REIT

Maintain **POSITIVE**

Commendable earnings growth

KEY INVESTMENT HIGHLIGHTS

- **Commendable earnings growth in 2QCY24**
- **Positive earnings prospect for 2HCY24**
- **REIT on active asset acquisitions**
- **Maintain POSITIVE on REIT**
- **Top picks are Sunway REIT (BUY; TP: RM1.81) and Pavilion REIT (BUY; TP: RM1.60)**

Commendable earnings growth in 2QCY24. Earnings of REIT under our coverage in 2QCY24 were mostly in line with expectations except for Al-`Aqar Healthcare REIT that reported a slight miss in earnings due to higher-than-expected trust expenses. On a sequential basis, the earnings of REIT particularly retail REIT were lower due to seasonally shopper footfall in 2Q. Meanwhile, all REIT reported commendable earnings growth on a yearly basis. REIT with highest earnings growth in 2QCY24 was Axis REIT (+10%yoy) as earnings boosted by contribution from Bukit Raja Distribution Centre 2 and newly acquired assets. Meanwhile, Sunway REIT reported +9.3%yoy earnings growth in 2QCY24 as the performance of retail, hotel, office and other divisions was encouraging. Similarly, earnings growth of IGB REIT was solid (+8.9%yoy) due to positive rental reversion and high shopper footfall at Mid Valley Megamall and The Gardens Mall. On the other hand, earnings of Pavilion REIT and KLCCP Stapled Group remain steady with earnings growth of +6.7%yoy and +5.7%yoy respectively in 2QCY24.

Positive earnings prospect for 2HCY24. The earnings performance of REIT under our coverage in 1HCY24 was positive except for Sunway REIT and Al-`Aqar Healthcare REIT. Axis REIT and Pavilion REIT recorded double-digit earnings growth in 1HCY24 while IGB REIT and KLCCP Stapled Group registered single-digit earnings growth. Meanwhile, Sunway REIT recorded a marginal decline in 1HCY24 earnings due to higher financing costs. Similarly, earnings of Al-`Aqar Healthcare REIT in 1HCY24 were marginally lower due to higher expenditure and lower rental income from Australia division. Looking ahead, we see that earnings prospect for REIT in 2HCY24 to remain positive due to bright outlook for retail industry and industrial segment in Malaysia. Earnings for retail REIT will continue to be supported by positive rental reversion as the retail industry remains buoyant with strong shopper footfall at malls. Notably, we expect earnings of Sunway REIT to grow stronger in 2HCY24 as reconfiguration exercise of Sunway Pyramid Mall is progressively completed. Similarly, industrial segment in Malaysia is well supported by the strong demand for industrial space in Malaysia.

COMPANY IN FOCUS

Sunway REIT
Maintain **BUY |** Unchanged Target price: RM1.81
Price @ 5th Sept 2024: RM1.59

- Better earnings outlook beyond FY25 after completion of reconfiguration exercise at Sunway Pyramid Mall.
- Hotel division will benefit from higher tourist arrivals.
- Distribution yield is estimated at 5.4%.

Share price chart

Pavilion REIT
Maintain **BUY |** Unchanged Target price: RM1.60
Price @ 5th Sept 2024: RM1.41

- Encouraging earnings in 1HFY24 (+13%yoy) due to earnings contribution from Pavilion Bukit Jalil and higher contribution from Pavilion KL Mall.
- Positive rental reversion outlook for Pavilion KL Mall due to high shopper footfall.
- Distribution yield is estimated at 5.7%.

Share price chart

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Figure 1: Earnings summary of REIT

