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Affin Hwang remains neutral on MREITs despite OPR cut to 1.75%

KUALA LUMPUR (July 8): Affin Hwang Capital Research has maintained its "neutral" rating for Malaysian real estate investment trusts (MREITs) with a 5% distribution yield at the end of 2021 after Bank Negara Malaysia (BNM) cut its overnight policy rate (OPR), for the fourth time this year, by 25 basis points (bps) to 1.75%.

In a note today, Affin Hwang analysts Azhani Hashim and Isaac Chow said they expect the OPR cut to have a minimal impact on earnings of MREITs this year as most of the REITs under coverage, such as Axis REIT, IGB REIT, KLCCP Stapled Group and YTL REIT, had pegged a majority of their borrowings at fixed rates.

“Elsewhere, PREITs and SREITs have fixed rates for 43% of their borrowings,” they added.

Azhani and Chow said these fixed-rate borrowings are largely medium-term notes (MTNs) or sukuk with long tenures.

They also believe banks may not fully pass on the full reduction in the OPR rate due to a changing business and risk environment.

The analysts also noted that 10-year Malaysian Government Securities' (MGS) yield declined by 5bps yesterday to 2.74%, 56bps below the end-December 2019 level of 3.3%.

“The compression in 10-year MGS was attributable to a decline in global government bond yields and the OPR cut. BNM’s OPR cut should support sector valuations,” they said.

Affin Hwang remained "neutral" on MREITs, with Sunway REIT being a preferred pick with a "buy" rating at RM1.63 due to its balanced asset portfolio and relatively attractive yield versus other REITs in Affin Hwang's universe.

The research house’s analysts said sector upside risks include a fast recovery in consumer and business sentiment post Covid-19, while downside risks include prolonged softness in consumer and business sentiment, sharper-than-expected economic contraction and a second wave of Covid-19.

So far, BNM has lowered its OPR by a total of 125bps since early 2020 in an effort to support domestic economic activity from the impact of Covid-19.

The central bank said its latest OPR cut is aimed at providing “additional policy stimulus to accelerate the pace of economic recovery” by taking a precautionary measure in view of downside risks from possible renewed Covid-19 outbreaks, which may lead to reimposition of containment measures, as well as concerns over weakness in domestic labour market conditions.

As at 12.07pm, Bursa Malaysia's REIT Index had dipped 1.12 points or 0.13% to 890.30 points.

(Source: https://www.theedgemarkets.com/article/affin-hwang-remains-neutral-mreits-despite-opr-cut-175)