



# Muted impact from OPR cut on MREITs

**PETALING JAYA:** The latest revision of the Overnight Policy Rate (OPR) to 2% will have a mild effect of less than 1.5% on 2020 estimated earnings for Malaysian real estate investment trusts (MREITs), according to a report by Affin Hwang Capital Research.

It said while the lower OPR should support MREITs' future earnings, the immediate impact on earnings would be relatively muted as most of them have pegged the majority (>70%) of their borrowings to fixed rates.

"These fixed-rate borrowings are

largely medium-term notes/sukuk with long tenures. In addition, we believe the banks may not fully pass on the full reduction in the OPR rate due to the changing business (and risk) environment," it said.

The research house is maintaining its neutral rating on the sector, with its preferred picks being IGB REIT and KLCC Stapled Securities with target prices of RM1.58 and RM7.30 respectively.

"At 5.2% 2021 distribution yield (weighted average), MREITs' valuation is broadly within its six-year average and looks fair to us," it said.

It also expects Bank Negara Malaysia to maintain its OPR at 2% in 1H'20, with a possible cut in 4Q'20, if necessary.

Meanwhile, PublicInvest Research said its earnings estimates for REIT players remain unchanged on expectations that revenue disruption could last longer than feared.

"All told, given current weak consumer sentiment, we still believe the REITs' defensive attributes could be weakened further on higher risks of a credit crisis or a damaging recession," it said.

It added interest savings are

estimated to be around 2%, but could be negated by a worse-than-expected economic slowdown.

"Business volume, especially for retail and hotel businesses, have slowed substantially as the movement control order only allows essential supplies and services such as supermarkets, pharmacies, convenience stores, telecommunication services, F&B for deliveries and takeaway to remain open during the period to enforce 'social distancing'. The return to normalcy remains uncertain at this juncture," said PIVB in its report.