

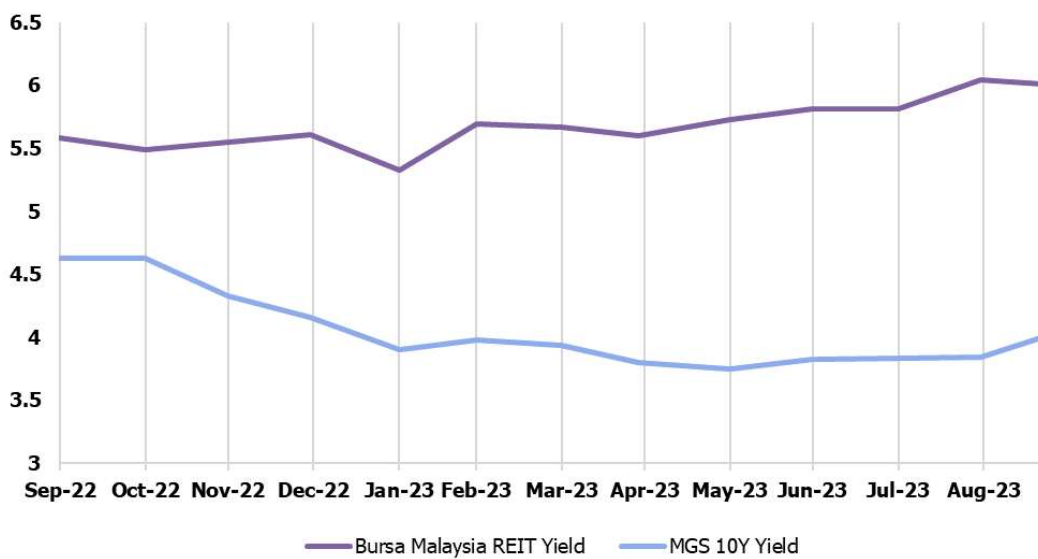
REIT sector

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Defensive play comes in handy

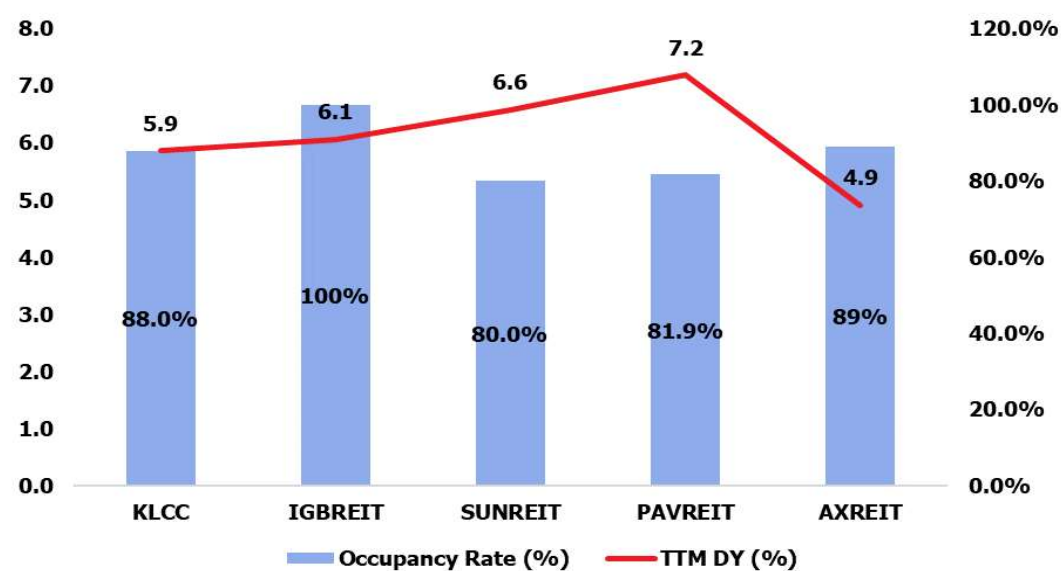
- **Review.** The REIT sector delivered a softer performance, on the back of absence of festive period with the retail industry contracted -4.0% YoY in 2Q23 and is expected to record only +2.7% YoY expansion for 2023, according to the Retail Group Malaysia (RGM). The weakness was also compounded by the weaker purchasing power of Malaysia consumers on the back of the normalising interest rate environment, high inflationary pressure and weakening Ringgit against the Greenback.
- We gather that the aggregate Malaysia REIT (MREIT) dividend yields remain fairly decent at 6.0% as at end-3Q23, whilst top 5 MREIT (based on market capitalisation) demonstrated healthy occupancy rates. Meanwhile, 3Q23 REIT index (-0.1% QoQ) was one of the two underperformers amongst the 13 major sectors on Bursa Malaysia to close at 776.22 pts. The said weakness came despite stronger earnings demonstrated within the REIT sector in 2Q23 that recorded EPS of 2.73 sen vs 1.61 sen in 1Q23 following the full-blown re-opening of economic activities.

Bursa Malaysia REIT Yield vs 10Y MGS Yield



Source: BNM, Bloomberg, Apex Securities

Top 5 Market Cap MREIT



Source: BNM, Bloomberg, Apex Securities

- **Outlook.** In light of the rising number of tourist arrivals, we expect retail sales to demonstrate stable improvement which benefits REIT players equipped with larger exposure to retail malls particularly within the Kuala Lumpur city. The industrial REIT space is expected to be driven by the on-going trade diversion from the US-China trade spat as well as rising demand for data centers that is riding onto the technological advancement. However, the commercial REIT space is expected to remain challenging, owing to the oversupply condition, while demand of office space is expected to remain soft due to the change in working environment dynamics. Although interest rates may remain elevated, we reckon that the stability of MREIT yields will continue to attract long term investment proposition.
- **Valuation & Recommendation.** We favour REIT players such as **Pavilion REIT (NR)**, **IGB REIT (NR)**, **Sunway REIT (NR)** as proxies to strong occupancy rates in their respective retail malls segment and **Axis REIT (NR)** for their diverse exposure in the offices, industrial, logistic warehouse, manufacturing facility and hypermarket space.
- **Key Risk.** Oversupply of office spaces keeping yields in check, incoming supply of new malls, limited property expansion due to scarcity of land.
- **Summary.** We expect the REIT sector to remain steady, owing to the stability in occupancy rate. All in, we are **Neutral** on the REIT sector on the back of the (i) fairly attractive yield proposition play for a longer-term investment horizon in view of the volatility of market conditions, (ii) stable economic growth anchoring retail spending and (iii) tail-end of OPR upcycle.

Top Picks

Company	Price (RM)		P/E (x)		Dividend Yield (%)	Target Price (RM)	Potential Upside / Downside
	as at 29Sep23	2022	2023F	2024F			
Pavilion REIT*	1.22	6.49	6.42	5.36	6.56	1.50	23.0%
IGB REIT*	1.68	10.62	10.20	9.89	5.95	1.86	10.7%
Sunway REIT*	1.46	7.68	7.26	6.86	6.85	1.70	16.4%
Axis REIT*	1.84	10.28	10.95	9.96	4.89	2.03	10.3%

* Denotes Bloomberg consensus data

Source: Apex Securities Bhd, Bloomberg