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# Growth of REITs expected to be largely organic this year

**Real estate investment trust sector**

**Maintain neutral:** As we anticipate major pipelines to be limited in 2020, we continue to favour Malaysian real estate investment trusts (M-REITs) that have prime malls and sizeable assets with long-term tenants, which are seen to underpin organic growth. We maintain a "neutral" view on the sector due to lack of major growth catalysts at this juncture. Our top "buy" is YTL Hospitality REIT and other "buys" are Sunway REIT and MRCB-Quill REIT. The sector's average calendar year 2020/2021 net yields are 5.4/5.6%.

We estimate M-REITs' growths to be largely organic in 2020, via positive rental reversions and sustained occupancy rates, with Axis REIT, Sunway REIT and Al-Salam REIT recording full-year rental income contributions from assets acquired in 2019. The oversupply of retail and office space in the Klang Valley — where most of the M-REITs' key assets are located — would remain a major challenge. We expect direct earnings lift to M-REITs to be minimal from the easing of financing costs of variable rate debts. Our economist forecasts the overnight policy rate (OPR) will be cut by 25 basis points to 2.75% in 2020.

We expect next year's acquisition pipeline to remain subdued for now, involving only smaller size assets as major deals and developments are unlikely until 2021 onwards, such as Lot 185, Lot 91, and City Point Podium in Kuala Lumpur by KLCC Property Holdings Bhd and the expected completion of Phase 2 development at Axis Mega Distribution Centre in Telok Panglima Garang, Klang, Selangor. Our 2020 forecasts have only imputed Axis REIT's RM439 million worth of industrial property development or acquisitions. Beyond the near term, YTL Hospitality REIT, Sunway REIT and Axis REIT are our preferred picks for acquisition play.


There is a growth catalyst from Melbourne Marriott, one of YTL Hospitality REIT's three Australian hotels, potentially resulting in higher occupancy rates and/or room rates post refurbishment.

We like YTL Hospitality REIT for its resilient earnings from its Malaysian and Japanese assets, which are on master leases with rental step-ups. There are also growth catalysts from its three Australian hotels, potentially resulting in higher occupancy rates and/or room rates post refurbishment. We also like YTL Hospitality REIT for its strong pipeline of hotel assets from its parent.

We remain cautious about the oversupply of retail and office space in the Klang Valley, which could exert pressure on occupancy rates and/or positive rental reversions, which will in turn increase the downside risks to dividends per unit. Elsewhere, we believe any OPR hike would lower M-REITs' profitability — due to higher finance costs — and deter acquisitions as they will be more expensive to fund acquisitions via borrowings. — *Maybank IB Research, Jan 10*

**Malaysian real estate investment trusts**

| TRUST | REC. | SHARE PRICE 9-JAN-20 (RM) | MARKET CAP (RM) | TP (RM) | NET DIV YIELD CY20E (%) | NET DIV YIELD CY21E (%) | P/BV CY20E (X) | P/BV CY21E (X) | PE CY20E (X) | PE CY21E (X) | ROE CY20E (%) | ROE CY21E (%) | GROSS GEARING (X) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| KLCCP Stapled Group | Hold | 7.97 | 14,407 | 7.85 | 4.4 | 4.5 | 1.0 | 1.0 | 19.2 | 18.7 | 5.4 | 5.3 | 0.13 |
| IGB REIT | Hold | 1.89 | 6,707 | 2.00 | 4.7 | 4.9 | 1.8 | 1.8 | 20.2 | 19.4 | 8.8 | 9.2 | 0.23 |
| Sunway REIT | Buy | 1.84 | 5,419 | 1.95 | 5.4 | 5.6 | 1. 2 | 1.2 | 16.6 | 16.0 | 7.3 | 7.5 | 0.39 |
| Pavilion REIT | Hold | 1.73 | 5,258 | 1.65 | 4.9 | 5.0 | 1.3 | 1.2 | 19.6 | 19.1 | 6.5 | 6.5 | 0.34 |
| CapitaLand Malaysia Mall Trust | Sell | 1.00 | 2,041 | 0.96 | 5.9 | 6.1 | 0.8 | 0.8 | 16.5 | 16.1 | 4.7 | 4.9 | 0.34 |
| YTL Hospitality REIT | Buy | 1.36 | 2,335 | 1.50 | 5.9 | 6.2 | 0.9 | 0.9 | 14.6 | 13.9 | 5.7 | 6.0 | 0.41 |
| Axis REIT | Hold | 1.79 | 2,540 | 1.73 | 5.0 | 5.6 | 1.3 | 1.3 | 18.0 | 16.0 | 7.1 | 8.0 | 0.40 |
| MRCB-Quill REIT | Buy | 1.00 | 1,066 | 1.18 | 6.5 | 6.6 | 0.8 | 0.8 | 13.5 | 13.3 | 5.7 | 5.8 | 0.37 |
| Al-Salam REIT | Hold | 0.86 | 479 | 0.83 | 5.7 | 5.8 | 0.8 | 0.8 | 15.3 | 15.1 | 5.2 | 5.3 | 0.48 |
| **Simple Average (MKE)** | | | | | **5.4** | **5.6** | **1.1** | **1.1** | **17.1** | **16.4** | **6.3** | **6.5** | **0.34** |

Sources: Bloomberg, Maybank Kim Eng