

18 March 2015 | Sector Update

REIT

Maintain NEUTRAL

GST Exemption For Commercial Rental Below RM500k

KEY HIGHLIGHTS

- **GST exempted for commercial units rental below RM500,000 per annum.**
- **Slightly positive on the news.**
- **CMMT, PAVREIT and IGBREIT to benefit most due to their bigger exposures to retail segment against SUNREIT and AXREIT.**
- **Reaffirm our NEUTRAL recommendation on the sector.**

GST exempted for commercial units rental below RM500,000 per annum. It was reported by the media that Goods and Services Tax (GST) will not be imposed on commercial units with rentals of below RM500,000 annually. We believe this announcement is furtherance to the previous declaration that only residential units will be exempted.

Slightly positive on the news. The news is slightly positive to retail REITs as it alleviates the additional cost to tenants. Hence it should remove the likelihood that the tenants may demand renegotiation for the lowering of rental fees. We expect CMMT, PAVREIT and IGBREIT to benefit most due to their bigger exposure to retail segment against SUNREIT and AXREIT.

Based on our calculations, this means that those tenants with rentals below RM41,700 per month will be GST-exempted. Assuming RM15 rental rate per square foot, this means any tenants with lot size below 2,780 square feet will be tax-exempted.

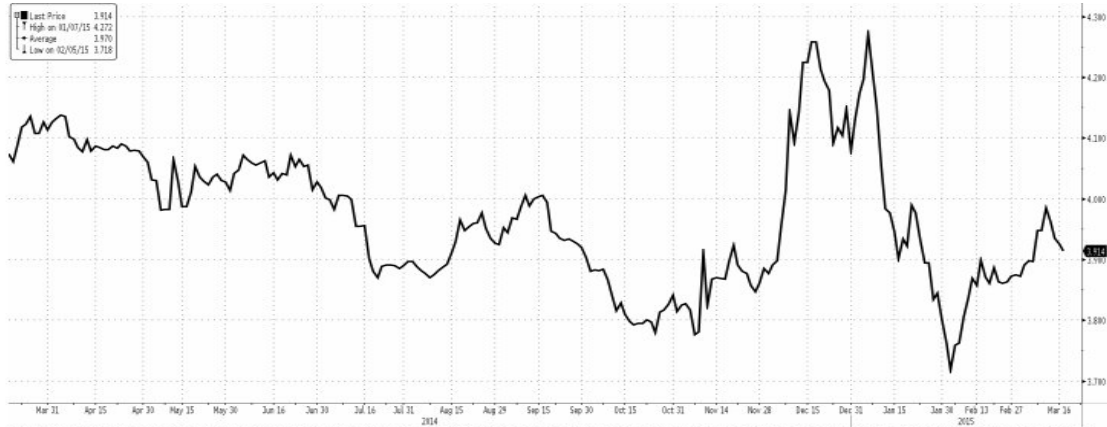
Maintain NEUTRAL on REITs. While we are slightly positive on the news, it is not expected to affect REIT players earnings and valuation significantly. Hence, we maintain our NEUTRAL recommendation on the sector. Although we do not have any BUY recommendation currently, our preferred stock is CMMT as its net dividend yield of 5.8% is the highest among stocks under our coverage.

Chart 1: Peer comparison

Stock	FYE	Rec.	Price @ 17-Mar	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	3.55	3.50	17.51	18.39	2.1%	5.0%	20.3	19.3	16.94	16.66	4.8	4.7
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	NEUTRAL	1.34	1.41	6.95	7.15	2.8%	2.8%	19.3	18.7	7.16	7.34	5.3	5.5
PAVREIT	Dec	NEUTRAL	1.47	1.57	7.99	8.41	3.6%	5.3%	18.4	17.5	7.42	7.79	5.0	5.3
SUNREIT	Jun	NEUTRAL	1.57	1.70	8.33	9.32	5.3%	11.9%	18.9	16.8	7.87	8.81	5.0	5.6

