

The retail scene is seeing a revival as footfall at major shopping malls has returned to pre-pandemic levels amid a noticeable pickup in consumer spending.

Shopping traffic at major retail malls, which has gained traction since early this year, is expected to maintain its momentum and lead to a normalisation of retail sales in July, Retail Group Malaysia (RGM) managing director Tan Hai Hsin tells *The Edge*.

He believes retail sales have been strengthened by the three long weekends in conjunction with Hari Raya, Labour Day and Wesak Day in May and the Yang di-Pertuan Agong's birthday in June. Major shopping centres in Johor Baru are the exception, he notes, as arrivals from Singapore have yet to return to pre-pandemic levels. However, he believes this will be achieved before the end of the year.

It is also believed that Health Minister Khairy Jamaluddin's announcement that people would no longer be required to use the MySejahtera app to register before entering premises from May 1, as well as the special one-off withdrawal facility of RM10,000 provided by the Employees Provident Fund, further encouraged footfall and revenge spending as the nation enjoyed its first Hari Raya without movement restrictions in two years.

In March, RGM projected a retail sales growth of 6.3% for 2022 compared with an estimated 0.5% in 2021. It is worth noting that the forecast will be revised upwards based on "the very encouraging retail sales performance during the Hari Raya festival period", says Tan, adding that the revision will be published in RGM's June report.

If mall openings in the Klang Valley are any indication of progress, then the 10 new shopping centres in 2020, three in 2021 and eight slated for this year point to a recovery. That is a total of 9.78 million sq ft of new net leasable area, says Tan, who is managing director of Henry Butcher Retail.

Judging by the developments on the retail scene, is the worst of the pandemic-induced economic crisis over?

Tan believes so, barring any unforeseen circumstances such as "a new mutation of the coronavirus that causes high mortality rates, a double-digit spike in the monthly Consumer Price Index and a recession in Europe and the US".

RHB Research regional head of consumer Soong Wei Siang expects the good pickup in retail sales to continue into the second half of the year, considering the wage recovery and growth amid normalisation of economic activities, as well as the stronger rural spending aided by the elevated commodity prices.

Not all is rosy, however, as near-term risks to the retail sector include cost inflation, supply chain disruptions and labour shortage, he points out.

"Cost inflation will see retailers pass on the higher costs to consumers. In addition, retailers who rely heavily on imported goods to meet consumer demand are feeling the heat due to the unfavourable foreign exchange rates and freight challenges. While news of incoming foreign labour may be a much-anticipated resolution for the sector, it also begs



## Investing in the revenge shopping phenomenon

the question of whether the actual incoming headcount will suffice in the near term to solve the labour shortage problem," says Soong.

Other foreseeable major challenges include rising food prices, erosion of purchasing power after Bank Negara Malaysia raised the overnight policy rate by 25 basis points to 2% on May 11, travel restrictions in China delaying the much-needed tourist spending in Malaysia, as well as higher prices of goods and services due to sanctions related to the Russian-Ukraine war, Tan cautions.

Purchasing power will face further erosion as companies pass on higher operational costs, following the increase in minimum wage to RM1,500 from RM1,200 effective May 1, to consumers.

### Retail malls, REITs register improvement

For the first quarter ended March 31 (1QFY2022), Parkson Holdings Bhd — which has retail operations in Malaysia, China, Vietnam and Indonesia — posted a net loss of RM8.6 million on the back of RM826 million in revenue. Its net loss in the previous corresponding quarter stood at RM170 million on revenue of RM885 million. Note that no comparison was made in the latest financial statements due to the change in the group's accounting year end from June 30 to Dec 31.

In a filing with Bursa Malaysia, Parkson

said its Malaysian retail division, which has 38 stores, recorded an operating profit of RM35 million on revenue of RM160 million for the quarter in review. For 2QFY2022, it forecasts that the group's retail operations in Malaysia will benefit from pent-up demand and festive spending during the Hari Raya celebrations, while Parkson China's operations are anticipated to face challenges brought about by new variants of the coronavirus.

