Sector Thematic | Monday, 28 March 2022

REIT

***Upgrade to* POSITIVE**
***Previously* NEUTRAL**

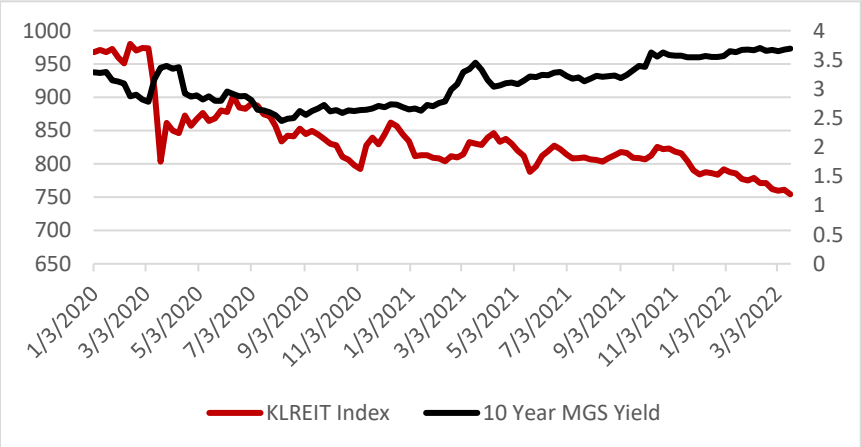
Poised to benefit from economic recovery

KEY INVESTMENT HIGHLIGHTS

- **KL REIT Index at multi-year low**
- **Retail REITs to benefit from economic recovery**
- **Reopening of country borders a boon to REITs**
- **Attractive distribution yield**
- **Upgrade REIT sector to POSITIVE from NEUTRAL**

KL REIT Index at multi-year low. REITs succumbed to sell down since 2020 amid Covid-19 pandemic. The spreading of Covid-19 pandemic has severely hit retail REITs as people avoid going to shopping malls. That dragged the KL REIT Index to a multi-year low of 754.34 points on 18th March 2022. The decline in KL REIT Index could also partly attributed to the rising 10-year MGS yield to above 3.75% in March as rising MGS yield reduces the attractiveness of REIT's yield. In a nutshell, we think that KL REIT Index should stage recovery from multi-year low considering that worst should be over for REITs as global economy is recovering from Covid-19 pandemic.

Figure 1: KL REIT Index and 10-year MGS Yield



Source: Bloomberg, MIDF Research

Retail REITs to benefit from economic recovery. As Malaysia reopened more economic sectors and lifted more movement restrictions of people following the ramped-up Covid-19 inoculation programme, economy in Malaysia is expected to recover gradually in 2022. We expect retail REITs to benefit from economic recovery as footfall at shopping malls recovers. Nevertheless, we reckon that rental reversion of shopping mall to remain flattish in 2022 as tenant sales take time to recover. We expect rental reversion to return to positive territory in 2023 for established malls in Klang Valley such as Mid Valley Megamall, Pavilion KL, Sunway Pyramid and Suria KLCC.

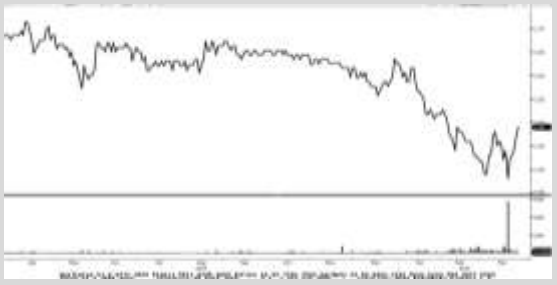
COMPANY IN FOCUS

IGB REIT

Upgrade to **BUY** | Revised Target price: RM1.72
Price @ 25nd March 2022: RM1.49

- Mid Valley Megamall and The Gardens mall should see improved footfall following economic recovery.
- Positive earnings outlook due to better rental reversion outlook and higher tenant sales.
- Distribution yield is attractive at 5.2% in FY22.

