6%
Tower REITs	1.21	-0.8%	-2.4%
UOA REIT	1.66	0.0%	3.7%
YTL Hospitality REIT	1.07	0.0%	2.9%
AmanahRaya REIT	0.90	-0.6%	3.5%
Average		-0.2%	

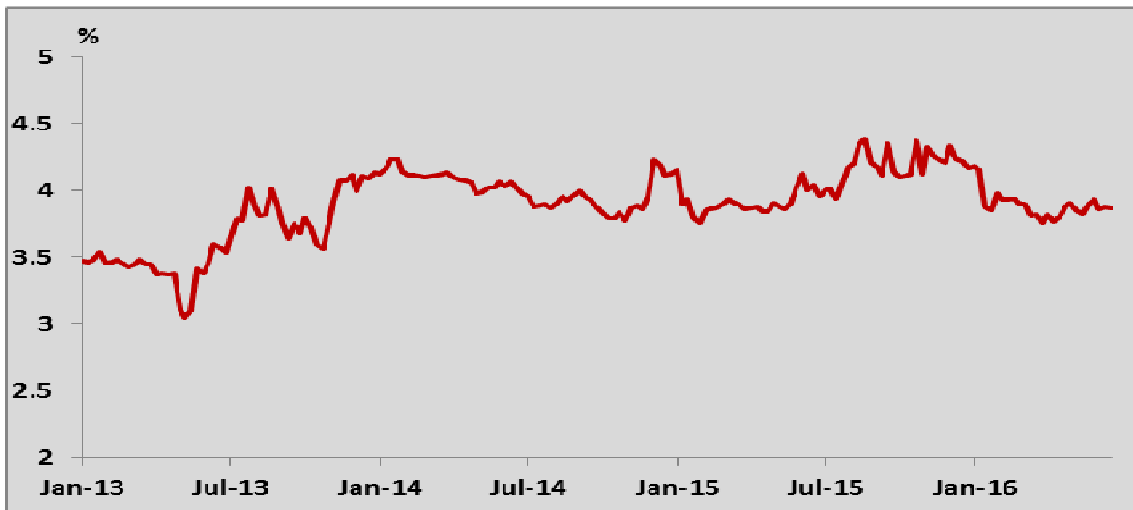
*As at 24 June 2016

Source: Bloomberg, MIDF Research

Stable MGS yield despite lower ringgit – Malaysia Government Securities (MGS) yield was fairly stable by hovering at 3.89% despite the depreciating ringgit, indicating resilient demand for MGS as investors flocked to

safe-haven assets. The stable MGS yield has kept the attractiveness of REITs intact whereby the positive spread between dividend yield of REITs and MGS yield is sustained. Meanwhile, we maintain our MGS yield assumption of 4% as we expect MGS yield to be less volatile going forward as frequency of rate hike by U.S. Federal Reserve may be lower than expected.

