

05 December 2016 | Sector Update

REITs

Maintain NEUTRAL

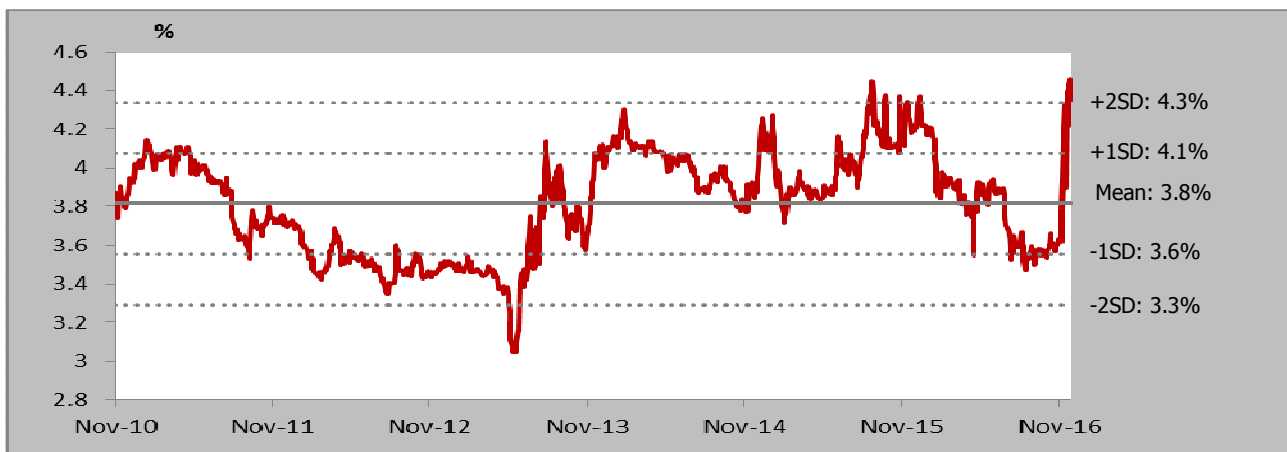
MGS yield expectation raised to 4%

KEY HIGHLIGHTS

- **10-Year MGS yield spiked, narrowing spread between M-REITs and 10-year MGS Yield**
- **Raising our MGS yield assumption to 4.0% (from 3.75%)**
- **Target prices for REITs revised lower as we tweak our MGS yield assumption lower**
- **We remain NEUTRAL on the sector with Top Picks being SUNWAY REIT (BUY; TP: RM1.83) and CMMT (BUY; TP: RM1.69)**

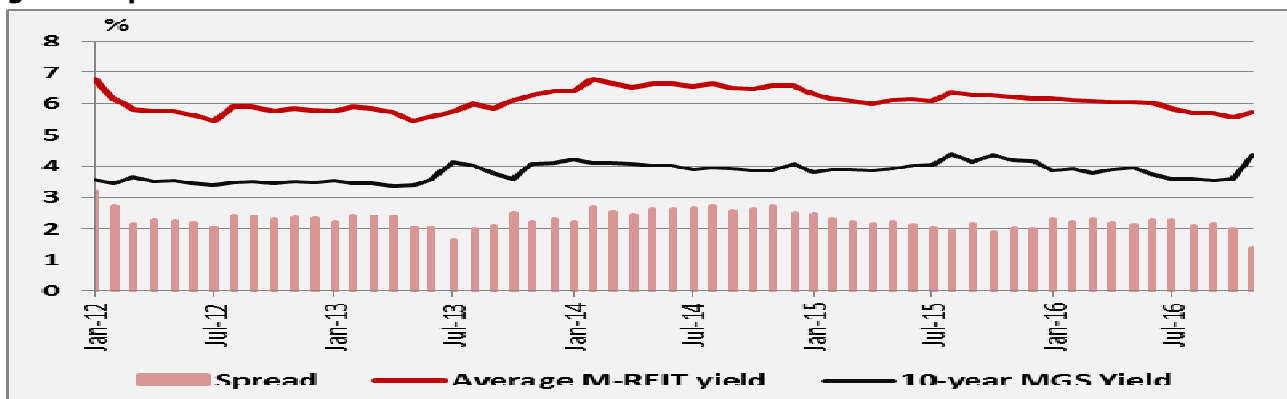
10-Year MGS yield spiked – MGS yield spiked in November to above 4.45% following the foreign funds outflow from emerging markets. Currently, MGS yield is hovering at 4.35%, above five years mean plus two standard deviations of 4.3%. The spike in MGS yield is negative to REITs due to narrowing spread between dividend yield of REITs and MGS yield which reduce attractiveness of REITs. Note that spread between dividend yield of REITs and MGS yield declined sharply in November, making it the thinnest spread in the past five years.

