

PETALING JAYA: Real estate investment trusts (REITs) continue to come under pressure from the ongoing measures to keep the Covid-19 pandemic from spreading locally.

The movement control order (MCO) that started in the middle of March has seen a pronounced impact on retailers and hoteliers, especially as malls are emptied and tourists are kept away.

The MCO, which has been extended until May 12, would continue to keep REIT prices and valuations in check moving forward as any meaningful recovery in earnings is still a distant possibility, said analysts.

IGB REIT, which announced its second quarter results on Wednesday, had seen its quarterly income of RM68.36mil coming below analysts' expectations and this has also set the expectations of things to come for the other REIT companies as well.

"IGB REIT's first quarter financial year 2020 (FY20)'s core net profit slumped 18% year-on-year on the back of weaker revenue and higher operating costs and made up 21-22% of ours and consensus full-year forecasts," CGS-CIMB said in its report.

The research house notes that IGB REIT's first quarter's performance was below expectations and it has forecast weaker earnings performance in the coming quar-

REITs continue to face MCO pressure

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ters.

The underperformance is due to the impact on shopper traffic from the Covid-19 pandemic, it said.

IGB REIT's first quarter dividend per unit had fallen 19% y-o-y to 1.9 sen compared with 2.4 sen in the same quarter a year ago and makes up 19.4% of CGS-CIMB's full-year estimate of 10 sen.

CGS-CIMB is expecting the MCO to extend at least up to mid-May at this point in time and is expecting its rental support programme (RSP) will likely continue until the end of the MCO.

"RSP benefits both essential and non-essential tenants.

"We gather that the RSP is similar to free rental not rebates," it said.

IGB REIT is still rated an "add" by CGS-CIMB with a lower target price of RM1.89 premised on a potential recovery post-MCO.

The research house said that it believes flagship neighbourhood malls, such as MidValley and The Gardens, with their superior occupancy rates and diversified tenants, are likely to stage a resilient but gradual recovery after the MCO, compared with other urban malls.

Meanwhile, MIDF Research also said that IGB REIT's results had also come in slightly below its expectations and had made up 20% of its full year's estimates.

"We revise downward our FY2020 earnings forecast by -32.8% as we factor in lower income from turnover rent and car park as well as lower shopper traffic in the near

term even after MCO is lifted," MIDF Research said.

"We also cut IGB REIT's FY21's earnings forecast by -6.3% as we assume more conservative positive rental reversion in view of the weaker retail backdrop," it added.

MIDF Research said it maintained its "neutral" call on IGB REIT with a lower target price of RM1.70 from RM1.90 before on lower anticipated earnings moving forward.

Its valuation is based on the dividend discount model (DDM) valuation and the neutral is maintained on limited catalysts moving forward.

It also noted that IGB REIT's dividend yield is expected to taper to below 4% in FY2020.

IGB REIT declined three sen at its close yesterday to RM1.67.