REITS - Stable Earnings Outlook | I3investor

Clipped from:
https://klse.i3investor.com/web/blog/detail/rhbinvest/2024-07-12-story-h-157021160-REITS_Stable_Earnings_Outlook

RHB Investment Research Reports

REITS - Stable Earnings Outlook

rhbinvest
Publish date: Fri, 12 Jul 2024, 09:32 AM

- **Top Picks: Axis REIT and Sunway REIT**. With high occupancy rates and normalised rental reversions moving forward, we prefer REITs with more inorganic growth prospects, especially as interest rates may have peaked at this juncture. For the sector as a whole, REITs remain a stronger defensive yield play in 2025 given stable economic and rental growth outlook, while the market is still waiting for the interest rate cuts to begin in the region. Maintain NEUTRAL for the sector.
- **Yield spread maintained at +1 SD.** YTD, the 10-year Malaysia Government Securities (MGS) yield has increased 20bps as the expectations for interest rate cuts globally have been pushed back due to persistent inflation. Nevertheless, the yield spread between the KL REIT Index (KLREI) and 10- year MGS yield has widened to 220bps, or +1SD above the historical average from improved REITs earnings. For now, our economics team expects the bond yield to stay at 3.8-3.85% in 2H24, and 3.65-3.85% in 2H25, which at the lower end would make REITs an even better defensive play.
- **Normalised DPU growth.** After being hit by higher electricity tariff and borrowing costs last year, we do not foresee any significant risk to costs in the near term. At the same time, rental reversions growth should also be normalised two years since the economic reopening, with most REITs' management guiding for mid-single digit rental reversions. For the malls under our coverage, the improving tourism industry will be a key driver for retail spending, and for Suria KLCC and Pavilion Kuala Lumpur specifically, this should help to offset the increased competition from The Exchange TRX.
- **Opportunity within office segment.** While the outlook for the office sector remains challenging due to the supply-demand imbalance, Sentral REIT is attractive for its high dividend yield. While occupancy rates may fluctuate as tenants move around, we think earnings would be sufficiently supported by its stronger office assets, especially following the acquisition of Menara CelcomDigi in Dec 2023.
- **Sunway REIT and Axis REIT are our Top Picks** for the sector. The average yield for the sector is currently at 6.1% for FY25 (ex. Sentral REIT). We like Sunway REIT for its diverse property portfolio and active acquisition strategy. As for Axis REIT, it is our pick due to the resilient industrial subsector, and it should record a strong DPU growth in FY25 on the strength of new acquisitions made. The potential acquisition of Mid Valley Southkey mall makes IGB REIT a wild card, especially given the high footfall to the mall during weekends due to the high spending power from travellers from Singapore. The REIT also has a low gearing ratio that should easily fund the acquisition.

Source: RHB Securities Research - 12 Jul 2024

AXREIT (5106) SUNREIT (5176)