	Quarter	Results	Remarks
Axis REIT	2QFY24	Within	2QFY24 core net income higher at RM39m (+10%yoy) while 1HFY24 earnings higher at RM79.9m (+17.6%yoy), driven by rental contribution from Bukit Raja Distribution Centre 2, positive rental reversion and contribution from newly acquired assets.
Pavilion REIT	2QFY24	Within	2QFY24 core earnings grew to RM67.1m (+6.7%yoy), bringing 1HFY24 core earnings higher at RM150.3m (+13%yoy). Earnings growth was driven by earnings contribution from Pavilion Bukit Jalil and higher contribution from Pavilion KL Mall and Intermark Mall.
KLCCP Stapled Group	2QFY24	Within	2QFY24 core net income was higher at RM191m (+5.7%yoy), bringing 1HFY24 earnings higher at RM379.1m (+4.9%yoy). The earnings growth was mainly led by retail division which supported by positive rental reversion and higher shopper footfall of Suria KLCC.
IGB REIT	2QFY24	Within	2QFY24 core net income was higher at RM88.2m (+8.9%yoy), bringing cumulative earnings in 1HFY24 higher at RM190.5m (+7.5%yoy). The earnings growth was mainly underpinned by positive rental reversion and higher shopper footfall at Mid Valley Megamall and The Gardens Mall.
Sunway REIT	2QFY24	Within	2QFY24 core net income was higher (+9.3%yoy). 1HFY24 core net earnings were marginally lower at RM165.9m (-1.6%yoy) despite higher topline mainly owing to higher financing cost.
Al-`Aqar Healthcare REIT	2QFY24	Below	2QFY24 core net income of RM15.3m was little changed (+0.4%yoy). 1HFY24 core net income was lower at RM31.7m (-2.5%yoy), mainly due to lower rental income from Australia division.

Source: MIDF Research

REIT on active asset acquisitions. As earnings of REIT recovering amid improving backdrop for retail and industrial property, REIT are actively expanding asset portfolio through asset acquisitions to further propel earnings growth. Notably, Sunway REIT had on 8 August 2024 announced acquisition of Kluang Mall located in Kluang, Johor for a purchase consideration of RM158m. The asset acquisition allows Sunway REIT to expand its retail asset presence Johor. Besides, Axis REIT is actively acquiring industrial properties as it recently announced the acquisition of two industrial properties located at Taman Perindustrian Pulau Indah for a total lump sum consideration of RM158.6m. On another note, KIP REIT had in August announced the proposed acquisition of a hypermarket in Gerik Perak for RM14.8m. Besides, KIP REIT has also announced acquisition of four industrial properties across Malaysia for a total purchase consideration of RM98.3m. Similarly, AME REIT announced the acquisition of four industrial properties in Johor from its sponsor AME Elite Consortium for total purchase consideration of RM120m. Overall, we see that the active acquisition of REIT will continue to drive earnings growth of REIT.

Maintain POSITIVE on REIT. We remain **POSITIVE** on REIT as earnings growth of REIT is expected to remain positive going forward. Earnings growth of retail REIT should remain supported by the positive rental reversion. Besides, performance of industrial REIT will be sustained by the sturdy demand for industrial property in Malaysia. Meanwhile, the average distribution yield of REIT under our coverage is at 5.1% which we deem still attractive. Our top picks for the sector are **Sunway REIT (BUY; TP: RM1.81)** and **Pavilion REIT (BUY; TP: RM1.60)**. We remain positive on Sunway REIT as we see better earnings outlook for Sunway REIT beyond FY25 due to stronger earnings contribution from retail division after reconfiguration of Sunway Pyramid Mall completed. Besides, its hotel division will benefit from the higher tourist arrival. Similarly, we also see stronger earnings prospect for Pavilion REIT as rental reversion outlook for Pavilion Mall KL remains positive while earnings contribution from Pavilion Bukit Jalil Mall will further support earnings growth.

Figure 2: Peers comparison table

Stock	Rec.	Price @ 5-Sept-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	BUY	1.66	1.81	10.5	11.1	15.8	15.0	8.9	9.2	5.4%	5.5%
Pavilion REIT	BUY	1.43	1.60	7.6	7.9	18.8	18.1	8.2	8.1	5.7%	5.7%
IGB REIT	BUY	2.04	2.10	10.4	10.7	19.7	19.1	9.5	9.8	4.7%	4.8%
Axis REIT	BUY	1.79	2.14	8.9	10.0	20.1	17.8	7.8	8.8	4.4%	4.9%
KLCCP Stapled Group	NEUTRAL	7.89	7.50	45.3	48.7	17.4	16.2	38.4	38.6	4.9%	4.9%
Al-`Aqar Healthcare REIT	NEUTRAL	1.31	1.29	7.4	7.6	17.6	17.2	7.1	7.2	5.4%	5.5%

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 *rise* 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 *fall* 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