

08 May 2019 | Sector Update

REITs

Limited impact from 25bps cut in OPR

Maintain NEUTRAL

KEY HIGHLIGHTS

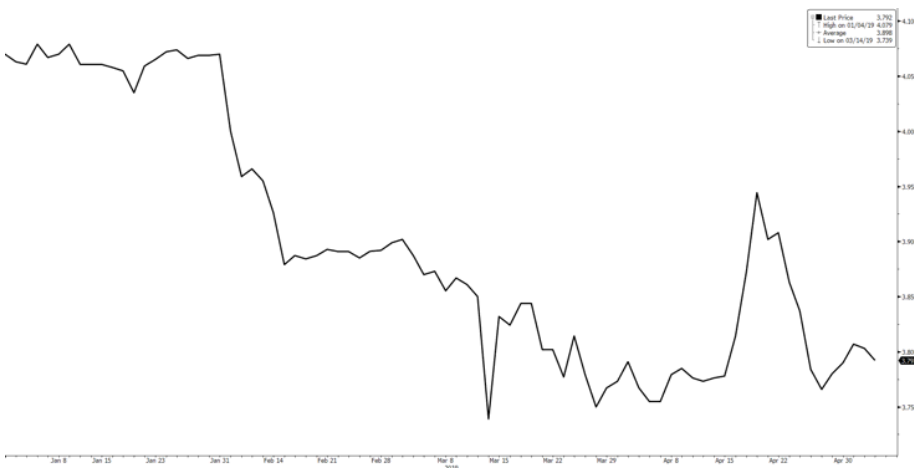
- **BNM has reduced OPR rate by 25bps to 3.00%**
- **Lower finance cost to boost EPU albeit quantum is limited to ~1%**
- **Neutral on impact the rate hike has for REITs under our coverage**
- **We remain NEUTRAL on the sector with SUNWAY REIT (BUY; TP: RM2.02) as our Top Pick.**

OPR was reduced by 25bps to 3.00%, which was the level last seen in November 2017. Based on the historical price movement of REITs, a 25bps-cut does not have significant impact on the unit prices of REITs. That said, we expect a handful of REITs to benefit from lower financing costs due to their proactive measures in managing the ratio of their fixed and floating rate loans.

Lower finance cost to boost EPU albeit quantum is limited to ~1%. Among the REITs that we cover, Pavilion REIT's floating rate loans constitute 58.5% of its overall borrowings, Sunway REIT's at 52% and Axis REIT's at 44%. Savings from the lower finance cost for Pavilion REIT is estimated at 1.1% for FY19E, Sunway REIT at 1.2% for FY20E and Axis REIT at 1.0% for FY19E.

The rate has minimal impact on earnings and target prices. We are neutral on the impact of the finance cost savings as they are deemed minimal to the bottomline. Meanwhile, the 10-year Malaysian Government bond yield averages at ~3.9%ytd, which is still within our estimation of 4.0%. As such, we maintain our earnings estimates and target prices for REITs under our coverage.

Exhibit 1: Year-to-date 10-year MGS yield



Source: MIDF Research, Bloomberg


Maintain NEUTRAL on REITs sector. We maintain NEUTRAL on the REIT sector as we believe that most of the positive points are largely priced in, leaving limited upside. The average yield spread compared to 10-year MGS is not very appealing at 1.2ppt. Our top pick for the sector is Sunway REIT (BUY; TP: RM2.02) due to the stable income growth from Sunway Pyramid and more balanced portfolio. We also like Al-Aqar (BUY; TP: RM1.49) due to its unique position as a pure healthcare REIT and defensive earnings. 

Exhibit 2: Key investment statistics

Stock	FYE	Rec.	Price @ 7 May	Target Price (RM)	Core EPU (sen)			Core PE (x)		Net DPU		Net Dvd Yield	
					FY18	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
AXREIT	Dec	NEUTRAL	1.77	1.73	9.1	9.9	10.3	17.9	17.2	8.7	9.0	4.9	5.1
CMMT	Dec	NEUTRAL	1.13	1.05	6.6	5.7	7.1	19.8	15.9	6.9	7.2	6.1	6.4
IGBREIT	Dec	NEUTRAL	1.87	1.79	8.6	9.3	9.8	20.1	19.1	8.6	9.0	4.6	4.8
PAVREIT	Dec	NEUTRAL	1.80	1.78	8.4	9.6	9.8	18.8	18.4	8.8	9.0	4.9	5.0
KLCC	Dec	NEUTRAL	7.86	7.78	40.3	40.8	42.1	19.3	18.7	35.4	37.6	4.5	4.8
SUNREIT	Jun	BUY	1.92	2.02	9.6	9.9	10.6	19.3	18.1	8.9	9.5	4.6	4.9
ARREIT	Dec	BUY	0.86	0.91	6.1	6.8	7.0	12.7	12.2	5.9	6.1	6.8	7.1
AL-'AQAR	Dec	BUY	1.40	1.49	8.4	8.3	8.6	16.8	16.3	7.0	7.2	5.0	5.2
Average												5.2	5.4

Source: MIDF Research estimates

Ng Bei Shan
ng.bs@midf.com.my
 03-21738461

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 >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.