Share price chart

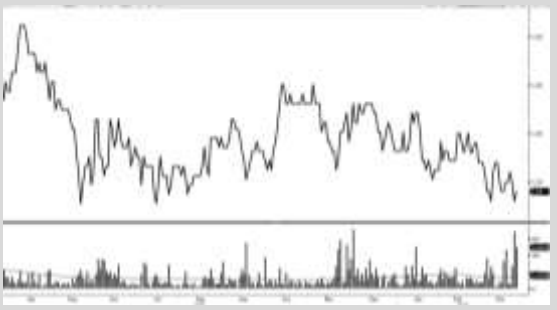


Sunway REIT

Upgrade to **BUY** | Revised Target price: RM1.55
Price @ 25nd March 2022: RM1.34

- Earnings recovery to underpin by recovery of Sunway Pyramid
- Hotel division is expected to improve due to reopening of country borders
- Distribution yield is estimated at 4.8% for FY22.

Share price chart



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Reopening of country borders a boon to REITs. Malaysia is set to reopen its international borders from 1st April 2022. The reopening of country borders which have remained closed for two years is expected to stimulate tourism activities in Malaysia. As a result, we expect hotel industry to see light at the end of tunnel as hotel industry in Malaysia has been heavily reliant on tourism activities. In this context, we expect REITs with exposure to hotel industry namely Sunway REIT and KLCCP Stapled Group to see turnaround in hotel segment in 2H2022. Meanwhile, malls that are tourist hotspots such as Pavilion KL and Suria KLCC should also benefit from the reopening of country borders as shopper footfall at the malls is expected to improve.

Attractive distribution yield. We estimate average distribution yield of REITs to remain attractive at 5.1% and 5.4% for CY22 and CY23 respectively, which is higher by 140 basis points than 10-year MGS yield of 3.7%. We forecast the distribution yield of REITs to recover in CY22, premised on earnings recovery of REITs. Meanwhile, we adjust the target prices for REITs under our coverage as we rollover our valuation base year. Corresponding to the adjustment in target prices, we upgrade IGB REIT, Sunway REIT and Pavilion REIT to BUY. We opine that the improving outlook for retail should result in postivie re-rating of retail REITs with established malls in Klang Valley.

Figure 2: Peers comparison table

Stock	Rec.	Previous Rec.	Price @ 25-March	Revised Target Price (RM)	Previous Target Price (RM)	Core EPU (sen)			Core PE (sen)		Net DPS		Net Dvd Yield	
						FY21	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
IGB REIT	BUY	NEUTRAL	1.49	1.72	1.57	5.6	8.3	9.3	17.8	16.0	7.7	8.6	5.2	5.8
KLCCP Stapled Group	BUY	BUY	6.68	7.03	6.80	34.2	38.9	41.2	17.2	16.2	34.0	35.0	5.1	5.2
Al-Aqar Healthcare REIT	BUY	BUY	1.14	1.42	1.40	9.2	9.6	9.3	11.8	12.3	7.4	7.5	6.5	6.6
Axis REIT	BUY	BUY	1.83	2.08	2.04	9.2	9.6	9.8	19.1	18.7	8.4	8.6	4.6	4.7
Sunway REIT	BUY	NEUTRAL	1.34	1.55	1.40	7.4	7.6	8.2	17.5	16.3	6.4	7.4	4.8	5.5
Pavilion REIT	BUY	NEUTRAL	1.25	1.37	1.32	4.1	5.8	5.9	21.7	21.1	5.4	5.6	4.3	4.4
Average													**5.1**	**5.4**

Source: MIDF Research

Upgrade to POSITIVE. We upgrade REITs sector to **Positive** from Neutral as we see the sector should benefit from economic recovery and borders reopening of Malaysia. We see the worst is over for the sector and the sector is poised for recovery in 2H2022. Despite the negative impact of Covid-19 pandemic, REITs have weathered the storm and outlook is expected to improve in the near-term. Besides, we think that the sector could be viewed as a safe heaven amid Russia-Ukraine tension. Our top picks for the sector are **IGB REIT (BUY, TP: RM1.72)** and **Sunway REIT (BUY, TP: RM1.55)** as we think that the the two REITs should benefit the most from the reopening of economy and country borders. Their flagship malls namely Mid Valley Megamall and Sunway Pyramid should see strong recovery in footfall and tenant sales in FY22.

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology