

# REITs to recover strongly post-lockdown

*Earnings visibility and associated risks of the REITs are more positive compared to last year, thanks to the wide rollout of vaccines*

by S BIRRUNTHA

**AMINVESTMENT** Bank Bhd (AmInvest) believes listed real estate investment trusts (REITs) in the country will recover strongly, underpinned by pent-up consumer demand, once the third Movement Control Order (MCO 3.0) restrictions are lifted.

The investment bank held the view on the assumption consumers tend to "revenge spend and gather", similar to what happened in the past MCOs.

"We are cautious that the reimplementation of the lockdown with tighter SOPs will dampen earnings in the second quarter of the year (2Q21) as REITs are most likely to be pressured to give another round of rental support to tenants that are not allowed to operate during this period.

"However, we believe the market has priced in the impact of the latest movement restriction," it stated in a recent note.

According to the Bumiputera Retail Organisation, retail sales at malls recovered 75% to 80% of pre-pandemic levels when the previous MCO was lifted towards the end of 2020 and early 2021 (compared to



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TMRpic

only 25% retail sales recorded at malls nationwide last year).

"We believe earnings visibility and associated risks of the REITs are more positive compared to last year, thanks to the wide rollout of vaccines both locally and globally," AmInvest added.

AmInvest maintained an 'Overweight' recommendation on the sector, adding that REITs under its coverage provide distribution yields of more than 5% for the financial year 2022 (FY22) and

beyond in this low interest-rate environment.

For 1Q21, YTL Hospitality REIT's earnings came in above expectations, while IGB REIT and Pavilion REIT's earnings were within expectations. However, Sunway REIT's earnings missed AmInvest's expectations.

The investment bank cut its fair value (FV) for Pavilion REIT and IGB REIT, while increasing its FV for Sunway REIT.

It cut the FV of Pavilion REIT to

RM1.59 from RM1.75 previously, while IGB REIT's FV was reduced to RM1.89 from RM2.03.

Sunway REIT's FV was increased to RM1.81 from RM1.64, while YTL Hospitality REIT's FV was lowered to RM1.11 from RM1.29.

For Sunway REIT, Pavilion REIT and IGB REIT, the research house has rolled forward its base year to FY23 and applied a target yield of 5%.

On YTL Hospitality REIT, it applied a higher target yield of 7.5% to reflect higher earnings risk

arising from its overseas assets.

"Our top pick for the sector is Sunway REIT for its diversified investment portfolio (which includes retail malls, hotels, offices, its university and hospital) and the large pipeline of potential assets for future injections," AmInvest noted.

The bank noted that while retail sales contracted 9.9% in 1Q21, it was better than expected, while Hari Raya sales in 2Q21 were much better with only 20% contraction from pre-pandemic levels compared to the 60% drop in 2020.

AmInvest added that the occupancy rate at the anchor malls of retail REITs under its coverage remained healthy at above 90%, with empty space quickly replaced by new tenants despite the transition period taking slightly longer than usual as renovation work was delayed due to the various movement restrictions in place.

In terms of financial health, the REITs under its coverage continue to maintain a healthy debt-to-asset ratio of 22% to 42% versus 60% of the regulatory threshold, which allows REITs to gear up for further acquisitions.

"We do not rule out potential acquisitions to materialise in the next 12 to 18 months for the REITs under our coverage with the emergence of yield-accretive assets, which will further drive the REITs' medium- to long-term growth despite short-term earnings headwinds," it stated.