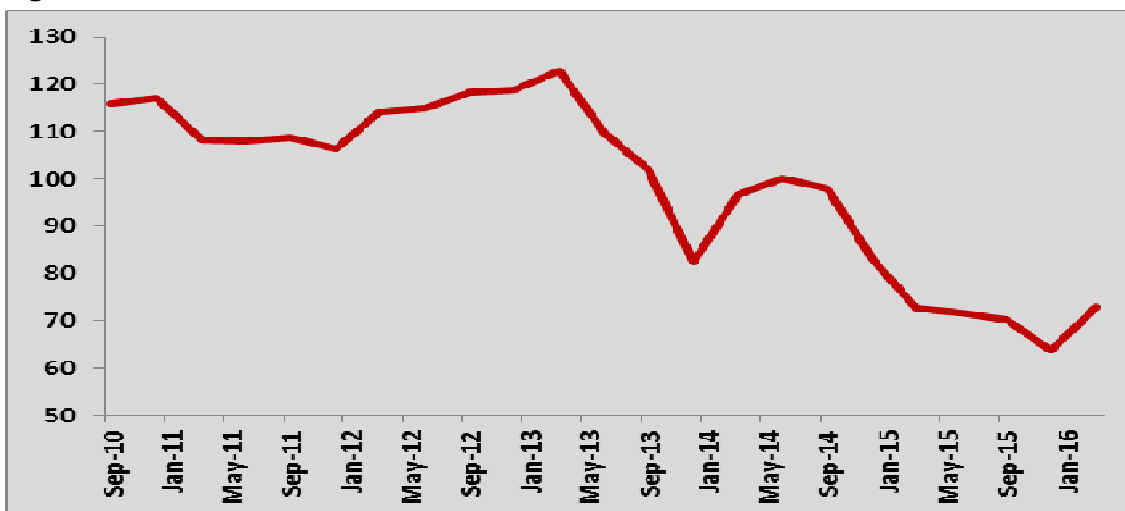
Figure 2: MGS Yield



Source: Bloomberg, MIDF Research

Fundamental of REITs intact - We are of the view that fundamental of REITs under our coverage remains intact as REITs do not have exposure in Britain and European countries. Meanwhile, we also see improving prospect for retail REITs in Malaysia as consumers' sentiment improved in 1Q2016. Note that Consumer Sentiment Index in 1Q2016 rebounded to 72.9 from all-time low of 63.8 in 4Q2015, indicating potential recovery in consumer spending due to better sentiment.

Figure 3: MIER Consumer Sentiment Index



Source: Bloomberg, MIDF Research

Maintain Neutral with positive bias on the sector – We are keeping our Neutral rating but with positive bias on REITs sector. We are of the view that REITs should benefit from the flight to safely assets during the market

uncertainties as REITs are perceived as safe-haven assets and less sensitive to the market volatility. Meanwhile, we reckon that outlook for retail segment is improving due to improved consumer sentiment which should keep rental reversion in positive territory. However, we think that outlook for office segment of Malaysian property market would remain challenging due to oversupply issue which would cause a compression in rental rates.

We maintain our BUY call for CMMT (TP: RM1.69) for its decent dividend yield of 5.3% while full year rental contribution from Tropicana City asset is expected to more than sufficient to offset the lower contribution from Sungei Wang Plaza. Similarly, **we also maintain our BUY call for IGB REIT (TP: RM1.63)** for its stable rental income from Mid Valley Megamall and The Gardens Mall which translate into minimal earnings risk to unit holders. Meanwhile, we maintain our Neutral call for Axis REIT (TP: RM1.71), KLCCP Stapled Group (TP: RM7.10), Pavilion REIT (TP: RM1.73), and Sunway REIT (TP: RM1.62). 

Figure 4: Peers Comparison

Stock	FYE	Rec.	Price @ 24-June	Target Price (RM)	Core EPU (sen)			Core PE (sen)		Net DPS		Net Dvd Yield	
					FY15	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
AXREIT	Dec	NEUTRAL	1.72	1.71	8.3	9.2	9.5	18.7	18.0	8.1	8.4	4.7	4.9
CMMT	Dec	BUY	1.57	1.69	8.2	8.7	8.8	18.1	17.7	8.3	8.4	5.3	5.4
IGBREIT	Dec	BUY	1.56	1.63	7.4	7.8	8.4	20.0	18.7	7.9	8.5	5.1	5.4
PAVREIT	Dec	NEUTRAL	1.68	1.73	8.0	8.7	9.8	19.2	17.2	8.1	9.0	4.8	5.4
SUNREIT	Jun	NEUTRAL	1.63	1.62	8.2	8.6	9.0	19.0	18.1	8.0	8.4	4.9	5.2
KLCC	Dec	NEUTRAL	7.52	7.1	38.3	39.8	40.1	18.9	18.8	34.9	35.9	4.6	4.8
Average												4.91	5.17

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.