

Malaysia's REIT sector still has legs to run despite spiralling interest rate

Wednesday, July 27, 2022

Clipped from: <https://focusmalaysia.my/malaysias-reit-sector-still-has-legs-to-run-despite-spiralling-interest-rate/>



Malaysia's REIT sector still has legs to run despite spiralling interest rate

By Cheah Chor Sui | 22 hours ago | in Markets



ALTHOUGH any rate hike is negative to the Malaysian REIT (real estate investment trust) sector, any adverse impact should be manageable given the sector's healthy gearing levels and earnings recovery.

With impact on earnings from the interest rate hike at 3% the most, UOB Kay Hian Research further expects the sector's gearing level to be healthy at 31.7% with 61% of total debt incurred by the sector being based on fixed rate financing.

"In addition to that, the earnings growth trajectory is enough to overcome it (industry challenges) as well," opined analyst Yap Xiu Liin a sector update.

"This has been proven in their (REIT counters) latest quarterly results where footfall and tenant sales continued their momentum since 4Q 2021. The recent 2Q 2022 results posted by retail REIT Capitaland Malaysia Trust recorded 13%/101% earnings growth quarter-on-quarter (qoq)/year-on-year (yoy)."

According to UOB Kay Hian Research's analysis, impact on REITs' earnings for every 25 basis points (bps) increase in interest rate is at most 3%.

Urging investors to accumulate REIT stocks on weakness, the research house observed that share prices have appreciated

interest rate is at most 3%.

Urging investors to accumulate REIT stocks on weakness, the research house observed that share prices have appreciated 4.6% year-to-date (YTD) on average (-0.6% since 2021, -9.6% since 2020), hence outperforming the FBM KLCI (-6.3% YTD).

“The outperformance has proven that high dividend-yielding stocks like REITs remained resilient in addition to the still attractive yields of at least 5% which are sustained by the earnings recovery and further boosted by the border re-opening,” projected UOB Kay Hian Research.

Reiterating its “overweight” outlook on the sector, the research house said Malaysian REITs still command attractive yields compared with fixed income instruments.

“We prefer the retail segment, particularly prime/niche malls for their proven business resilience,” suggested UOB Kay Hian Research.

Its sector “buy” calls are Axis REIT, IGB REIT, KLCCP Stapled Group, Pavilion REIT, Sentral REIT and Sunway REIT. “Our top picks are Sunway REIT (border re-opening recovery), Sentral REIT (high and resilient yields of 7%-8%), and IGB REIT (resilient and stable earnings),” added the research house. – July 26, 2022

Main photo credit: *The Star*