

REIT

Defensive earnings

KEY INVESTMENT HIGHLIGHTS

- **1QCY24 earnings in line with four positive earnings growth**
- **Two REIT reported earnings decline**
- **Positive performance of KL REIT Index**
- **Active acquisition amid positive prospects**
- **Maintain POSITIVE on REIT**
- **Top picks are Sunway REIT (BUY; TP: RM1.70) and Axis REIT (BUY; TP: RM2.02)**

1QCY24 earnings in line with four positive earnings growth.

Earnings of REIT in 1QCY24 were in line with expectations as all six REIT under our coverage reported earnings that fell within expectations. Four REIT namely Axis REIT, Pavilion REIT, KLCCP Stapled Group and IGB REIT reported growth in earnings. REIT with highest growth was Axis REIT which reported 25.8%yoy earnings growth as earnings were buoyed by Bukit Raja Distribution Centre 2, lower property operating expenditure and lower provision for doubtful debts. Meanwhile, Pavilion REIT recorded double digit earnings growth of 18.7%yoy in 1QFY24 due to contribution from Pavilion Bukit Jalil and higher rental income from Pavilion KL Mall. As for KLCCP Stapled Group and IGB REIT, earnings growth was stable at 4%yoy due to organic growth of positive rental reversion. Rental income from Mid Valley Megamall, The Gardens Mall and Suria KLCC remains stable due to high occupancy rate, high shopper footfall and growth in tenant sales.

Two REIT reported earnings decline. Al-`Aqar Healthcare REIT recorded lower earnings (-5%yoy) due to lower rental income from Australia division which offset the higher income from healthcare assets in Malaysia. Looking forward, we expect earnings growth of Al-`Aqar to be driven mainly by organic growth of lease renewal whereby five healthcare assets due for master lease renewal in FY24 and one healthcare asset due for lease renewal in FY25. Meanwhile, Sunway REIT reported lower earnings (-9.8%yoy) partly due to loss of income from Sunway Medical Centre and lower rental from Sunway Pyramid Mall as AEON moved out from the mall. Nevertheless, we see an improving earnings outlook for Sunway REIT as earnings from Sunway Pyramid should normalise from FY25 onwards with reconfiguration exercise of Sunway Pyramid completing in FY24. Besides, rental contribution from six hypermarkets that were acquired in April 2024 should lift earnings in 2HFY24.

COMPANY IN FOCUS

Sunway REIT

Maintain **BUY** | Unchanged Target price: RM1.70
Price @ 14th June 2024: RM1.59

- Earnings from Sunway Pyramid should normalise from FY25 onwards after completion of reconfiguration exercise.
- The hotel division will benefit from higher tourist arrivals.
- Distribution yield is estimated at 5.6%.

Share price chart



Axis REIT

Maintain **BUY** | Unchanged Target price: RM2.02
Price @ 14th June 2024: RM1.83

- Commencement of lease for Bukit Raja Distribution Centre 2 supported earnings growth in 1QFY24.
- Axis REIT is on active asset acquisition to spur earnings growth.
- High exposure to industrial asset which backed by healthy demand for industrial space.

