

06 June 2017 | 1QCY17 Earnings Wrap

REITs

Mixed 1QCY17 earnings

Maintain NEUTRAL

KEY HIGHLIGHTS

- **1QCY17 earnings of REITs on track**
- **Recommendations and target prices unchanged**
- **Declining MGS yield in May makes REITs more appealing**
- **We remain NEUTRAL on the sector with SUNWAY REIT (BUY; TP: RM1.88) as Top Pick. We also have BUY call on AmanahRaya REIT (TP: RM1.15)**

1QCY17 earnings of REITs on track – For the recently concluded 1QCY17 earnings reporting season, all the seven REITs under our coverage reported in line results. Among seven REITs under our coverage, Sunway REIT reported highest quarterly earnings growth of 8.6%yoy in 1QCY17 while its cumulative earnings grew 5.6%, mainly driven by the higher earnings contribution from Sunway Pyramid, Sunway Carnival, and Sunway Putra Mall. Meanwhile, IGB REIT recorded second highest quarterly earnings growth of 3.5%yoy, driven by resilient earnings from Mid Valley Megamall and Gardens Mall. Overall, earnings of REITs were mixed in 1QCY17 whereby three REITs reported earnings growth while four REITs recorded lower earnings. We believe REITs are on track to achieve our earnings forecast and expect marginal earnings recovery of REITs in FY17.

Figure 1: Summary of REITs earnings in 1QCY17

No	Stock	Date of earnings released	Period Under Review	Cumulative Qtr CNI (RM m)	CNI % of our estimate	Earnings growth (yoy)	Against Estimates	Comment
1	CMMT	18-Apr	1QFY17	40.2	24%	-2.0%	Within	Lower earnings due to lower contribution from Sungei Wang Plaza and The Mines
2	Axis REIT	25-Apr	1QFY17	23.1	25%	1.9%	Within	Marginal earnings growth contributed by rental contribution from Scomi Facility in Rawang and positive rental reversion of 5.8%
3	IGB REIT	25-Apr	1QFY17	75.4	26%	3.5%	Within	Earnings growth supported by positive rental reversion of Mid Valley Megamall and The Gardens Mall
4	Pavilion REIT	27-Apr	1QFY17	57.0	21%	-7.2%	Within	Weaker earnings due to temporary lower occupancy rate in Pavilion KL
5	Sunway REIT	3-May	3QFY17	203.6	76%	5.6%	Within	Earnings growth mainly driven by higher contribution from Sunway Pyramid, Sunway Carnival, and Sunway Putra Mall.
6	KLCCP Stapled Group	22-May	1QFY17	176.7	24%	-3.3%	Within	Lower earnings from office division, retail division, and hotel division
7	AmanahRaya REIT	30-May	1QFY17	8.3	23%	-11.6%	Within	Weaker earnings from AIC factory, Holiday Villa in Alor Setar, and South City Plaza

Source: MIDF Research

Recommendations and target prices unchanged – Post 1QCY17 earnings reporting season, our earnings estimates and target prices for REITs are left unchanged as earnings of REITs came in no surprises to us. Similarly, recommendations for REITs under our coverage remain intact. REITs with BUY calls include Sunway REIT (TP: RM1.88) and AmanahRaya REIT (TP: RM1.15) while REITs with NEUTRAL calls are Axis REIT (TP: RM1.68), IGB REIT (TP: RM1.73), KLCCP Stapled Group (TP: RM7.60), CMMT (TP: RM1.69), and Pavilion REIT (TP: RM1.77).

