

08 May 2015 | Sector Update

REIT 1QCY15 Earnings Wrap

IGBREIT the star performer in the first quarter

Maintain NEUTRAL

KEY HIGHLIGHTS

- **All REIT stocks' Core Net Income (CNI) came in within expectation in 1QCY15.**
- **IGBREIT's Distribution Per Unit (DPU) growth of 21.2%yoy outperformed its peers which recorded an average growth of -1.6%yoy.**
- **PAVREIT recorded the second highest DPU growth of 6.2%yoy.**
- **MGS 10-years yield movement was range-bound between 3.80% and 4.00% for the past three months and we expect volatility to persist in the movement of yield curve.**
- **GST implementation is likely to moderate REITs' 2QCY15 CNI growth.**
- **Reaffirm NEUTRAL on Malaysian REITs with IGBREIT (BUY; TP: RM1.46) as our Top Pick.**

All REIT stocks' CNI came in within expectation in 1QCY15. In our universe of 6 REIT stocks, all of them reported earnings which came in within expectations. These includes AXREIT, CMMT, IGBREIT, KLCC, PAVREIT and SUNREIT.

IGBREIT DPU growth of 21.2%yoy outperformed peers' DPU growth (average: -1.6%yoy). Recall that IGBREIT DPU has surged 21.2%yoy to 2.29 sen in 1QCY15, making it the best performer in the quarter reviewed by DPU growth. This was significantly higher than its peers' average growth of -1.6%yoy. We gather that IGBREIT strong DPU growth was attributed to a 10% increase in revenue and improved Net Rental Income (NRI) Margin of 71.8% against 1QCY14's 67.9%. The increase in revenue was likely due to positive rental reversions for Mid Valley Megamall and The Gardens Mall. Additionally, the improved NRI margin was also contributed by the cost saving measures implemented by the Company.

Second highest DPU growth is from PAVREIT with 6.2%yoy growth. Recall that PAVREIT DPU has improved 6.2%yoy to 2.06 sen on the back of 4%yoy increase in revenue from Pavilion Shopping Mall (PSM) as well as a 1% decline in Property Operating Expenses. For the other REIT players, SUNREIT, CMMT, KLCC and AXREIT recorded DPU growths of +1.4%yoy, -3.0%yoy, -3.6%yoy and -8.8%yoy respectively. Overall, the average DPU growth for the 6 REIT stocks under our coverage was 2.2%yoy in 1QCY15.

MGS 10-year yield movement was range-bound between 3.80% and 4.00% for the past three months and we expect volatility to persist in the movement of yield curve. Since mid-March, MGS 10-year yield has declined from around 4.00% to 3.85% recently. We believe that this has been contributed by the inflow of foreign funds with foreign investors turning net buyers of Malaysian securities including MGS. Nevertheless, we expect MGS 10-year yield to edge up slightly and stay around 4.0% by end of 2015 as US Fed is expected to raise interest rate in 2HCY15.

GST implementation to moderate 2QCY15 CNI growth. Looking ahead, we expect 2QCY15 CNI growth to be more muted for all REIT players (as compared to 1QCY15 performance). We believe that the implementation of GST (effective 1-Apr-2015) is likely to affect consumer spending in the short term. However, the impact of GST to REIT players will be indirect as this will limit the potential rental reversion growth in the future. We believe that tenants which have yet to sign the lease renewal with mall owners may try to negotiate for lower growth of rental rates and hence limit the potential rental reversion growth for mall owners.

Reaffirm NEUTRAL on Malaysian REITs. We maintain our NEUTRAL view on the sector as we estimate that FY15 CNI growth is likely to be subdued in the range of 1.5%-5.3% for REITs under our coverage. As for 10 years MGS yield, we expect the yield to stay below 4.0% in the short term due to the recent inflow of foreign funds. However, we expect it to edge up slightly and stay around 4.0% by end of 2015 as US Fed is expected to raise interest rates in 2HCY15.

IGBREIT (BUY; TP: RM1.46) is our Top Pick. We continue to like IGBREIT for the following reasons: (i) its FY14 and 1QCY15 DPU growth was the strongest among peers, (ii) the additional NLA of 40,000 sqft in Midvalley completed in 4QFY14 should provide some support to earnings, (iii) its strong ability to contain cost and expenses which will be positive to its bottom line and (iv) minimal risk to interest rate increase as 98% of its loans are in fixed rate.



