Malaysia REITs

4QCY22 Results Review: Business As Usual

NEUTRAL

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The 4QCY22 report cards for MREITs showed little earnings surprises. We maintain our NEUTRAL call on the sector. We still like MREITs with the following attributes: (i) niche in the right business segments particularly in industrial and retail, and/or (ii) own property assets in prime and strategic locations, which will continue to provide resilient rental income streams. From a valuation perspective, our sector pick is PAVREIT (OP; TP: RM1.43) while SENTRAL (UP; TP: RM0.79) remains an UNDERPERFORM.

FY22 results broadly within expectations. The recently concluded 4QCY22 reporting season unveiled little earnings surprises for Malaysia REITs (MREITs) with 20% surpassing and 80% meeting our forecasts (versus all of them coming in within expectations in the preceding quarter). Of the five REITs under our research radar, four (namely AXREIT, IGBREIT, KLCC and SENTRAL) posted results that matched our estimates while PAVREIT narrowly beat our expectation by 1% (see table overleaf).

Key highlights. The latest batch of earnings report cards showed that it is essentially back to business as usual for MREITs post the pandemic after getting hit badly in 2020 and 2021. Following the gradual resumption of economic activities (beginning from October 2021 onwards), the base effect has largely disipated as reflected in the slowing quarterly sequential earnings momentum in the 4QCY22 figures.

Worth highlighting too is the steady retail spending pattern as the shopping crowd has returned. Capturing this, retail tenant sales have predominantly exceeded the pre-pandemic thresholds at prime retail malls owned by KLCC and PAVREIT although footfall remained marginally below the 2019 levels. Meanwhile, AXREIT continued to log high portfolio occupancy rate at 95% as of end-December 2022 riding on its niche in industrial properties. Separately, the oversupply situation in the office space especially in less prime areas continued to be felt by SENTRAL (which has seen its overall portfolio occupancy rate declined from 90% end-2021 to 77% end-December 2022, though slightly better than end-September 2022 level of 73%).

Post the 4QCY22 results season, our earnings forecasts are kept largely intact for CY23 as we pencilled in new projections for CY24.

10-year MGS yield update. The 10-year Malaysian Government Securities (MGS) yield – a risk-free benchmark used by us as a valuation reference to impute the corresponding yield spreads in deriving our individual target prices – has climbed back up to 4.04% currently, from a recent low of 3.74% in late January this year (see chart next page). This follows its previous slide from a high of 4.55% in October last year due to initial expectations that global interest rates might have peaked already. Yet, with interest rates likely to hold up amid an elevated inflationary environment, we are maintaining our 10-year MGS yield assumption at 4.5%.

Keeping our NEUTRAL sector view. We are maintaining our NEUTRAL sector view on MREITs given the still challenging industry fundamentals. On valuation grounds, notwithstanding that its share price has risen 9.6% since our upgrade in October last year, **PAVREIT (OUTPERFORM; TP: RM1.43)** remains our sector pick, offering potential total return of 10.7%. We remain cautious on **SENTRAL (UNDERPERFORM; TP: RM0.79)**.

Risks to our call include: (i) risk-free rate eases/strengthens, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

Quarterly Results Performance

	4QCY22						3QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
AXREIT		1			1			1			1	
IGBREIT		1			1			1		1		
KLCC		1			1			1			1	
PAVREIT	1				1			1			1	
SENTRAL		1			1			1		1		
Total	**1**	**4**	**0**	**0**	**5**	**0**	**0**	**5**	**0**	**2**	**3**	**0**
Total (%)	**20**	**80**	**0**	**0**	**100**	**0**	**0**	**100**	**0**	**40**	**60**	**0**

Source: Kenanga Research, Bloomberg

10-Year Malaysian Government Securities (MGS) Yield Movements

Source: Bloomberg, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Gross Div. (sen)	Gross Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.88	1.89	0.53%	3,273.2	Y	12/2023	10.5	10.9	9.4%	3.8%	17.9	17.2	1.2	6.8%	10.4	5.5%
IGB REIT	MP	1.69	1.65	-2.37%	6,067.9	N	12/2023	9.5	9.8	1.1%	3.2%	17.8	17.2	1.4	8.8%	9.9	5.9%
KLCCP STAPLED GROUP	MP	6.83	6.60	-3.37%	12,330.4	Y	12/2023	40.2	41.6	5.0%	3.5%	17.0	16.4	0.9	5.2%	36.3	5.3%
SENTRAL REIT	UP	0.875	0.790	-9.71%	937.8	N	12/2023	6.7	6.6	-2.9%	-1.5%	13.1	13.2	0.7	5.4%	6.3	7.2%
PAVILION REIT	OP	1.37	1.43	4.38%	4,190.5	N	12/2023	8.3	8.8	1.2%	6.0%	16.6	15.7	1.1	6.5%	8.6	6.3%
SECTOR AGGREGATE					**32,142.5**					**8.1%**	**2.8%**	**16.8**	**16.4**	**0.4**	**6.4%**		**5.9%**

Source: Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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