

26 January 2018 | Sector Update

REITs

Maintain NEUTRAL

Fundamentals to outweigh impact from rate hike

KEY HIGHLIGHTS

- **OPR was increased by 25bps to 3.25%**
- **Minimal impact on EPU, which is limited from -0.2% to -2.1%**
- **Neutral on the impact the rate hike has for REITs under our coverage**
- **We remain NEUTRAL on the sector with SUNWAY REIT (BUY; TP: RM1.90) as our Top Pick**

OPR was increased by 25bps to 3.25%. Recall the last a rate hike was announced was on July 10, 2014. The overnight policy rate had then stayed unchanged at 3.25% until July 13, 2016 before it was reduced to 3.00%. We do not expect the 25bps hike to impact adversely on REITs based on historical price movement. In fact, unit prices of five out of seven REITs advanced from then until end-2014. We believe that investors placed more importance on the earnings outlook of the respective REITs rather than the slight impact from the higher interest rate.


Minimal impact on EPU, which is limited from -0.2% to -2.1%. Among the REITs that we cover, Amanahraya REIT's loans are all based on floating rates. Conversely, IGB REIT's floating rate loans was only kept at 1%. REIT managers are working on converting part of their floating rate loans to fixed rate loans to mitigate the risk of potentially higher interest costs in the event of more rate hikes. That said, our house economist expects only one rate hike this year.

Neutral on the impact the rate hike has for REITs under our coverage. Although borrowing costs are expected to increase for REITs with high levels of floating rate loans, most of the REITs under our coverage see limited impact from the rate hike as 80% or more of their debts are based on fixed rates. Even for Amanahraya REIT which has 100% of its loans based on floating rates is expected to see earnings impact limited to -2.1%.

Exhibit 1: Adjustments of EPU, DPU and TP following the rate hike

FY18	Pre rate hike			Post rate hike		
	Core EPU	Net DPU	TP	Core EPU	Net DPU	TP
Amanahraya	6.54	5.71	1.11	6.40	5.59	1.09
Axis	9.33	8.22	1.66	9.22	8.13	1.64
Pavilion	8.57	7.94	1.70	8.48	7.86	1.68
Sunway	9.70	8.73	1.91	9.66	8.69	1.90
KLCCP	40.69	35.63	7.60	40.64	35.59	7.59
CMMT	7.88	7.55	1.49	7.85	7.53	1.49
IGB REIT	8.83	8.47	1.73	8.81	8.46	1.73

Source: Bloomberg, MIDF Research

Maintain NEUTRAL on REITs sector. We maintain NEUTRAL on the REITs due to the lack of near-term catalysts. Our top pick for the sector is Sunway REIT (BUY; TP: RM1.90) due to its positive earnings outlook that is backed by positive rental reversion from Sunway Pyramid. We also have a BUY call on AmanahRaya REIT (TP: RM1.09) for its diversified assets base with exposure to education property. We also like IGB REIT (BUY; TP: RM1.73) for its ability to command positive rental reversion for its crown jewel Mid Valley Megamall and Axis REIT (BUY; TP:RM1.64) for its niche in industrial assets, which provides stable income. 

Amanahraya REIT: INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY14A	FY15A	FY16A	FY17F	FY18F
Revenue	57.2	61.9	57.4	58.7	61.7
Net Rental Income	53.9	58.1	53.3	53.8	56.6
Profit Before Tax	107.2	59.7	40.5	34.1	36.7
Net Income	107.2	59.7	40.5	34.1	36.7
Core Net Income	33.9	37.0	35.3	34.1	36.7
Basic EPS (sen)	18.71	10.41	7.07	5.95	6.41
Core EPS (sen)	5.91	6.45	6.16	5.95	6.41
Gross Dividend (sen)	6.50	6.30	5.90	5.77	6.22
Net Dividend (sen)	5.85	5.67	5.31	5.20	5.60
Net Distribution Yield	6.4%	6.2%	5.8%	5.7%	6.1%
Core PER	15.48	14.19	14.84	15.37	14.27
NAV per unit	1.15	1.19	1.20	1.22	1.23
P/NAV (x)	0.80	0.77	0.76	0.75	0.74
Core ROE	5.1%	5.4%	5.2%	4.9%	5.2%
Core ROA	3.1%	3.4%	3.4%	3.3%	3.5%

Source: Company MIDF Research

Axis REIT: INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY14A	FY15A	FY16A	FY17F	FY18F
Gross Revenue	137.63	163.08	167.36	166.35	196.20
Net Rental Income	118.50	141.93	144.29	141.93	170.93
Net Investment Income	148.07	145.10	172.42	142.76	171.80
Net Income	110.46	96.56	122.29	91.65	113.33
Core Net Income	86.45	93.45	92.40	91.65	113.33
Realised EPU (sen)	10.08	8.78	11.07	8.29	9.21
Core EPU (sen)	7.89	8.50	8.36	8.29	9.21
Gross DPU (sen)	9.87	8.40	8.25	8.24	9.02
Net DPU (sen)	8.88	7.56	7.43	7.42	8.12
Net Distribution Yield (%)	0.06	0.05	0.05	0.05	0.05
Core PER (x)	19.01	17.65	17.94	18.09	16.28
NAV per unit (RM)	1.21	1.23	1.26	1.24	1.10
P/NAV (x)	1.24	1.22	1.19	1.21	1.36
Core ROE	7%	7%	7%	7%	8%
Core ROA	5%	4%	4%	4%	5%