Figure 1: 10-Year MGS yield



Source: Bloomberg, MIDF Research

Figure 2: Spread between M-REITs and 10 Year MGS Yield



Source: Bloomberg, MIDF Research

Our MGS yield assumption is now revised higher by 25bps to 4.0% - We are revising higher our MGS yield assumption by 25 basis points to 4.0% from 3.75% in view of high likelihood of Federal Reserve raising interest rate which would keep MGS yield volatile going forward. Our new MGS yield assumption of 4% is close to five years mean plus one standard deviation of 4.1%.

Target prices for REITs revised lower - We adjust our target prices for REITs under our coverage following the revision of MGS yield which translates into higher discount rate in our Dividend Discount Model (DDM) valuation. Target price (TP) for Axis REIT has been revised downwards by 2.3% to RM1.68 (from RM1.72); CMMT TP revised downwards by 1.7% to RM1.69 (from RM1.72); IGB REIT TP revised downwards by 2.4% to RM1.63 (from RM1.67); KLCCP Stapled Group TP reduced by 1.9% to RM7.16 (from RM7.30); Pavilion REIT TP revised downwards by 2.3% to RM1.68 (from RM1.72); and Sunway REIT TP reduced by 1.6% to RM1.83 from RM1.86. Overall, the decline in Target Prices has been minimal and our recommendations remain intact.

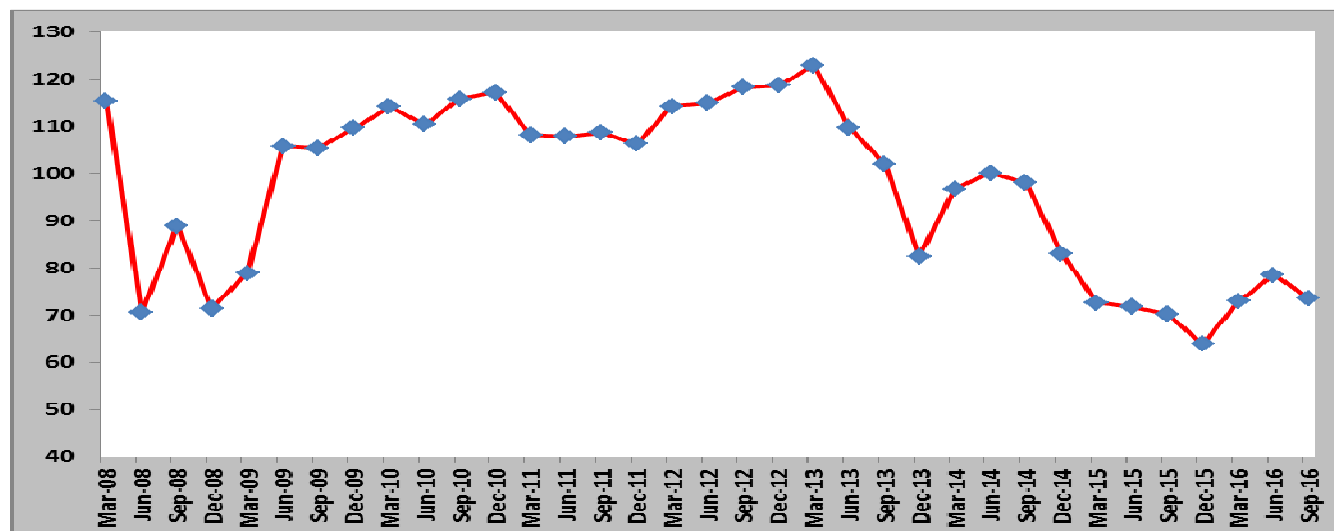
Figure 3: Changes to Target Price (TP) after MGS yield assumption revised to 4.0%