Chart 1: Summary of REIT quarterly result

No	Stock	Period Under Review	Latest Qtr Core Net Income (RM m)	Against Expectation	Core DPU Growth %yoy	Comment	
1	AXREIT	1Q15 / 3M15	22.8	Within	-8.8%	21% of consensus; 24% of our estimate	
2	CMMT	1Q15 / 3M15	38.2	Within	-3.0%	23% of consensus; 26% of our estimate	
3	IGBREIT	1Q15 / 3M15	69.9	Within	21.2%	29% of consensus; 29% of our estimate	
4	KLCC	1Q15 / 3M15	178.5	Within	-3.6%	25% of consensus; 30% of our estimate	
5	PAVREIT	1Q15 / 3M15	60.5	Within	6.2%	25% of consensus; 25% of our estimate	
6	SUNREIT	3Q15 / 9M15	56.8	Within	1.4%	75% of consensus; 75% of our estimate	
					Average	2.2%	
					Average Excluding IGBREIT	-1.6%	

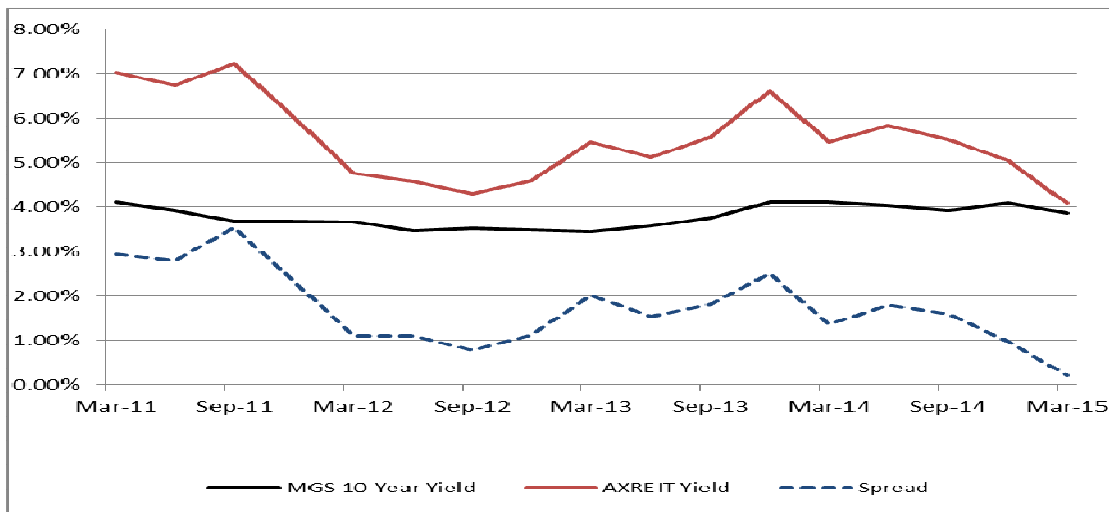
Source: Respective Company, MIDF Research