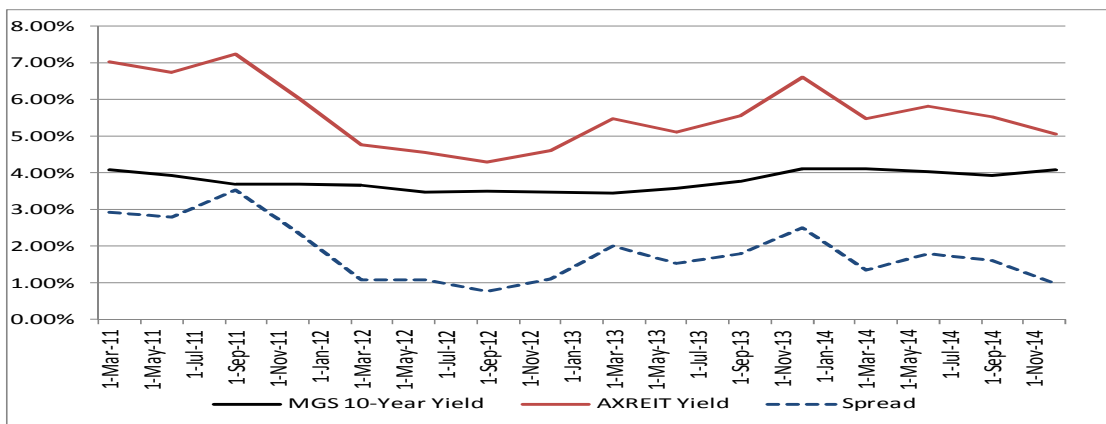
Source: MIDF Research Estimates

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



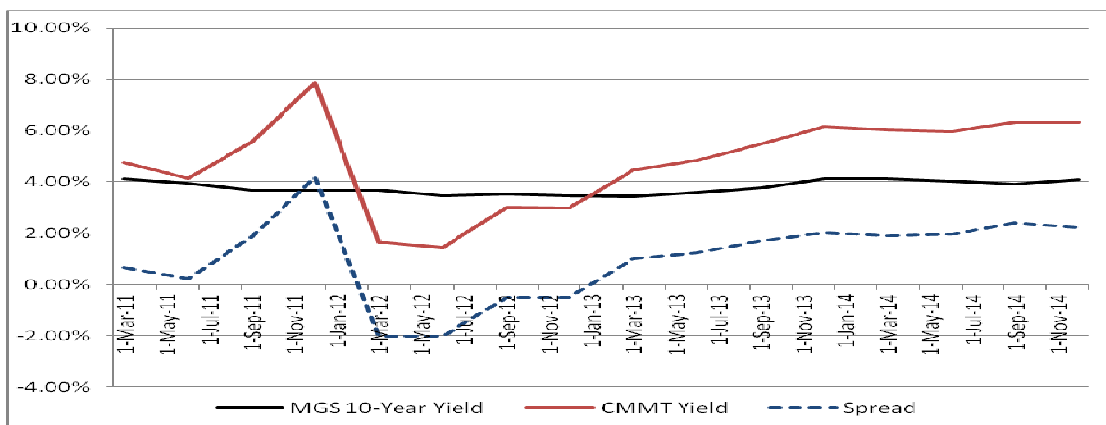
Source: Bloomberg

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



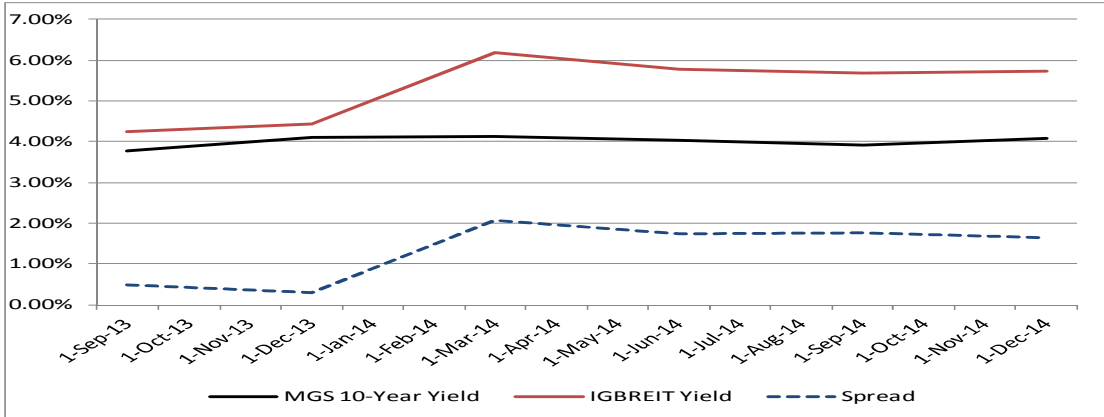
Source: Bloomberg

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



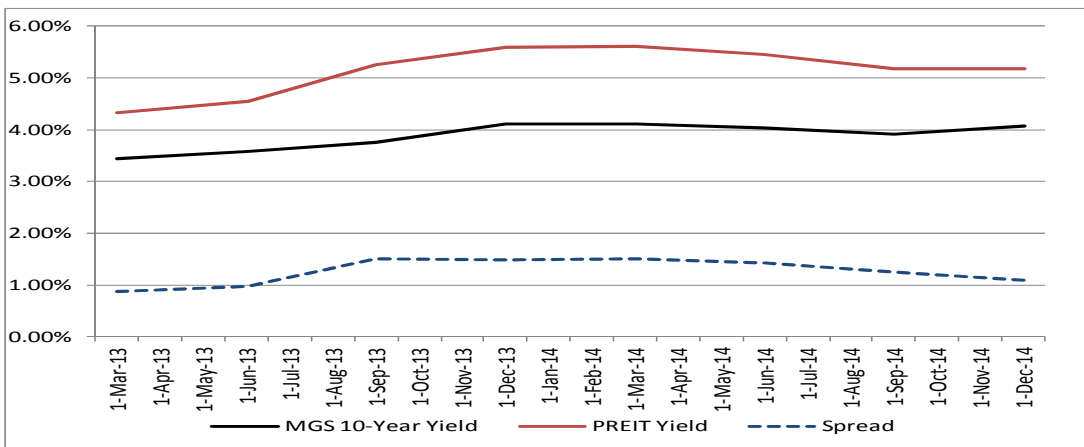
