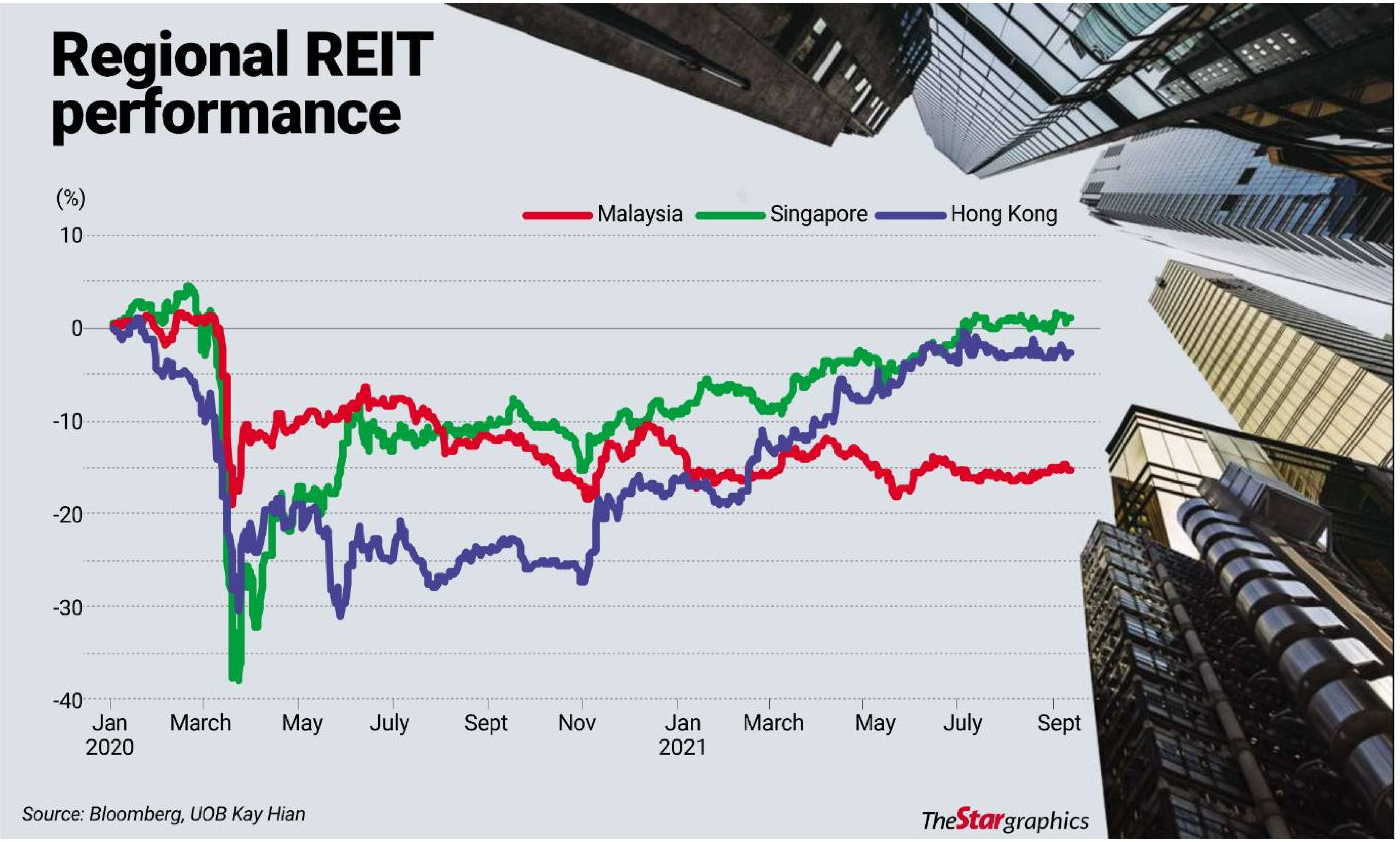
On course for improved earnings

Opening of the economy will boost footfall and sales



Although Malaysian real estate investment trusts (REITs) have not been performing as well as the REITs in countries such as Singapore and Hong Kong, the opening of the economy is expected to bode well for local players. **> See page 7**

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UOB Kay Hian

KUALA LUMPUR: The Malaysian real estate investment trust (REIT) sector is expected to begin charting improved earnings for the remainder of 2021, as economic restrictions continue to be lifted.

Compared with the first half of the year, UOB Kay Hian in a recent report said it expects sector earnings in the second half of 2021 to improve by 35%.

The research house said the earnings rise will be in tandem with the easing of the strict standard operating procedures nationwide.

"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, with cinemas having 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."

UOB Kay Hian said malls with a high local catchment will recover the fastest.

"Noticeably, consumers are seen returning to malls as the government has lifted restrictions with 72% of the adult population being fully vaccinated. Currently, about 80% to 90% of the tenants in major malls are open for business."

The research house said earnings recovery will be more apparent for malls that have a higher turnover sales portion.

"Other than IGB REIT, the turnover sales portion for most malls under our coverage historically constitutes about 5% of total annual revenue. Furthermore, the reopening of international borders will further boost footfall and sales.

"We prefer prime retail, given their proven business resilience. Hence, IGB REIT would rank first in terms of recovery pace for retail malls, followed by Pavilion REIT and Sunway REIT."

On a regional basis, REITs have been seeing an improvement in their performance since late last year. While Malaysian REITs have not been performing as well as REITs in countries such as Singapore and Hong Kong, the opening up of the economy is expected to bode well for local players.

Additionally, UOB Kay Hian said it expects a mild recovery for the hotel and hospitality sector, amid inter-district and interstate travel.

"The government has currently allowed a domestic tourism bubble for Langkawi. We expect some recovery in the second half of 2021 when interstate travel will be permitted, as hotels have thus far managed to enjoy decent occupancy of up to 40% during weekends.

"Hence, this segment will gain substantial traction when interstate travel is permitted and especially when international borders are open, which is expected to take place sometime during end-2021 and early-2022."

For the office sub-sector, UOB Kay Hian said assets in strategic locations will continue to be resilient.

"Offices in strategic locations will continue to be resilient as evidenced by KLCC Stapled Group and Sentral REIT's steady earnings throughout the pandemic.

"However, average rental rates in the Kuala Lumpur City Centre continue to remain under pressure at RM6.90 per sq ft."

Although the industry is still grappling with oversupply, the research house said selected office REITs (located in strategic locations with good connectivity like KL Sentral) will benefit from higher demand, amid the need for physical distancing.

"Moreover, the average rental rates in KL Sentral are attractive at RM6.46 per sq ft, UOB Kay Hian said, adding that the industrial sub-sector has been fairly resilient as businesses have continued to operate.

"The segment is fairly unperturbed as most of the industrial assets are in the logistics and manufacturing space."