Chart 2: Malaysia Government Securities (MGS) 10-Year Yield



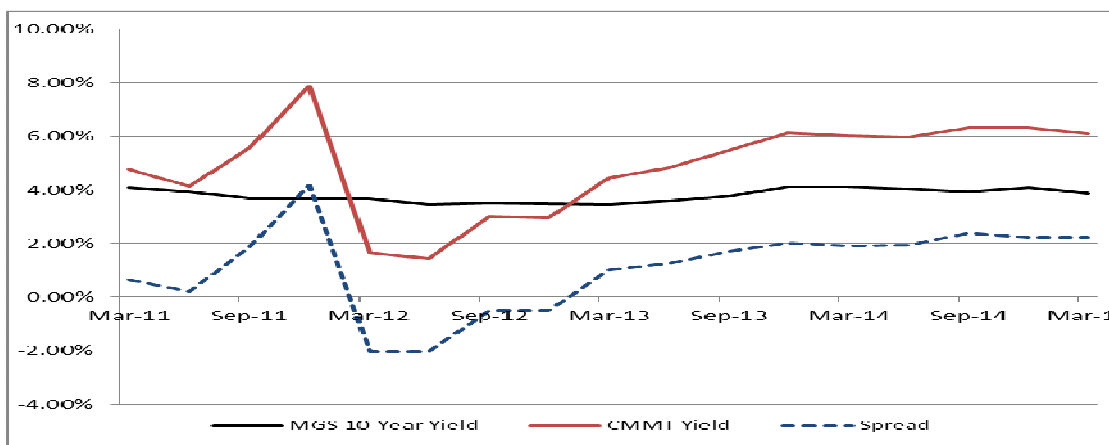
Source: Bloomberg

Chart 3: Spread between AXREIT Yield and 10 year MGS Yield



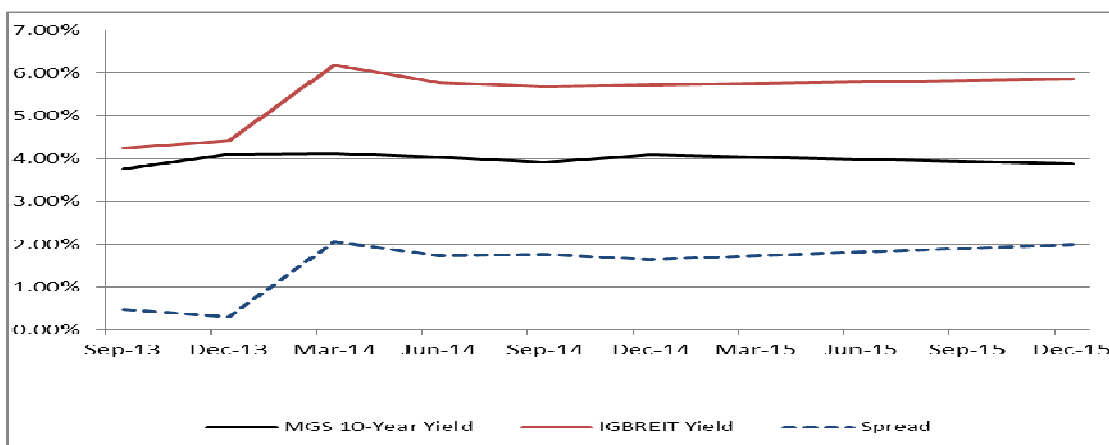
Source: Bloomberg

Chart 4: Spread between CMMT Yield and 10 year MGS Yield



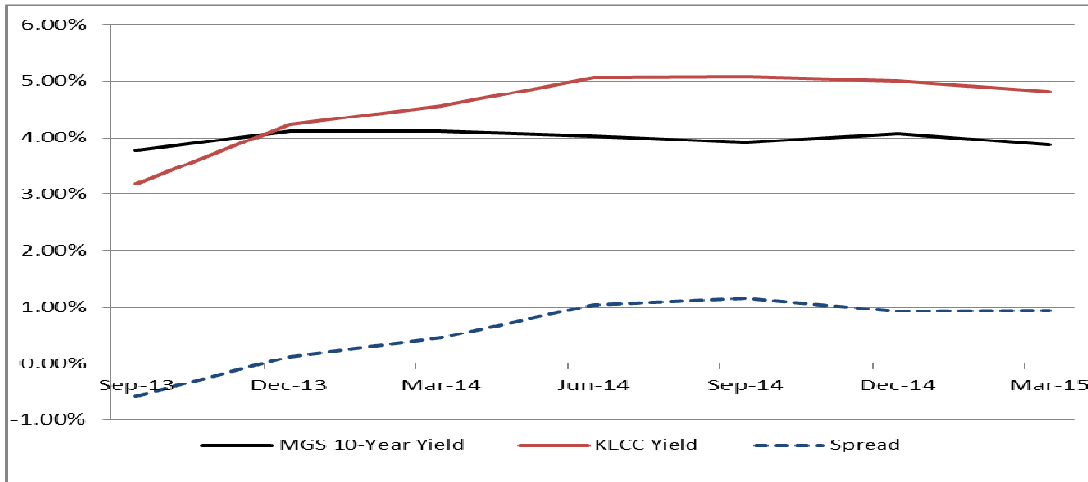
Source: Bloomberg

Chart 5: Spread between IGBREIT Yield and 10 year MGS Yield



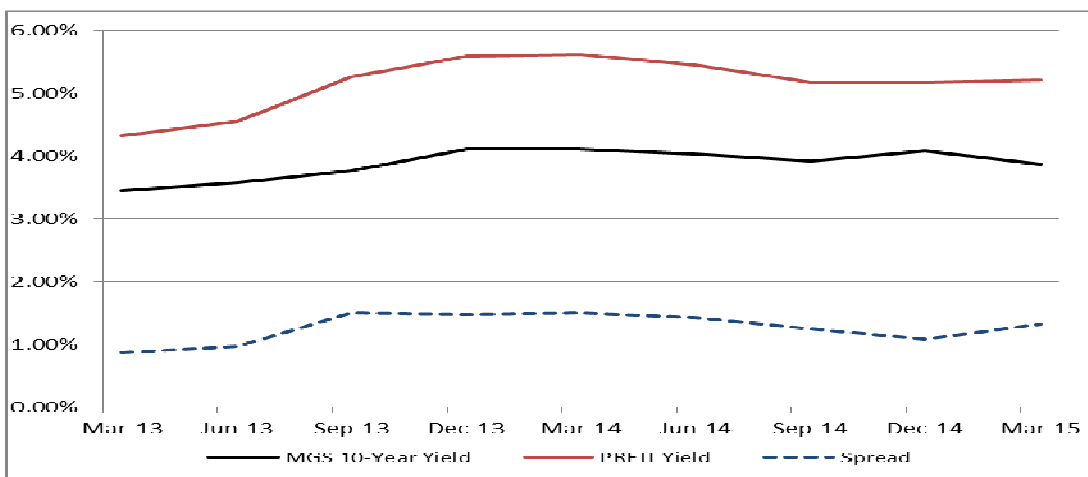
Source: Bloomberg

Chart 6: Spread between KLCC Yield and 10 year MGS Yield



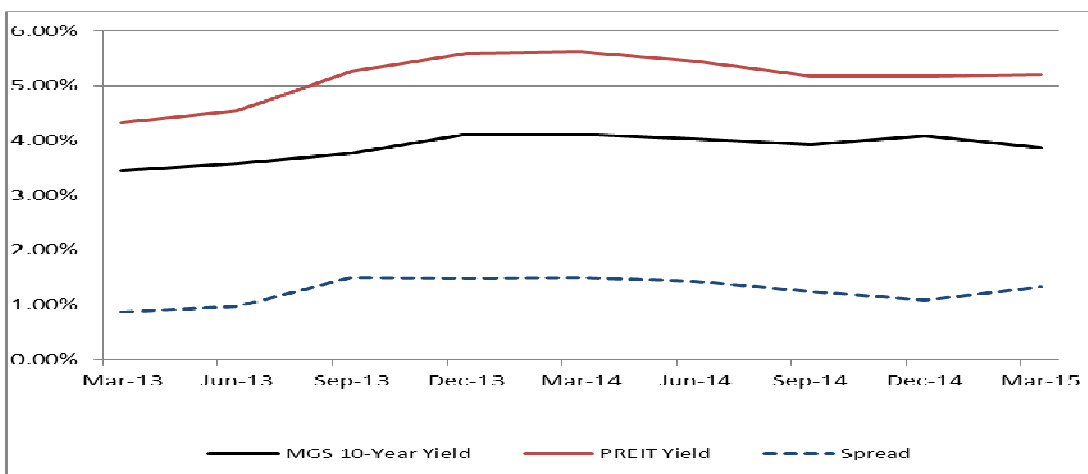
Source: Bloomberg

Chart 7: Spread between PAVREIT Yield and 10 year MGS Yield



Source: Bloomberg

Chart 8: Spread between SUNREIT Yield and 10 year MGS Yield



Source: Bloomberg

Chart 9: Peer Comparisons