Source: Bloomberg

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



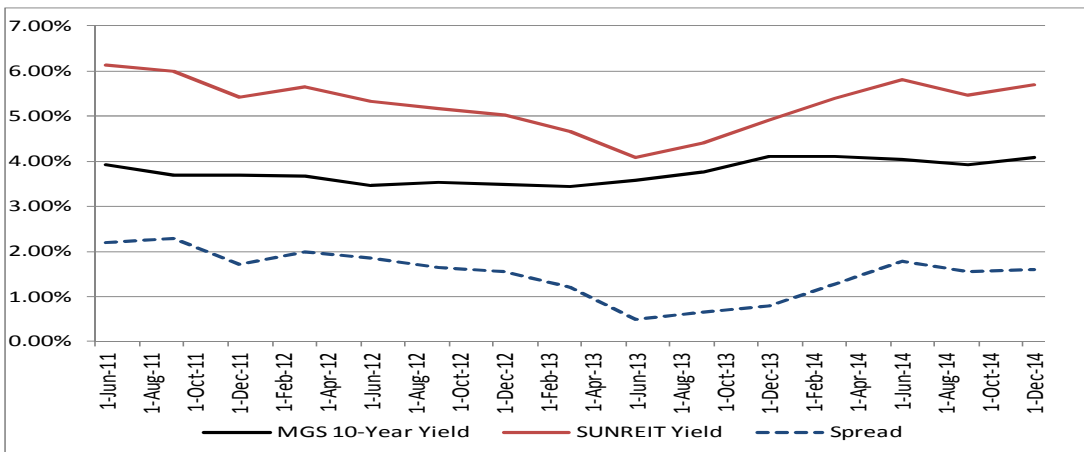
Source: Bloomberg

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



Source: Bloomberg

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



Source: Bloomberg

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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.