No	Stock	Previous MGS Assumption	Previous TP (RM)	New MGS assumption	New TP (RM)	Changes in TP (%)
1	AXREIT	3.75%	1.72	4.00%	1.68	-2.3%
2	CMMT	3.75%	1.72	4.00%	1.69	-1.7%
3	IGBREIT	3.75%	1.67	4.00%	1.63	-2.4%
4	KLCCP	3.75%	7.30	4.00%	7.16	-1.9%
5	PAVREIT	3.75%	1.72	4.00%	1.68	-2.3%
6	SUNREIT	3.75%	1.86	4.00%	1.83	-1.6%

Source: MIDF Research

Maintain Neutral on REITs sector - Outlook for retail sector in Malaysia is expected to show marginal improvement in 2017 as we see that consumer sentiment should have bottomed out in 2015. In this context, we expect slightly better outlook for retail sales in Malaysia which should underpin rental reversion for retail segment to remain in positive territory. Meanwhile, we opine that office segment of Malaysia property market will continue to be tenants' market due to the oversupply of office space which render limited upside to rental reversion. Overall, we maintain our Neutral rating on REITs sector.

Figure 4: Consumer Sentiment Index



Source: Bloomberg, MIDF Research

Top Picks are SUNWAY REIT (BUY; TP: RM1.83) and CMMT (BUY; TP: RM1.69) – We like SUNWAY REIT as we are positive on its retail division which would mainly underpin by resilient performance of its flagship Sunway Pyramid Shopping Mall while its office division should see recovery in FY17 from the low base in FY16. As for CMMT, we continue to see positive earnings outlook which would be driven by the steady performance from Gurney Plaza and East Coast Mall. We also opine that earnings downside risk from Sungei Wang Plaza (SWP) is limited as SWP has become the smallest earnings contributor to CMMT in 9MFY16 at 12% as compared to contribution of 19% in FY15 and 27% back in FY13 following steep earnings contraction in the past few years.


We are NEUTRAL on KLCCP Stapled Group (TP: RM7.16), Axis REIT (TP: RM1.68), Pavilion REIT (TP: RM1.68) and IGBREIT (TP: RM1.63). 

Figure 5: Peers Comparison

Stock	FYE	Rec.	Price @ 2-Dec	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	1.66	1.68	8.5	8.4	8.8	19.7	18.9	7.6	7.8	4.6	4.7
CMMT	Dec	BUY	1.57	1.69	7.7	8.7	8.8	18.1	17.7	8.3	8.4	5.3	5.4
IGBREIT	Dec	NEUTRAL	1.61	1.63	7.4	7.8	8.4	20.6	19.2	8.0	8.5	4.9	5.3
PAVREIT	Dec	NEUTRAL	1.74	1.68	8.0	8.0	8.8	21.8	19.8	7.4	8.1	4.3	4.7
SUNREIT	Jun	BUY	1.72	1.83	8.2	8.6	9.0	19.9	19.2	8.3	8.1	4.8	4.7
KLCC	Dec	NEUTRAL	7.76	7.16	38.3	39.8	40.1	19.5	19.4	34.9	35.9	4.5	4.6
Average												4.7	4.9

Source: MIDF Research

Jessica Low Jze Tieng
jessica.low@midf.com.my
 03-21738391

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 >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.