REITs: 'Attractive' dividend yields of 5%-9% seen from 2022, as economy reopens

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KUALA LUMPUR (Sept 13): As interest rates continue to be low, the real estate investment trusts' (REITs) dividend yields of 5% to 9% from 2022 onwards are "attractive", and will be sustained by the earnings recovery, opines UOB Kay-Hian Research.

The research house's analyst Yap Xiu Li maintained "overweight" on Malaysian REITs as she believed they still command attractive yields compared with fixed income instruments in the current low interest rate environment.

She also sees the REIT sector's earnings will improve as the country's economy reopens.

Yap said in a note today, Malaysian REITs' 2Q21 results season was no different from the previous quarter, as they continued to provide rental assistance to retailers due to the prolonged lockdown.

Nonetheless, she expects sector earnings to improve 35% half-year-on-half-year in 2H21, in tandem with the easing of the strict standard operating procedures (SOPs).

She also expects the sector to deliver 27% earnings growth in 2022 as compared to 94% in 2019.

According to her, earnings recovery for REITs is in sight as more economic and social activities are allowed.

"The government has announced guidelines for the fully vaccinated, amid the increase in economic activities. Social activities and entertainment outlets are now permitted to operate (cinemas have been open since Sept 10 at 50% capacity). This bodes well for REITs as consumers are starting to return to malls, and will subsequently contribute to tenants' sales," she said.

Meanwhile, it is estimated that footfall at malls under the research house's coverage is at 40% to 60% of pre-pandemic levels, with 80% to 90% of stores operating.

Furthermore, the opening of Pavilion Bukit Jalil on Dec 3 will further improve consumer sentiment, she noted, adding that hence, she is expecting sector earnings to improve 35% on a half-year-on-half-year basis in 2H21.

Meanwhile, on Malaysian REITs still commanding "attractive yields", Yap says the high-yielding and Covid-19-resilient office REITS offer better interim gains via dividend yield compression.

However, in the long run, she continues to prefer the retail segment, particularly prime or niche malls for their proven business resilience.

Her sector "buy" calls are IGB REIT, KLCC Property & REITS — Stapled Securities, Pavilion REIT, Sentral REIT and Sunway REIT.

Her top picks are Sentral REIT and IGB REIT for the former's high and resilient yields of 8% and the latter's faster-than-peers' recovery pace.

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