Affin Hwang IB expects 2 REITs to outperform

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by SHAFIQQUL ALIFF / graphic MZUKRI MOHAMAD

REAL estate investment trusts (REITs) are expected to outperform the broader stock market, given its relatively defensive earnings and stable dividends, says Affin Hwang Investment Bank Bhd (Affin Hwang IB).

The research house said the REITs under its coverage reported good second quarter of 2022 (2Q22) results, five were above expectations and two were in line.

The five REITs that beat its expectations were Axis Real Estate Bhd (AXRB), IGB REIT, Pavilion REIT, KLCC REIT and KIP REIT.

Meanwhile, earnings from Sunway REIT and YTL REIT were within expectations.

"All REITs reported a strong rebound in six months of 2022, core earning per unit (EPU) of 20% to 169% year-on-year, driven by higher rental revenue, lower rental support and property additions to the portfolio," the research house said.

Affin Hwang IB added that the footfalls in the malls are between 60% to 90% in comparison to 2019 levels.

"Occasionally, footfalls have surpassed the pre-pandemic level on weekends, especially periods that coincide with festive seasons and public holidays.

Meanwhile, the research house said the recovery of the hotel segment is slower than retail assets, as demand for accommodation has not returned in full force yet. This was because Malaysia was still in the pandemic phase from January to April this year.

"However, the performance of office and industrial assets remains resilient, underpinned by strong tenants backed by long-term leases," it said.

According to the research house, the AXRB and KLCC REIT were its top picks for the sector. It called 'Buy' on Axis REIT with a target price (TP) of RM2.23 as the company for its strong track record of acquiring earnings accretive assets.

The group has successfully maintained a high occupancy and retention rate, illustrating minimal non-renewal risk and showing good execution abilities.

"For KLCC REIT, we think its office segment, backed by high-quality tenants with long triple net lease agreements, provides certainty of earnings, a defensive trait that fits well amid the heightened pessimism in the economy. We have a 'Buy' rating on KLCC REIT with a TP of RM7.90," it added.

Affin Hwang IB said most of the REITs were under its coverage as the research house upgraded its earnings forecasts during the 2Q22 reporting season.

It is expecting KLCC REIT earnings growth for 2022-2024E up to 2.4% to be supported by positive rental reversions for the retail segment and a higher hotel occupancy rate for Mandarin Oriental.

"For AXRB, EPUs for 2022-2024E (8.1%/3.7%/3.4%) were raised on the back of the addition of new assets as the first half of 2022 saw them complete the acquisition of three additional properties.

"For FY22E, we increased our EPU forecasts by 4.7% and FY23/FY24E, by 3.1%/2.7%. For IGB REIT, we raised 2022-2024E earnings (5.8%/3.9%/3.9%) to account for higher mall occupancy rates and greater average rental per net lettable area (NLA).

"Similarly, for Pavilion REIT, EPU forecast uplifts (+8.3/+3.2/+3.9%) were driven by better occupancy rates and higher average NLA," it added.

Lastly, for KIP REIT, due to better than expected 4Q22 results, the research house raised its FY23-24E earnings up to 8.7% after incorporating higher net property income and raised its rental reversion assumptions for its retail assets.

"We did not upgrade our earnings forecasts for Sunway REIT and YTL REIT as the REITs' earnings were in line with our expectations. Several REITs are expected to show higher EPUs for FY22E versus pre-pandemic levels.

"We expect AXRB, IGB REIT and KIP REIT's FY22E EPU to exceed the pre-pandemic level at 111%, 106% and 106% of FY19A earnings. For the others, we anticipate their EPUs to remain below the pre-pandemic levels (93%-97%) during FY22E, before eclipsing their respective FY19 earnings from FY23 onwards," Affin Hwang Research IB concluded.