

PROMISING EARNINGS PROSPECTS

RHB Research keeps 'neutral' stance on REIT sector

KUALA LUMPUR: RHB Investment Bank Bhd (RHB Research) is upbeat about real estate investment trusts (REITs) and expect them to offer resilient investment yields due to factors such as a stabilised rental reversion, consistent occupancy rates, and the decline in government bond yields.

The current yield gap between the 10-year Malaysia Government Securities (MGS) and the KL REIT Index stands at 230 basis points (bps), which is noted by the research firm to be one standard deviation above the historical average.

RHB Research also anticipates the 10-year MGS to decrease to 3.75 per cent by year end from its current rate of 3.85 per cent.

It suggested that additional rises in the yield spread could be a question of timing.

"Year-to-date, United States government bond yields have risen by around 50 bps, despite expectations for three interest rate cuts, primarily due to sustained high inflation. Conse-

quently, we may observe a broader yield spread in the latter half of 2024," it added.

However, RHB Research said the upside to earnings might be limited due to increased competition in the retail sector and moderate growth in spending due to the higher cost of living.

"Despite stable occupancy rates, earnings expansion for retail REITs will hinge on rental adjustments, which are expected to stabilise to mid-single-digit levels after the robust growth observed in financial year 2023, driven by the rebound from the Covid-19 pandemic."

RHB Research has upheld its "neutral" call on the REIT sector and identified IGB REIT as its preferred choice, citing its promising earnings prospects that are supported by fully occupied and strategically positioned malls.

"While there is no news yet on any indicative timeline, we think that an acquisition of Mid Valley Southkey will be a strong catalyst for IGB REIT," it added.

 **RHB Research** anticipates the 10-year MGS to decrease to 3.75 per cent by year end from its current rate of 3.85 per cent.

RHB INVESTMENT BANK BHD