Share price chart

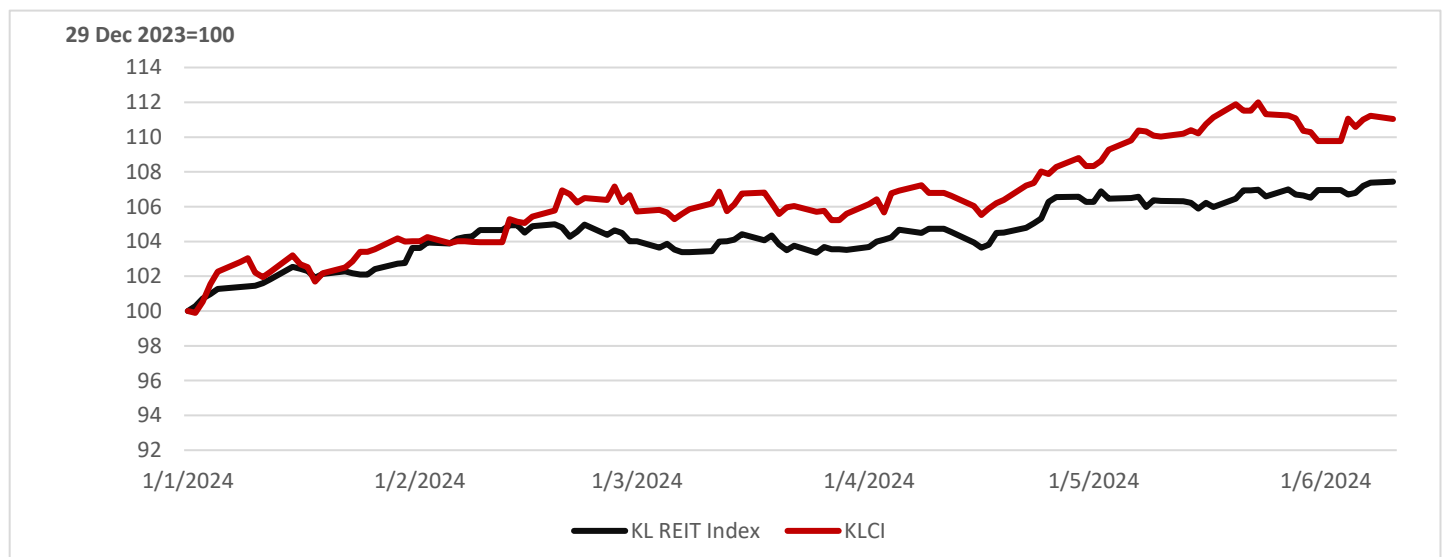


Figure 1: Earnings summary of REIT

	Quarter	Results	Remarks
Axis REIT	1QFY24	Within	Higher 1QFY24 earnings of RM40.9m (+25.8%yoy) due to commencement of lease of Bukit Raja Distribution Centre 2 in August 2023, lower property operating expenditure and lower provision for doubtful debts
Pavilion REIT	1QFY24	Within	1QFY24 core net income at RM83.2m (+18.7%yoy), boosted by earnings contribution from Pavilion Bukit Jalil which was acquired on 1st June 2023.
KLCCP Stapled Group	1QFY24	Within	1QFY24 core net income was higher at RM188m (+4.1%yoy), underpinned by positive rental reversion and higher shopper footfall of Suria KLCC.
IGB REIT	1QFY24	Within	1QFY24 earnings were higher on at RM99.6m (+3.5%yoy), underpinned by positive rental reversion.
Al-`Aqar Healthcare REIT	1QFY24	Within	1QFY24 core net income was lower at RM16.4m (-5%yoy), mainly due to lower rental income from Australia division.
Sunway REIT	1QFY24	Within	1QFY24 core net earnings were lower at RM87m (-9.8%yoy), mainly due to lower contribution from retail division and loss of income from Sunway Medical Centre.

Source: MIDF Research

Positive performance of KL REIT Index. The performance of the KL REIT Index is positive with a return of +6.6%ytd. The positive performance of the KL REIT Index is in line with a broader higher market as KLCI recorded a return of +10.5%ytd. We think that the decent performance of KL REIT Index was underpinned by a continuous recovery in earnings of REIT. Notably, retail REIT staged earnings recovery due to higher shopper footfall which recovered to pre-pandemic level and expectation of positive rental reversion. Besides, the expectation of higher tourist arrival is also positive for the retail sector as it will improve shopper footfall at malls favoured by tourists namely Suria KLCC, Pavilion KL, Sunway Pyramid Mall, Mid Valley Megamall and The Gardens Mall. Besides, the hotel industry continues to recover due to higher tourist arrivals which supported growth in the average room rate and occupancy rate of hotels. That supported earnings growth of REIT with exposure to hotel segment namely KLCCP Stapled Group and Sunway REIT. On another note, 10-year MGS yield stays below 4% with latest MGS yield at 3.9% which we think is positive to the sector as spread between MGS yield and yield of REIT (average: 5.4%) remains attractive at >150bps.

