

19 August 2016 | Sector Update

REITs

Pokémon-Go craze in Malaysia

Maintain NEUTRAL (positive bias)

KEY HIGHLIGHTS

- Shopping malls taking advantage of the Pokémon-Go craze
- F&B tenants are the likely beneficiary but muted impact on fashion retailers
- IGB REIT to be the potential beneficiary due to its pure retail exposure and high variable rent
- We remain NEUTRAL on the sector; Top Picks being CMMT (BUY; TP: RM1.72) & Sunway REIT (BUY; TP: RM1.86)

Shopping malls taking advantage of the Pokémon-Go craze. Since the release of Pokémon Go in Malaysia on 6-August, retailers in the local shopping malls have been taking advantage of the Pokémon Go craze. One of the most common ways used by the retailers is by activating the "Lure Module" which attracts Pokémon to a PokéStop for 30 minutes. As a result, we expect increased footfall at the shopping malls (especially in the Klang Valley) as those malls have become hotspot for Pokémon players. The impact is slightly short term positive to the REITs with established mall in the Klang Valley, namely KLCCP Stapled Group (Suria KLCC), Sunway REIT (Sunway Pyramid), IGB REIT (Mid Valley Megamall & The Gardens), Pavilion REIT (Pavilion KL) and CMMT (Sungei Wang Plaza and The Mines).

Figure 1: Pavilion KL's lure parties



Source: Pavilion KL, MIDF Research

Figure 2: Sunway Pyramid's lure parties



Source: Sunway Pyramid, MIDF Research

F&B tenants are the likely beneficiary but muted impact on fashion retailers. We reckon that higher footfall at the malls might benefit food & beverage (F&B) tenants as Pokémon players would likely spend on F&B during their stay at the mall. However, we do not expect the higher footfall to significantly boost the sales of fashion retailers as Pokémon players are tend to be engrossed in the game. Hence, we expect no change to rental reversion outlook for REITs. Besides, most of the REITs may not be able to capitalize on the higher revenue of F&B tenants as most of the rental income from tenants is on fixed-term. As such, earnings impact on REITs from Pokémon-Go craze is expected to be minimal.

IGB REIT to be the potential beneficiary due to its pure retail exposure and high variable rent. We opine that pure retail REITs or REITs with high exposure to retail division to be the potential beneficiaries. We expect IGB REIT to be the potential beneficiary from the higher spending on F&B as IGB REIT is a pure retail REITs. IGB REIT's percentage of variable rent over total rental income is also the highest (at double digit) among peers (at single digit) which suggests higher profit sharing from higher tenants' sales.

Maintain Neutral with positive bias on REITs. We maintain Neutral on the sector as the Pokémon-Go craze might be short-lived and may fizzle out in one to two months' time hence its impact on REITs is expected to be muted. **We maintain our BUY call for CMMT (TP: RM1.72)** due to its positive earnings outlook despite the weakness in Sungei Wang Plaza. **We also maintain our BUY call for Sunway REIT (TP: RM1.86)** as we expect stable performance of its retail division while office division is expected to see recovery in FY17 from the low base in FY16.

Figure 3: Peers' comparison

Stock	FYE	Rec.	Price @ 18-Aug	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	1.80	1.75	8.5	8.4	8.8	21.3	20.5	7.6	7.8	4.2	4.3
CMMT	Dec	BUY	1.59	1.72	8.2	8.7	8.8	18.4	18.0	8.3	8.4	5.2	5.3
IGBREIT	Dec	NEUTRAL	1.64	1.67	7.4	7.8	8.4	21.1	19.6	7.9	8.5	4.8	5.2
PAVREIT	Dec	NEUTRAL	1.8	1.79	8.0	8.7	9.8	20.6	18.4	8.1	9.0	4.5	5.0
SUNREIT	Jun	BUY	1.75	1.86	8.2	8.6	9.0	20.3	19.5	8.3	8.1	4.7	4.6
KLCC	Dec	NEUTRAL	7.58	7.3	38.3	39.8	40.1	19.0	18.9	34.9	35.9	4.6	4.7
Average												4.7	4.9

Source: MIDF Research

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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.