

Limited upside for REITs on stiff retail competition | The Star

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PETALING JAYA: Real Estate Investment Trusts (REITs) continue to attract investors looking for a defensive yield play on the back of easing government bond yields, stable occupancy rates and normalising rental reversion.

RHB Research, however, believed the upside to their earnings may be limited due to increased competition in the retail sector and moderate growth in spending due to the higher cost of living.

"We are selective on REITs that provide more sustainable and higher yields with a stable earnings outlook," the research house said, adding that it has maintained its "neutral" stance on the sector, with IGB-REIT as its top pick.

RHB Research liked IGB-REIT due to its robust earnings outlook, boosted by its malls that are fully occupied and strategically located.

"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 the REIT and

will be easily funded as its gearing ratio is only at 22%," it added.

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It said rental reversions should normalise to a mid-single-digit range following the high single-to-double-digit growth recorded in financial year 2023 (FY23) from a low base due to the Covid-19 pandemic.

"This is reflected by the strong 9% growth in Malaysia's retail trade for 2023, and a softer growth forecast of 4% for 2024 by Retail Group Malaysia. Aside from the higher base, higher cost of living remains the main concern for retail spending," it said.

It was also cautious on the upside for rental reversions in the longer term due to the opening of new malls.

Nevertheless, RHB Research believed the recovering tourism sector will boost retail spending, especially for malls in the city centre such as Suria KLCC and Pavilion KL which typically have a high proportion of foreign shoppers.

In addition, it pointed out that the delay in the implementation of high-value goods tax should offer temporary relief for malls.

"For Pavilion-REIT, however, we are cautious on the performance of Pavilion Bukit Jalil, which should only record higher rental reversions in the fourth quarter of 2023 as it enters a new rental cycle.

"FY25 should also see a placement for the balance payment for the mall, which will likely dilute earnings growth next year," the research house added.

As for industrial REITs, RHB Research remained positive on the prospects of the industrial sub-sector mainly due to its favourable supply-demand dynamics, with certain manufacturing sectors also having benefited from the US-China trade tensions.

It expected the industrial segment to continue to fare better with the influx of investments and favourable government policies.