

# Opportunity to accumulate REIT stocks on appealing distribution yields

**PETALING JAYA:** AmInvestment Bank Research sees buying opportunities in local real estate investment trust (REIT) stocks, given widening yield spreads against 10-year Malaysian Government Securities (MGS), supported by appealing distribution yields of 6% to 8%.

With the monetary policy tightening coming to a tail-end, it said developed economies could potentially cut interest rates in the second half of 2024 (2H24).

“Our in-house economist anticipates the (United States) Fed fund rate to peak at current levels of 5.25% to 5.5%. Our economics team also expects the Fed to start cutting interest rates in mid-2024 by 75 to 100 basis points (bps), which will eventually bring the Fed funds rate to 4.5% to 4.75% by end-2024.

“Meanwhile, the 10-year MGS yield is projected to be lower at 3.63% in the fourth quarter of 2024 (4Q24) from the current level of 3.82%,” the research firm said in a report.

While the results of REITs for 2023 came in mixed, it anticipates stable occupancy rates across key assets.

“We anticipate retail REITs to continue experiencing healthy growth in 2024, driven by stable occupancy rates and positive rental reversions. The hospitality segment is on a growth trajectory, witnessing a robust recovery in occupancy rates and average daily rates since 2Q22.”

On the other hand, occupancy and rental reversion rates in the office segment are expected to be flattish.

It notes that IGB-REIT and Pavilion-REIT

registered stronger earnings in 2023 as a result of favourable rental reversions and improvement in occupancy rates in their malls.

The stronger distributable income growth of 20% year-on-year (y-o-y) in Pavilion-REIT was primarily attributed to the recognition of a seven-month contribution from the newly acquired PBJ after its injection on June 1, 2023.

Sunway-REIT experienced improved revenue from the retail and hotel segments, but its financial year 2023 (FY23) earnings declined by 3% y-o-y.

This decrease can be attributed to increased utility and finance costs, as well as the discontinuation of lease income from Sunway Medical Centre (Tower A and B) after its disposal was finalised in August last

year. Less established and suburban malls did not fare as well compared to prime counterparts.

It said the net profit margin of retail REITs in 2023 was impacted by the increase in the electricity tariff surcharge that took effect on Jan 1, 2023. Nevertheless, this was mitigated by the stronger rental revenue as a result of substantial improvement in tenant sales and footfalls in retail malls.

“Hence, we maintain our assumptions of rental reversions of 5% to 6% in 2024, mirroring the figures observed in 2022, particularly for malls situated in prime locations such as Mid Valley Megamall, Pavilion Kuala Lumpur and Sunway Pyramid.”

As for the office segment, challenges persist for offices in Kuala Lumpur city centre due to oversupply.