Malaysia REITs - 2QCY22 Results Review: Patchy Recovery In Progress | I3investor

Wednesday, September 7, 2022

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Amidst slightly more earnings disappointments than positive surprises in 2QCY22, we reiterate our NEUTRAL call on the sector. As it stands, MREITs with a niche in the right business segments (particularly in industrial and retail) and/or own property assets in prime and strategic locations have continued to benefit from resilient rental income streams. Post the results season, we have kept all our MARKET PERFORM calls except for SENTRAL (which has been downgraded to UNDERPERFORM with a lower target price of RM0.79).

1HFY22 results mostly met expectations. In the recently concluded 2QCY22 reporting period, there were more earnings disappointments than positive surprises from Malaysia REITs (MREITs) with 14%, 57% and 29% coming in above, within, and below our forecasts versus 29%, 71% and 0% during the preceding quarter. Out of the seven REITs under our coverage, four (namely AXREIT, SUNREIT, PAVREIT and KLCC) posted results that met our expectations with IGBREIT's performance beating expectation while SENTRAL and CLMT surprised on the downside (see Table 1 overleaf).

The key takeaways. An analysis of the earnings report cards unveiled several pertinent developments within the sector. Broadly speaking, MREITs with exposure in the right business segments (particularly in industrial and retail) and/or own property assets in prime locations (like in the city centre) have been benefitting from resilient rental income streams.

For example, AXREIT continued to show high portfolio occupancy rate of 96% (as at end-June 2022) given its niche in industrial properties while the retail segment for both KLCC and SUNREIT was boosted by higher tenant sales (that have already surpassed their pre-pandemic levels) during the period. Also, in spite of the oversupply of office space, KLCC still enjoys 100% occupancy rate for its office buildings as these strategically located properties are backed by long-term, locked-in leases with high quality tenants. On the contrary, the effects of the office space glut were reflected in SENTRAL which saw its portfolio occupancy declining from 90% in end-December 2021 to 86% in end-March 2022 and down further to 78% end-June this year.

Post results revisions. Following the 2QCY22 results, we have adjusted our earnings forecasts, target prices and stock calls (please refer Table 2 next page for more details). Of which, the highest profit upgrade was captured by IGBREIT (+14% each for FY22 and for FY23) while the biggest earnings cut is for CLMT (-14% for FY22 and -18% for FY23). Based on the revised target prices, we have kept our **MARKET PERFORM** calls for MREITs under our coverage except for SENTRAL (which has been downgraded to an **UNDERPERFORM** with a lower **target price of RM0.79**).

Source: Kenanga Research - 6 Sept 2022