Figure 2: KL REIT Index and KLCI

Source: Bloomberg, MIDF Research

Active acquisition amid positive prospects. REIT are expanding asset portfolio as prospect for real estate in Malaysia is improving. Notably, Axis REIT acquired three industrial assets in Bukit Raja in February and April 2024 to strengthen its presence in Bukit Raja which is a growing industrial area with accessibility to major highways. Besides, Axis REIT also announced the acquisition of two automobile service centres from Cycle & Carriage Bintang Berhad. We view the active acquisition of Axis REIT indicates stable prospect of industrial assets in Malaysia which was supported by healthy demand for warehouse and industrial space. Meanwhile, REIT is also active in retail asset acquisition recently amid improving backdrop for retail industry. Notably, Sunway REIT announced acquisition of 163 Retail Park in Mont Kira for RM215m early this year. Similarly, KLCCP Stapled Group is acquiring the remaining 40% equity stake in Suria KLCC for RM1.95b. On the other hand, KIP REIT recently announced the acquisition of DPulze Shopping Centre in Cyberjaya for RM320m. In a nutshell, we see that the active acquisition of REIT implies the positive outlook for industrial assets and retail assets in Malaysia.


Maintain POSITIVE on REIT. We continue to see a positive outlook for REIT, led by retail and industrial sub-segments. Retail industry is expected to return to organic growth of positive rental reversion as retail industry recovered to pre-pandemic level. Meanwhile, performance of industrial asset is expected to remain stable while rental rate is expected to grow due to healthy demand for industrial asset. We also see that hotel industry will continue to recover in 2HCY24 as tourist arrivals are expected to increase as Malaysia is offering visa-free entry to travelers from several countries which will boost tourism industry of Malaysia. All in all, we are maintaining our POSITIVE stance on REIT. Our top picks for the sector are **Sunway REIT (BUY; TP: RM1.70)** and **Axis REIT (BUY; TP: RM2.02)**. We remain positive for Sunway REIT as contribution from its retail division should remain stable in the long term on the back of positive rental reversion. Besides, the outlook for the hotel division is also improving with expectation of higher tourist arrivals. Meanwhile, we like Axis REIT for its exposure to industrial assets which is underpinned by healthy demand for industrial space. Its active acquisition will also spur earnings growth in the long term. 

Figure 3: Peers comparison table

Stock	FYE	Rec.	Price @ 14-June-2024	Target Price (RM)	Core EPS (sen)		Core PER (x)		Net DPS (sen)		Net Dvd Yield	
					FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
SUNWAY REIT	Dec	BUY	1.59	1.70	10.5	11.0	15.1	14.5	8.9	9.2	5.6%	5.8%
PAVILION REIT	Dec	BUY	1.44	1.48	7.6	7.9	18.9	18.3	8.2	8.1	5.7%	5.6%
IGB REIT	Dec	BUY	1.83	1.86	10.4	10.7	17.7	17.1	9.5	9.8	5.2%	5.4%
AXIS REIT	Dec	BUY	1.83	2.02	8.9	9.9	20.5	18.5	7.83	8.67	4.3%	4.7%
KLCCP STAPLED GROUP	Dec	NEUTRAL	7.52	7.20	45.3	48.7	16.6	15.4	38.4	38.6	5.1%	5.1%
AI-`AQAR HEALTHCARE REIT	Dec	NEUTRAL	1.27	1.25	8.2	8.4	15.5	15.1	7.2	7.3	5.7%	5.7%

Source: MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology