

12 February 2015 | Sector Update

REIT Sector

Beneficiary of lower electricity rate

Maintain NEUTRAL

KEY HIGHLIGHTS

- **Electricity tariff to be reduced by 5.8%**
- **REIT players to enjoy cost savings but impact to bottom line less than 1%**
- **MGS 10-year yield has inched up slightly recently after declining due to European QE**
- **Reaffirm our NEUTRAL recommendation on the sector**

Electricity tariff to be reduced by 5.8%. The Government has announced that it will be lowering electricity tariff prices by 5.8% or 2.25 sen per kilowatt hour in Peninsular Malaysia from 1-Mar-2015 to 30-Jun-2015. As for the eastern side of Sabah and Labuan, tariff rates will drop by 3.5% or 1.2 sen per kilowatt hour. This is in line with the global movement of crude oil prices which has declined almost 50% last year with the latest Brent crude oil price hovering around USD55 per barrel. The decline in fuel cost which has benefited Tenaga will be passed on to consumers by lowering its electricity tariff rates.

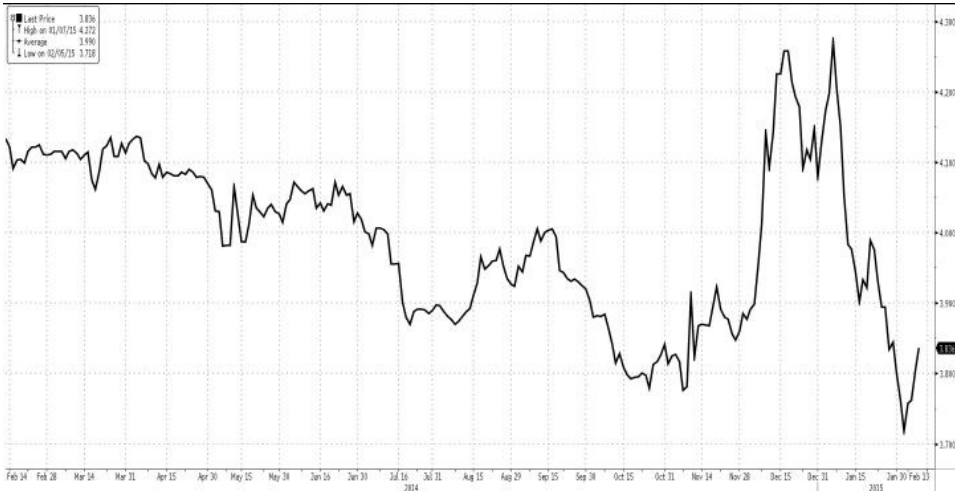
REIT players to enjoy cost savings. We are positive on this news flow as utilities which comprise largely of electricity cost makes up to between 33%-44% of total expenses for shopping mall owners. However, net impact to bottom line is expected to be minimal at less than 1% of FY15 earnings as the low rate is applicable only until 30-Jun-2015. Having said that, we view any savings in operating expenses of shopping malls as positive as it will alleviate the impact of a possible slowdown in consumer spending with the implementation of GST effective 1-Apr-2015. In addition, we reiterate our earlier view that assessment rates are unlikely to be raised again this year after the increase in 2014.

MGS 10-year yield has inched up slightly recently after declining due to European QE. Recall in our last report on 5-Feb the 10-year MGS yield (MGS10) was 3.72%. Since then, the yield has increased to 3.84% as of 11-Feb-2015. We believe that the slight improvement in yield by 12 bp was attributed to improved data from US. The recent release of nonfarm payroll data showed improvements. The slight increase was within our expectation as we expect the yield to edge up gradually to 4.0%-4.5% by end of 2015 with US Fed tightening and raising interest rates in 2HCY15. The higher MGS yield will have some impact on our risk-free rate assumption.

Reaffirm NEUTRAL on Malaysian REIT. We maintain our NEUTRAL view on the sector as we estimate that the savings from the lower electricity rates to be lower than 1%. We also maintain our earnings forecast for all REIT players at this juncture as we expect the decline in electricity tariff to be only for a short term period. Eventually, we expect the oil price to recover to an average between USD60 to USD70 per barrel this year. This is likely to adjust the electricity tariff back higher. In the long run, we expect yield on MGS to increase steadily to 4.0%-4.5% by end of 2015. This will narrow the spread between REIT companies' yield and MGS yield. We maintain our current assumption for average 10-year MGS yield at 4.20% as our input for Risk Free Rate in our Dividend Discount Model.

