

PETALING JAYA: Lack of strong catalysts is expected to result in yields for Malaysian real estate investment trusts (REITs) remaining largely unexciting.

MIDF Research said in a report that the average yield for REITs under its coverage stood at 5.4%.

"The current yield spread of 1.5 percentage points is deemed unexciting, as it is lower than the three-year mean of 1.7 percentage points between Malaysian REITs and 10-year Malaysian Government Securities (MGS) yield.

"Moreover, REIT unit prices have strengthened since beginning of the year, narrowing the upside potential in capital gains," it said.

Separately, the research house said the Malaysian REITs' fourth quarter earnings were within expectations.

"All of the REITs under our coverage recorded core net incomes (CNI) that were in-line with our full year forecasts. Al-Aqar Healthcare REIT is a new addition since October last year.

"On year-on-year basis, REITs under our coverage reported mixed earnings with six recorded higher and two registered lower CNIs compared to the previous corresponding cumulative period. Altogether, the results were within our expectations."

REIT yields likely to remain mostly unexciting

MIDF Research says Q4 earnings of REITs within expectations

Of the REITs under its coverage, Axis REIT was the best performing stock under MIDF Research's coverage, having recorded a 22% year-on-year growth in the fourth quarter of last year.

"Contribution was from the Axis Mega distribution centre and new assets. Rental reversion remained positive while occupancy rate was about 94%," said MIDF Research.

The next best performing stocks were Pavilion REIT and AmanahRaya REIT, which recorded a 10.8% and 10% year-on-year earnings growth respectively.

The research house said Pavilion REIT's earnings were boosted by higher CNI from Pavilion

Elite and positive rental reversion for Pavilion Kuala Lumpur and The Intermark Mall.

"Revenue for da mén USJ mall dropped 25.3% year-on-year."

MIDF Research meanwhile said AmanahRaya REIT's CNI jumped 29% year-on-year in the fourth quarter of 2018 due to contribution from Vista Tower.

"During the quarter, the REIT signed a sale and purchase agreement to sell off its Gurun warehouse and Wisma AIC."

The research house said it is maintaining most of its earnings assumptions for REITs under its coverage, as the fourth quarter 2018 REITs performance were mostly in-line.

"That said, we have increased the target prices for Axis REIT (from RM1.55 previously to RM1.62), Al-Aqar (from RM1.45 previously to RM1.49), CMMT (from RM1.02 previously to RM1.08), IGB REIT (from RM1.73 previously to RM1.77) and Pavilion REIT (from RM1.60 previously to RM1.67).

"The increase in target prices is mainly due to the rollover in base year."

MIDF Research added that the MGS yield has eased by 0.07 percentage points during the period.

"We believe that the yield would stay within the range and we keep our 10-year MGS yield assumption of 4% for now."