

REITs to benefit from economic recovery | The Star

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KUALA LUMPUR: The improving outlook for retail should result in a positive re-rating of retail real estate investment trusts (REITs) with established malls in Klang Valley, according to MIDF Research.

The research house estimated the average distribution yield of REITs to remain attractive at 5.1% and 5.4% for CY22 and CY23 respectively, which is higher by 140 basis points than the 10-year MGS yield of 3.7%.

"We forecast the distribution yield of REITs to recover in CY22, premised on earnings recovery of REITs. Meanwhile, we adjust the target prices for REITs under our coverage as we rollover our valuation base year.

"Corresponding to the adjustment in target prices, we upgrade IGB REIT, Sunway REIT and Pavilion REIT to BUY. We opine that the improving outlook for retail should result in positive re-rating of retail REITs with established malls in Klang Valley," it said.

MIDF said REITs are expected to benefit from economic recovery as footfall at shopping malls recover.

Nevertheless, the research house reckoned that rental reversion of shopping malls to remain flattish in 2022 as tenant sales take time to recover.

"We expect rental reversion to return to positive territory in 2023 for

established malls in Klang Valley such as Mid Valley Megamall, Pavilion KL, Sunway Pyramid and Suria KLCC,” MIDF said.

Malaysia is set to reopen its international borders from April 1, 2022.

The reopening of country borders which have remained closed for two years is expected to stimulate tourism activities in Malaysia.

“As a result, we expect the hotel industry to see light at the end of the tunnel as the hotel industry in Malaysia has been heavily reliant on tourism activities.

“In this context, we expect REITs with exposure to the hotel industry namely Sunway REIT and KLCCP Stapled Group to see a turnaround in the hotel segment in 2H2022.

“Meanwhile, malls that are tourist hotspots such as Pavilion KL and Suria KLCC should also benefit from the reopening of country borders as shopper footfall at the malls is expected to improve,” MIDF said.

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MIDF said REITs succumbed to sell-down in 2020 amid Covid-19 pandemic. The KL REIT Index to a multi-year low of 754.34 points on March 18, 2022.

The decline in KL REIT Index could also partly be attributed to the rising 10-year MGS yield to above 3.75% in March as rising MGS yield reduces the attractiveness of REITs yield.

“In a nutshell, we think that KL REIT Index should stage recovery from multi-year low considering that worst should be over for REITs as the global economy is recovering from Covid-19 pandemic.