Source: Company MIDF Research

CMMT: INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	344.8	372.6	368.9	371.2	374.9
Net Rental Income	226.4	242.5	237.1	239.3	242.3
Net Investment Income	302.0	252.3	246.8	246.0	249.0
Net Income	226.0	167.8	162.1	159.4	161.8
Core Net Income	155.1	163.7	157.9	159.4	161.8
Realised EPU (sen)	12.00	8.26	7.98	7.85	7.97
Core EPU (sen)	7.66	8.06	7.77	7.85	7.97
Gross DPU (sen)	8.60	8.43	8.24	8.37	8.50
Net DPU (sen)	7.74	7.59	7.41	7.53	7.65
Net Distribution Yield	5.3%	5.2%	5.3%	5.4%	5.5%
Core PER	19.1	18.1	17.9	17.7	17.4
NAV per unit	1.32	1.32	1.32	1.32	1.32
P/NAV	1.11	1.10	1.06	1.06	1.06
Core ROE	6.3%	6.1%	5.9%	6.0%	6.1%
Core ROA	4.1%	4.0%	3.8%	3.9%	3.9%

Source: Company, MIDF Research

IGB REIT: INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	489	507	525	557	579
Net Rental Income	343	361	374	403	422
Net Investment Income	350	370	422	414	435
Net Income	254	278	343	307	323
Core Net Income	254.1	278	303	307	323
Realised EPU (sen)	7.40	8.09	9.77	8.73	9.18
Core EPU (sen)	7.40	8.09	8.63	8.73	9.18
Gross DPU (sen)	8.19	8.71	9.28	9.31	9.78
Net DPU (sen)	7.37	7.84	8.35	8.38	8.80
Net Distribution Yield (%)	4.6%	4.9%	5.2%	5.2%	5.5%
Core PER (x)	21.8	19.9	18.6	18.4	17.5
NAV per unit (RM)	1.07	1.07	1.06	1.06	1.06
P/NAV (x)	1.51	1.51	1.52	1.52	1.52
Core ROE	6.9%	7.6%	8.2%	8.2%	8.7%
Core ROA	4.9%	5.4%	5.8%	5.8%	6.0%

Source: Company, MIDF Research

KLCCP: INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	1,340	1,385	1,367	1,452	1,508
Operating Profit	1,004	1,042	1,000	1,066	1,098
Profit Before Tax	1,518	1,136	1,115	989	1,019
Net Income	1,132	886	878	734	756
Core Net Income	725	719	720	734	756
Basic EPS (sen)	62.68	49.08	48.63	40.65	41.88
Core EPS (sen)	38.35	39.83	39.91	40.65	41.88
Gross Dividend (sen)	34.70	37.04	36.15	37.60	38.62
Net Dividend (sen)	32.67	34.87	34.04	35.40	36.36
Net Distribution Yield	4.2%	4.5%	4.4%	4.5%	4.7%
Core PER	20.3	19.6	19.5	19.2	18.6
NAV per unit	6.95	7.17	7.22	7.41	7.44
P/NAV	1.12	1.09	1.08	1.05	1.05
Core ROE	5.6%	5.6%	5.5%	5.6%	5.6%
Core ROA	4.0%	4.1%	4.1%	4.1%	4.2%

Source: Company, MIDF Research

Pavilion REIT: INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	414	460	490	523	559
Net Rental Income	292	315	323	348	375
Net Investment Income	339	400	348	357	382
Net Income	282	312	250	257	282
Core Net Income	241	235	233	257	282
Realised EPU (sen)	9.40	10.35	8.27	8.53	9.34
Core EPU (sen)	8.00	7.80	7.71	8.53	9.34
Gross DPU (sen)	8.23	8.24	7.95	8.78	9.59
Net DPU (sen)	7.40	7.42	7.16	7.90	8.63
Net Distribution Yield (%)	4.8%	4.8%	4.6%	5.1%	5.6%
Core PER (x)	19.4	19.9	20.1	18.2	16.6
NAV per unit (RM)	1.28	1.30	1.31	1.31	1.31
P/NAV (x)	1.21	1.19	1.19	1.19	1.19
Core ROE	6.3%	6.1%	5.9%	6.5%	7.2%
Core ROA	5.1%	4.5%	4.2%	4.6%	5.1%

Source: Company, MIDF Research

Sunway REIT: INVESTMENT STATISTICS

FYE June (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	453	507	523	553	591
Net Rental Income	341	374	389	420	451
Net Investment Income	651	447	549	420	451
Net Income	541	324	424	284	303
Core Net Income	241	254	270	284	303
Realised EPU (sen)	18.52	11.00	14.42	9.66	10.29
Core EPU (sen)	8.23	8.63	9.19	9.66	10.29
Gross DPU (sen)	8.73	9.18	9.19	9.66	10.29
Net DPU (sen)	7.85	8.26	8.27	8.69	9.26
Net Distribution Yield (%)	4.6%	4.8%	4.8%	5.1%	5.4%
Core PER (x)	20.9	19.9	18.7	17.8	16.7
NAV per unit (RM)	1.26	1.38	1.43	1.43	1.24
P/NAV (x)	1.37	1.25	1.20	1.20	1.39
Core ROE	6.5%	6.6%	6.5%	6.8%	7.7%
Core ROA	4.0%	4.0%	4.0%	4.2%	4.4%

Source: Company, MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.