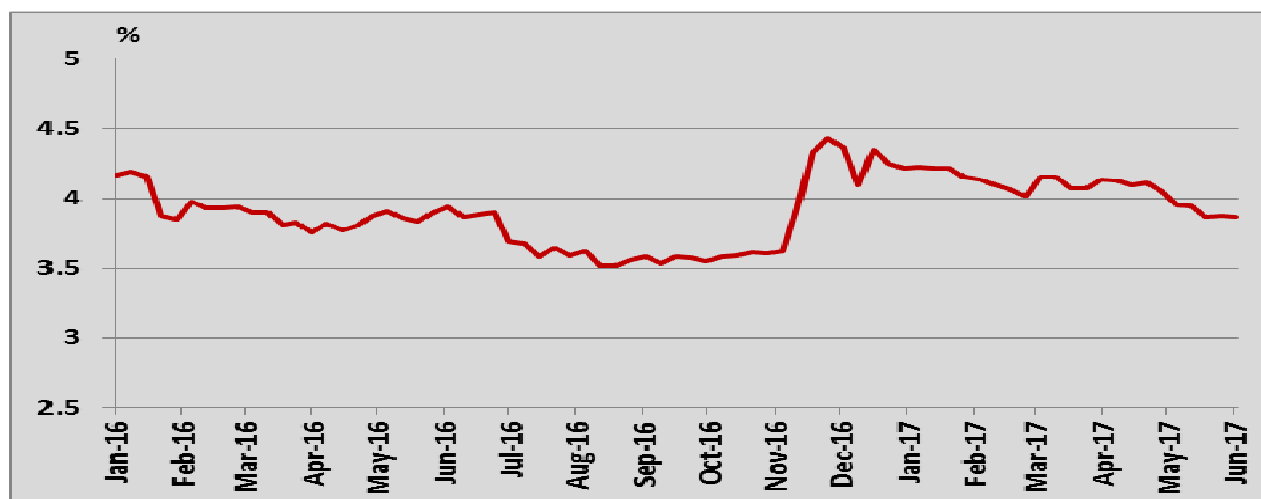
Figure 2: Peers comparison

Stock	FYE	Rec.	Price @ 5-June	Target Price (RM)	Core EPU (sen)			Core PE (sen)		Net DPS		Net Dvd Yield	
					FY16	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
AXREIT	Dec	NEUTRAL	1.69	1.68	8.4	8.4	9.2	20.1	18.4	7.5	8.1	4.5	4.8
CMMT	Dec	NEUTRAL	1.5	1.69	8.1	8.2	8.5	18.3	17.7	7.8	8.1	5.2	5.4
IGBREIT	Dec	NEUTRAL	1.69	1.73	8.1	8.3	8.8	20.3	19.2	8.4	8.9	5.0	5.3
PAVREIT	Dec	NEUTRAL	1.74	1.77	7.8	8.8	9.6	19.7	18.0	8.2	8.9	4.7	5.1
KLCC	Dec	NEUTRAL	7.80	7.6	39.8	40.1	40.7	19.5	19.2	35.9	36.4	4.6	4.7
SUNREIT	Jun	BUY	1.70	1.88	8.6	9.1	10.1	18.6	16.9	8.2	9.1	4.8	5.3
ARREIT	Dec	BUY	0.950	1.15	6.2	6.3	6.7	15.2	14.1	5.5	5.9	5.8	6.2
Average												4.8	5.1

Source: MIDF Research

Declining MGS yield – 10-year MGS yield fell below 3.9% in May from 4.1% in April amid recent foreign funds inflow and strengthening of ringgit. Currently, 10-year MGS yield is hovering at 3.86%, close to its 5-year mean of 3.8%. The declining of MGS yield is positive to REITs as spread between yield of REITs and MGS yield widened, making REITs more appealing. Nevertheless, we reckon that further decline in MGS yield is required to provide stronger catalyst to REITs. At this juncture, we maintain our MGS yield assumption at 4%.

Figure 3: 10-Year MGS yield



Source: Bloomberg, MIDF Research

Maintain Neutral on REITs sector - Maintain Neutral on REITs sector with top pick being Sunway REIT. Our top pick for the sector is Sunway REIT (BUY; TP: RM1.88) as we are positive on its retail division which underpinned by the resilient performance of Sunway Pyramid shopping mall. Its office division is expected to recover in FY17 as worst is over for the division. We also have Buy call on AmanahRaya REIT (TP: RM1.15) as we like its asset portfolio with education property exposure and attractive dividend yield of 5.8%. We are also positive on the entry of Kenedix (a Japanese real estate asset management company) which should bode well for the asset management prospect for AmanahRaya REIT.



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

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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.