

# Year-end festive boost for retail recovery

## REITs to benefit from economic rebound

### PROPERTY

PETALING JAYA: Real estate investment trusts (REITs) will continue to appeal to investors due to their attractive yields amid the current low interest rate environment.

The sector is also seen as a recovery play as it is poised to benefit from the expected rebound in Malaysia's post-pandemic economy.

Based on AmInvestment Research's (AmInvest) estimates, the four REITs under its coverage – IGB REIT, Pavilion REIT, Sunway REIT and YTL Hospitality REIT – would provide distribution yields of more than 5% for 2023 and beyond.

The brokerage maintained an "overweight" call on REITs.

Its top pick for the sector is Sunway REIT, with a fair value RM1.66, citing the fund's diversified investment portfolio, which includes retail malls, hotels, offices, plus a university and hospital; sustainable townships, which create resilient footfall and traffic for its malls; and the large pipeline of potential assets for future injection.

AmInvest said it remained cautiously optimistic on the recovery of retail REITs.

"While we foresee a bumpy recovery in the immediate term, dragged by the emergence of the new Omicron variant, earnings visibility and associated risks of the sector have now improved compared to the earlier quarters thanks to the wide rollout of vaccines both locally and globally together with the reopen-

***"Earnings visibility and associated risks of the sector have now improved compared to the earlier quarters."***

AmInvest Research

ing of domestic economy in stages," it explained.

AmInvest noted the REITs under its coverage have now seen their footfall traffic recover up to 80%-110% of pre-Covid levels.

"Marketing activities such as promotional campaigns and exhibitions have resumed to attract the return of consumers as the festive season approaches. The recovery, however, is observed to be at a slower pace compared to last year, partly due to the slower reopening of economies as Covid-19 cases remain high at above 4,000," it said.

In terms of financial health, AmInvest noted these REITs continue to maintain a healthy debt-to asset ratio of 23%-41% versus 60% of the regulatory threshold, which allows the gearing up for further acquisitions.

"Most of the companies under our coverage have guided that they are actively scouting for quality assets and do not rule out potential acquisitions over the next 12 to 18 months if any yield-accretive propositions emerge, which could drive the REITs' medium-to-long

term growth despite short-term earnings pressure," it said.

Meanwhile, UOB Kay Hian Research (UOBKH) is also "overweight" on REITs, noting the sector still commanded attractive yields compared with fixed-income instruments in the current low interest rate environment.

Moreover, the brokerage said, 2022 earnings growth of 31%, coupled with the current depressed valuations implied that the market had largely priced in the negative impact of the lockdown.

"As Malaysia reopens its international borders, we expect earnings to recover, starting with tenant sales as the economy opens up. However, rental reversion will be minimal in an effort to protect occupancy," UOBKH said.

"The high-yielding and Covid-19-resilient office REITs offer better interim gains via dividend yield compression. However, in the long run, we continue to prefer the retail segment, particularly prime and niche malls for their proven business resilience," it added.