Cut in OPR not expected to have significant impact on REITs

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PETALING JAYA: The cut in overnight policy rate (OPR) is not expected to have significant impact on real estate investment trust (REITs), according to MIDF Research.

The brokerage said based on the historical price movement of REITs, a 25 basis points (bps) cut did not have significant impact on the unit prices of REITs.

"That said, we expect a handful of REITs to benefit from lower financing costs due to their proactive measures in managing the ratio of their fixed and floating rate loans," it said in its report yesterday.

"Among the REITs that we cover, Pavilion REIT's floating rate loans constitute 58.5% of its overall borrowings, Sunway REIT's at 52% and Axis REIT's at 44%. Savings from the lower finance cost for Pavilion REIT is estimated at 1.1% for 2019, Sunway REIT at 1.2% for 2020 and Axis REIT at 1.0% for 2019," it said.

MIDF Research said the rate has minimal impact on earnings and target prices.

"We are neutral on the impact of the finance cost savings as they are deemed minimal to the bottomline.

Meanwhile, the 10-year Malaysian Government Securities (MGS) bond yield averages at around 3.9% year to date, which is still within our estimation of 4%," the research house said.

"As such, we maintain our earnings estimates and target prices for REITs under our coverage," it added.

MIDF Research said it maintained "neutral" on the REIT sector.

"We believe that most of the positive points are largely priced in, leaving limited upside. The average yield spread compared to 10-year MGS is not very appealing at 1.2 percentage points," it said.

Its top pick for the sector is Sunway REIT, with a target price of RM2.02, due to the stable income growth from Sunway Pyramid and more balanced portfolio.

It also liked Al-'Aqar, with a target price of RM1.49, due to its unique position as a pure healthcare REIT and defensive earnings.

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