Stock	FYE	Rec.	Price @ 7-May	Target Price (RM)	Core EPU (sen)		EPS (% chg)		Core PE (sen)		Net DPS		Net Dvd Yield	
					FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
AXREIT	Dec	NEUTRAL	3.60	3.50	17.51	18.39	2.1%	5.0%	20.6	19.6	16.94	16.66	4.7	4.6
CMMT	Dec	NEUTRAL	1.44	1.66	8.31	8.71	1.5%	4.9%	17.3	16.5	7.92	8.30	5.5	5.8
IGBREIT	Dec	BUY	1.35	1.46	6.95	7.15	2.8%	2.8%	19.4	18.9	7.31	7.40	5.4	5.5
PAVREIT	Dec	NEUTRAL	1.54	1.57	7.99	8.41	3.6%	5.3%	19.3	18.3	7.42	7.79	4.8	5.1
SUNREIT	Jun	NEUTRAL	1.68	1.70	8.33	9.32	5.3%	11.9%	20.2	18.0	7.87	8.81	4.7	5.2
KLCC	Dec	NEUTRAL	7.08	6.88	32.83	34.17	1.8%	4.1%	21.6	20.7	30.9	32.2	4.4	4.5

Source: MIDF Research Estimate

Kelvin Ong, CFA
 Alan Lim, CFA
alan.lim@midf.com.my
 03-2173 8464

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.