

Malaysian REITs a good defensive play

PETALING JAYA: Despite the current global inflationary environment, RHB Research is turning more positive on the real estate investment trust (REIT) sector as a defensive play due to its “guaranteed” rental income.

However, RHB Research maintained its “neutral” rating on the sector, noting that it is “not there yet” and encourages investors to pick those with quality assets as it remains a tenant’s market.

The research house named Axis Real Estate Investment Trust (Axis-REIT) and IGB REIT as its top picks for the sector.

“We like Axis-REIT as it is a key player in the booming industrial segment, benefitting from the rise in eCommerce,” RHB Research said in its latest report.

Meanwhile, the research house likes IGB REIT for its prime assets, domestic shopper profile and a relatively high turnover rent portion, which will benefit from an increase in retail sales.

“We think inflationary pressures will be the key risk, moving forward, as customers’ purchasing power will be affected but the RM10,000 Employees Provident Fund (EPF) withdrawal should help to boost spending up until the third quarter of this year (3Q22),” it added.

With market’s expectation of further over-

night policy rate (OPR) hikes until 2023, the yield spread will likely remain at unattractive levels, according to the research house.

Currently, yields for Malaysian REIT (MREIT) stocks covered by the research house average at about 4.4%.

“The increasing bond yield from the expected rate hikes has led to the yield spread between MREITs and bond yields to compress to an all-time low of about 12 basis points (bps).

“This is following the 72bps increase in the bond yield year-to-date and shrinking MREITs’ dividend yields following the recent share price movement for MREITs,” it added.

The research house, however, expects a marginal change of up to 1.8% in earnings for a hike of 25bps to the OPR, as higher finance costs will lead to earnings being compressed marginally.

“The MREITs under our coverage with the highest proportion of floating rate loans are Pavilion REIT and Sunway REIT, whereas IGB REIT’s loans are almost all on fixed terms,” it noted.

Despite the research house turning more positive on the outlook for REITs, its “neutral” call was in line with the structural overhang and near-term macroeconomic headwinds.

It expects rental reversion to remain in the low-single digit range, given the influx of retail space coming into the market this year.

Despite the narrowing yield spread, RHB Research believes the stable dividend yield and the estimated double-digit earnings growth for financial year 2022 (FY22), due to the low base in FY21, are good reasons for investors that are looking for a flight to safety.