

# Limited near-term upside seen for REITs



Sunway REIT's stable earnings are supported by its crown jewel Sunway Pyramid.

## REIT sector

**Maintain neutral:** All of the real estate investment trusts (REITs) under our coverage recorded core net income (CNI) in line with our full-year forecasts. Al-'Aqar Healthcare REIT has been a new addition in our universe since October last year. On a year-on-year basis, REITs under our coverage reported mixed earnings with six recorded higher and two registered lower CNI compared to the previous corresponding cumulative period.

Altogether, the results were within our expectations.

We are maintaining most of our earnings assumptions for REITs under our coverage as the fourth quarter of calendar year 2018 performances of REITs under our coverage were mostly in line. That said, we have increased our target prices (TPs) for Axis REIT (from RM1.55 to RM1.62), Al-'Aqar (from RM1.45 to RM1.49), CapitaLand Malaysia Mall Trust (from RM1.02 to RM1.08), IGB REIT (from RM1.73 to RM1.77)

## REIT sector peer comparison

STOCK	FYE	REC	PRICE @ MAR 6	TARGET PRICE (RM)	CORE EPU (SEN)			CORE PER (X)		NET DPU		NET DVD YIELD	
					FY18	FY19	FY20	FY19	FY20	FY19	FY20	FY19	FY20
AXREIT	Dec	Neutral	1.74	1.62	9.1	9.9	10.3	17.6	16.9	8.7	9.0	5.0	5.2
CMMT	Dec	Neutral	1.10	1.08	6.8	6.9	7.3	15.9	15.1	7.0	7.4	6.4	6.7
IGBREIT	Dec	Neutral	1.74	1.77	8.6	9.2	9.7	18.9	17.9	8.5	8.9	4.9	5.1
PAVREIT	Dec	Neutral	1.74	1.67	8.4	9.6	9.6	18.2	18.1	8.8	8.9	5.1	5.1
KLCC	Dec	Neutral	7.84	7.76	40.3	41.9	41.9	18.7	18.7	36.4	37.5	4.6	4.8
SUNREIT	Jun	Buy	1.76	1.93	9.6	9.9	10.5	17.7	16.8	9.0	9.4	5.1	5.4
ARREIT	Dec	Buy	0.85	0.91	6.1	6.8	7.0	12.5	12.0	5.9	6.1	7.0	7.3
AL-'AQAR	Dec	Buy	1.35	1.49	8.4	8.3	8.6	16.2	15.7	7.0	7.2	5.2	5.3
Average												5.4	5.6

Source: MIDF Research

and Pavilion REIT (from RM1.60 to RM1.67), mainly due to the rollover of base years.

Based on our estimates, the average yield for REITs under our coverage comes in at 5.4%. The current yield spread of 1.5 percentage points (ppts) is deemed unexciting, as it is lower than the three-year mean of 1.7ppts among yields of Malaysian REITs and 10-year Ma-

laysian Government Securities. Moreover, REIT unit prices have strengthened since the beginning of the year, narrowing the upside potential in capital gains.

We have maintained “neutral” on the REIT sector due to a lack of near-term catalysts. Our top pick for the sector is Sunway REIT (buy; TP: RM1.93) due to the stable earnings supported by its crown jewel Sun-

way Pyramid. Moreover, we believe its office segment may improve during the financial year. We also have “buy” calls on AmanahRaya REIT (TP: 91 sen) for its diversified asset base with exposure to education property and an attractive dividend yield of 6.9%, and on Al-'Aqar (TP: RM1.45) for its unique position as a defensive healthcare REIT. — MIDF Research, March 11