During the same period, Aeon Co (M) Bhd — which operates supermarkets and department stores in Malaysia — posted a net profit of RM28.07 million, up 27.6% from RM22 million in the previous corresponding period as a result of improved retail margin and disciplined cost management. Revenue was 1.08% lower at RM1.002 billion.

In a May 19 note, MIDF Research said revenue from Aeon Co's retail business segment declined 2.5% year on year to RM857.4 million as more consumers spent time outdoors and dined out instead of cooking at home. "We expect Aeon Co's prospects to improve from FY2022 onwards, in line with the reopening of businesses and social activities, coupled with the group's Online Merge Offline (OMO) strategy and initiatives to accelerate the digital shift to its shopping application myaeon2go."

The research house maintains its "buy" call on the stock, with a target price of RM1.79. Berjaya Corp Bhd — which has business-

es in retail, property, hospitality and services — more than halved its net loss to RM35.9 million in its third quarter ended March 31 (3QFY2022) from a net loss of RM87.6 million a year earlier. Revenue strengthened to RM2.4 billion from RM1.8 billion last year.

The group told Bursa that its food retail businesses recorded "a significant increase in revenue upon the resumption of domestic tourism and further relaxation of Covid-19 standard operating procedures, as well as higher same-store-sales growth, particularly at its Starbucks outlets". It also operates Kenny Rogers Roasters restaurants in Malaysia.

In FY2021, Berjaya Corp's restaurant and café business contributed up to 41% to the group's results.

Meanwhile, Sunway Real Estate Investment Trust (REIT) registered a 1QFY2022 net property income (NPI) of RM118.9 million, a 77.4% improvement from RM67 million a year earlier, while gross revenue came in at RM154 million, 47.7% higher than the RM104.3 million in the previous corresponding period. Sunway REIT expects its financial performance to improve significantly in FY2022, supported by the reopening of borders, stronger domestic economic growth, improved consumer sentiment on the back of stable employment prospects as well as the progressive reopening of Sunway Resort Hotel and the completion

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## REITs have outperformed FBM KLCI year to date

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of its Sunway Carnival Mall expansion.

The diversified REIT has a portfolio of 18 properties, comprising four retail malls, six hotels, five offices, a medical centre, an industrial property and a purpose-built campus. Its prize asset is the Sunway Pyramid shopping mall.

Meanwhile, Sunway Malls, a unit under Sunway Bhd, said in a June 2 statement that it expects a stronger sales performance in 2Q2022, at 117% of pre-pandemic levels on the back of a better sales performance during Hari Raya last month, the country's transition to endemicity, an improved labour market and stronger domestic and external demand.

The mall operator, which manages Sunway Group's seven shopping malls (including Sunway Pyramid) and one digital mall, did not provide the actual sales figures but said its sales performance came in above expectations at 143% in April and 110% in May. It also expects its performance to be sustained at 100% or more in June.

Driven by a continued improvement in operating conditions, KLCCP Stapled Group — which comprises KLCC Property Holdings (KLCCP) and KLCC REIT — derived a 1QFY2022 core net profit of RM163 million, from RM149 million in the previous corresponding period, as revenue grew 13.9% to RM321.7 million from RM282.4 million, according to CGS-CIMB Research in a May 25 note.

CGS-CIMB Research analyst Sharizan Rosely notes that the signs of recovery for the group's retail segment during the quarter in review include tenant sales performance continuing to outpace footfall at Suria KLCC. "KLCCP Stapled Group's overall strategy in FY2022F continues to revolve around further capturing the improving retail sentiment and domestic travel activities."

He maintains his "hold" call on the REIT, with a target price of RM6.93.

KLCCP Stapled Group has the iconic Petronas Twin Towers, Menara ExxonMobil, Menara 3 Petronas, Suria KLCC and Mandarin Oriental, Kuala Lumpur in its portfolio.

