

REITs 2Q earnings likely to remain strong

Inflationary concerns prompt caution for third quarter

PROPERTY

PETALING JAYA: The real estate investment trust (REIT) sector's second quarter earnings are expected to remain strong, but the trend may not be robust enough to carry into the third quarter of this year because of inflationary concerns.

However, REITs still command attractive yields of at least 5%, compared with fixed income instruments.

The better earnings in the second quarter of 2022 (2Q22) is led by the festive season and the Employees Provident Fund (EPF) special withdrawal scheme.

UOB Kay Hian (UOBKH) Research said the 3Q earnings will be weaker and cautioned that the impact of inflation may also dampen consumer sentiment.

For 2Q22, UOBKH Research is forecasting earnings growth of 36% and 5% for 2022 and 2023 respectively, on the back of the absence of rental assistance amid the economic reopening.

Headline inflation for June breached 3%, coming in at 3.4% from 2.8% in May.

It added that the central bank has raised the overnight policy rate (OPR) by 50 basis points (bps) year-to-date and is expected to increase it by another 25 bps by year-end and 50 bps in the first half of 2023 to reach 3% by mid-2023.

Although any rate hike would be considered a negative for the sector, UOBKH

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UOB Kay Hian Research

Research believes the impact would be manageable, given the REITs’ healthy gearing levels and earnings recovery.

The current gearing levels are healthy at 31.7% on average.

Moreover, the majority of the debt taken by REITs are on fixed financing (61% of total debt on average), therefore the impact would be manageable, it adds.

In addition, the earnings growth trajectory is enough to overcome it as well. This has been proven in their latest quarterly results where footfall and tenant sales continued the momentum from 4Q21.

In the recent 2Q22 results posted, CapitaLand Malaysia Trust-REIT retail recorded 13% and 101% earnings growth quarter-on-quarter and year-on-year.

It said it prefers the retail segment, particularly prime, niche malls for their proven business resilience.

UOBKH Research said tenant sales at malls continued with good momentum

since 4Q21, amid the festive season, in addition to the special EPF withdrawal scheme.

Furthermore, the opening of international borders in April will further boost footfall and sales.

On hotels and hospitality REITs, UOBKH Research expects a gradual recovery with substantial traction from the second half of 2022 onwards, during the holiday season.

On office REITs, it said although the industry is still grappling with oversupply, it believes selected office REITs located in strategic locations with good connectivity, such as KL Sentral, will benefit from higher demand.

Industrial REITs will continue to thrive with businesses continuing as usual, it added.

UOBKH Research maintains its “overweight” stand on the sector. Its top picks are Sunway-REIT (border reopening recovery), Sentral-REIT (high and resilient yields of 7% to 8%), and IGB-REIT (resilient and stable earnings).