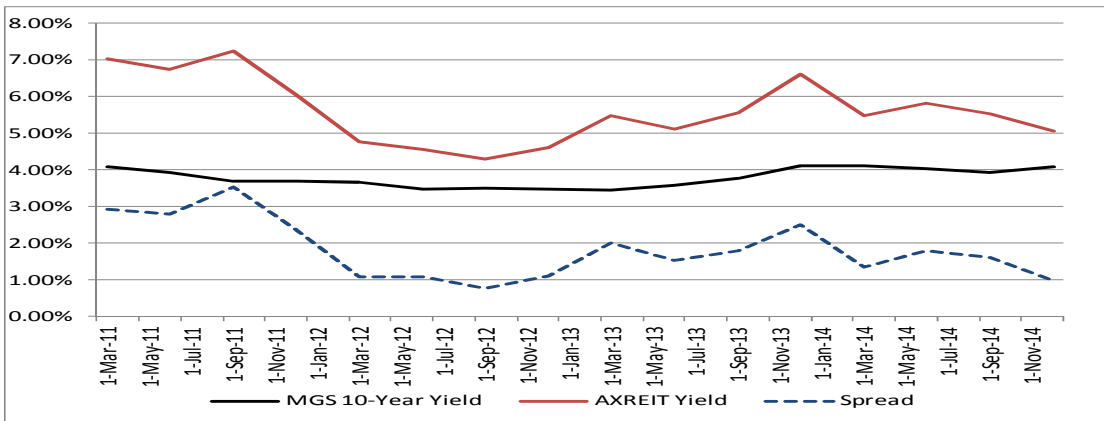


Chart 1: Malaysia Government Securities (MGS) 10-Year Yield



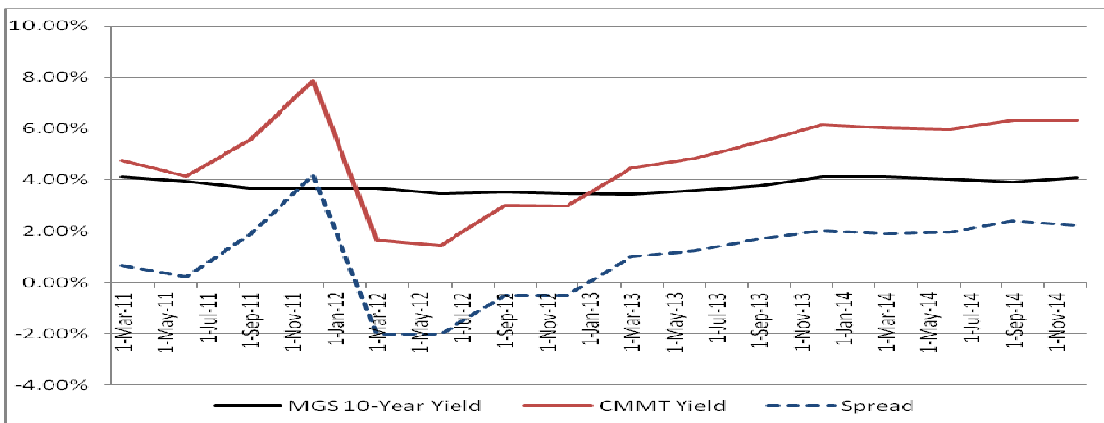
Source: Bloomberg

Chart 2: Spread between AXREIT Yield and 10 year MGS Yield



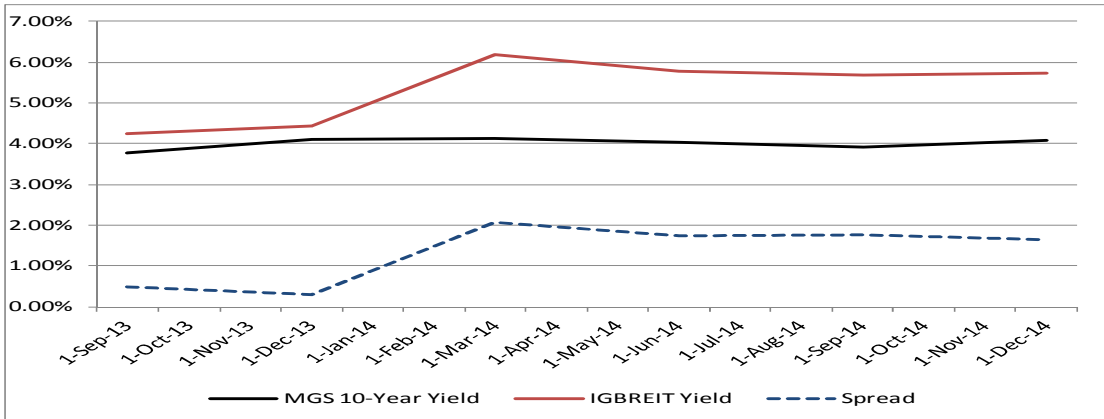
Source: Bloomberg

Chart 3: Spread between CMMT Yield and 10 year MGS Yield



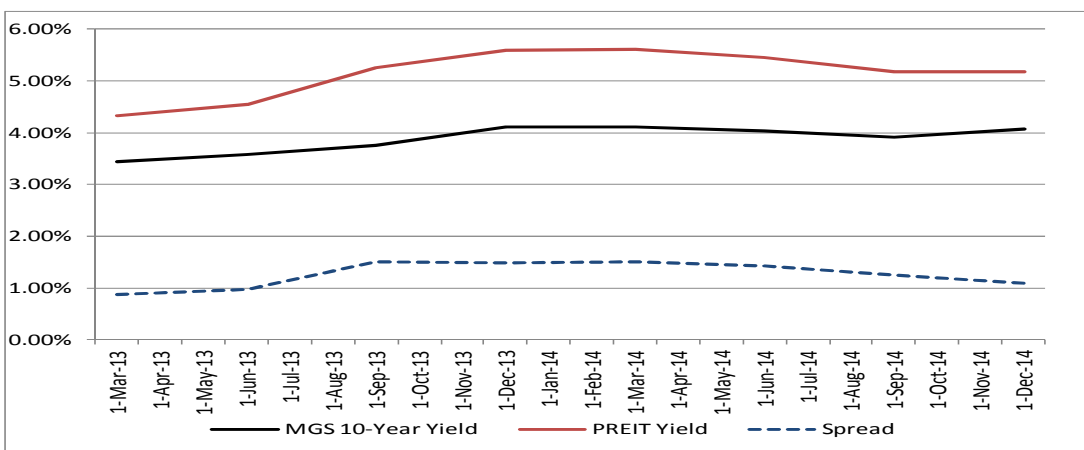
Source: Bloomberg

Chart 4: Spread between IGBREIT Yield and 10 year MGS Yield



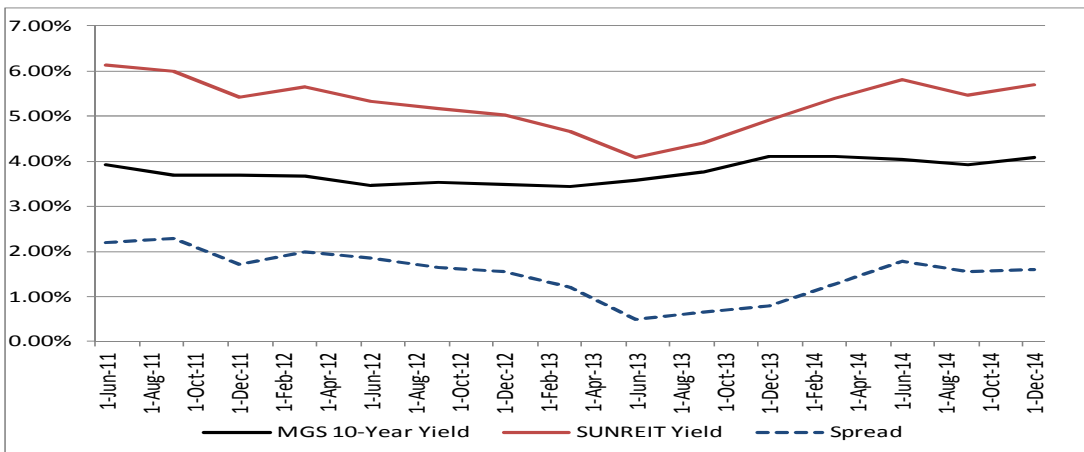
Source: Bloomberg

Chart 5: Spread between PAVREIT Yield and 10 year MGS Yield



Source: Bloomberg

Chart 6: Spread between SUNREIT Yield and 10 year MGS Yield



Source: Bloomberg

Chart 7: Peer Comparison

Stock	FY	Recom' dation	Price @ 11- Feb	Target Price (RM)	Core EPU (sen)		EPS (% chg)		Core PE (sen)		Net DPS		Net Dvd Yield	
					FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16
AXREIT	Dec	NEUTRAL	3.58	3.50	17.51	18.39	2.1	5.0	20.4	19.5	16.94	16.66	4.7	4.7
CMMT	Dec	NEUTRAL	1.48	1.66	8.31	8.71	1.5	4.9	17.8	17.0	7.92	8.30	5.4	5.6
IGBREIT	Dec	NEUTRAL	1.34	1.41	6.95	7.15	2.8	2.8	19.3	18.7	7.16	7.34	5.3	5.5
PAVREIT	Dec	NEUTRAL	1.46	1.57	7.99	8.41	3.6	5.3	18.3	17.4	7.42	7.79	5.1	5.3
SUNREIT	Jun	NEUTRAL	1.56	1.70	8.33	9.32	5.3	11.9	18.7	16.7	7.87	8.81	5.0	5.6

Source: MIDF Research Estimate

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.