Hektar REIT — which operates second-tier

### A comparison of selected retail stocks and REITs on Bursa Malaysia

COMPANY	MARKET CAP (RM MIL) (AS AT JUNE 9)	LAST PRICE (RM) (JUNE 9)	CONSENSUS TARGET PRICE (RM)	UPSIDE/(DOWNSIDE) (%)	TTM DIVIDEND YIELD (%)
Aeon Co (M) Bhd	2,120	1.51	1.69	11.9	1.99
Parkson Holdings Bhd	189.6	0.165	—	—	—
Sunway REIT	5,308.5	1.55	1.56	0.6	2.86
KLCCP Stapled Group	12,258.2	6.79	6.92	1.9	5.1
Hektar REIT	287.5	0.61	—	—	4.15
IGB REIT	6,013.4	1.68	1.77	5.35	4.29
Axis REIT	3,220	1.97	2.11	7.1	4.82
Sentral REIT	1,039.6	0.97	1.02	5.2	7.64
KIP REIT	457.3	0.905	0.94	3.8	7.51
Pavilion REIT	4,121.30	1.35	1.47	8.9	3.27

retail centres such as Subang Parade and Segamat Central in the Klang Valley, Mahkota Parade in Melaka, Wetex Parade in Johor, and Central Square and Kulim Central in Kedah — posted an NPI of RM16.6 million for 1QFY2022, up 18.6% from RM14 million in the previous corresponding quarter. Revenue came in at RM29.1 million, an 8.7% improvement from RM26.78 million, which the group attributed to higher rental support provided to tenants in 2021.

Whether the sales growth at its retail centres can be sustained remains to be seen. Management says it will maintain a cautious outlook for the coming quarters.

In a June 7 note, UOB Kay Hian Research analyst Yap Xiu Li says the REIT sector has outperformed the FBM KLCI by 5% year to date. "With 1Q2022 recording encouraging results, we expect the sector to continue to be resilient and fully recover to pre-pandemic levels in 2023. Office REITs offer higher stable yields, followed by retail REITs, which will be boosted by the earnings recovery, especially when more foreign tourists come."

He is maintaining his "overweight" call on the REIT sector.

The research house's top picks for the sector are Sunway REIT for its recovery post-border reopening, IGB REIT for its faster-than-peers' recovery pace and Sentral REIT for its high and resilient yields of 7% to 8%. It has

"buy" calls on Axis REIT, IGB REIT, KLCCP Stapled Group, Pavilion REIT, Sentral REIT and Sunway REIT.

Axis REIT's portfolio comprises office, industrial and logistics properties, while Sentral REIT has commercial assets. IGB REIT owns The Gardens Mall and the Mid Valley Megamall and Pavilion REIT's retail assets include Pavilion Mall, Da Men Mall and Elite Pavilion Mall.

"Malaysian REITs still command attractive yields compared with fixed-income instruments," says Yap, noting a preference for the retail segment, particularly prime and niche malls for their proven business resilience.

He forecasts that offices in strategic locations will continue to be resilient as evidenced by "KLCCP Stapled Group and Sentral REIT's steady earnings", adding that selected office REITs in strategic locations with good connectivity will benefit from higher demand for office space amid the need for physical distancing, while the industrial segment will continue to thrive with businesses continuing as usual.

RHB Research regional head of property Loong Kok Wen maintains a "neutral" position on REITs, given the retail sector's earnings pickup in the first two quarters of the year amid the impending impact of an OPR hike, the ringgit's depreciation against the US dollar and rising interest rates.

She points out that while the risk factors may not be favourable to REITs, the challenges have been factored into the research house's "neutral" call, with the anticipated inflationary pressure looming as a key risk that could limit the upside to the REITs' earnings performance.

Phillip Capital Management chief investment officer Ang Kok Heng cautions that expectations of two more interest rate hikes will strip the attractiveness of the REITs' yields. "REITs are very interest-rate sensitive. With the anticipated further narrowing of their yields, [investors] could focus on counters with good yields and sustainable profits to benefit from both yields and capital gains," he says.

Loong notes that inflation and a weak currency will cause uncertainties, which is to be endured as long as China remains under lockdown. "I expect [the uncertainties] to persist until at least the year end. However, I am not bearish on the sector as REITs' unit prices are still recovering. Retail spending is not doing badly, hence retail REITs are performing fairly."

She favours IGB REIT, as it is a beneficiary of the reopening play and recovery in consumer spending, and AXIS REIT, as its industrial segment gains traction amid the growing e-commerce trend in the region. ■