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Malaysian REITs' earnings to improve

The office segment should remain stable

PETALING JAYA: Despite the growing number of Covid-19 cases, the easing of lockdown restrictions could still spell a better year for Malaysian real estate investment trusts (REITs) in 2021.

The sector's fourth-quarter 2020 (Q4) earnings are expected to improve from mid-2020 as the mall and hospitality segments should do better than Q2 when there was a complete shutdown of business operations, Kenanga Research said.

“Most malls under our coverage adhere to the movement control order (MCO) guidelines and as such, we do not expect business to be severely impacted by the worsening Covid-19 situation in the Klang Valley for now.

“The easing of lockdown rules will help long-term business viability, especially in financial year 2021 (FY21). As such, we believe our more positive outlook in FY21 earnings is justified for now, on a strong dividend per share growth of 3%-100% year-on-year in FY21 coming off from a low base year in FY20, ” the research firm said in a report.

Kenanga remained neutral on the sector, noting that at current levels, the REITs under its coverage are commanding yields of between 4% and 8%, on the back of conservative valuations. Nonetheless, risks for the sector are still prevalent, given the high level of uncertainty.

Notably, the retail and hospitality segments are highly susceptible to Covid-19 shocks.

The retail segment was severely affected in the second quarter of 2020 as malls were shut during the peak of the MCO, save for essential businesses that make up about 10%-15% of the space. However, Kenanga pointed out that the segment that took the biggest hit was the hospitality industry, as most hotels were not allowed to host guests or hold events until May 2020.

“Going forward, we expect the retail and hospitality segments to remain fairly sensitive to the rise in the number of cases as the public will stay clear as a precaution, ” it said.

On the other hand, the industrial REITs are expected to remain stable, for now.

The industrial segment remains a bright spot and has been faring well during the MCO and post-MCO, as most manufacturing tenants remained in operations.

Meanwhile, the office segment should remain stable, namely, KLCC REIT and MRCB-Quill Reit, as tenants have resumed their offices or have the option to utilise the work-from-home arrangement, ensuring business continuity, Kenanga said.

(Source: https://www.thestar.com.my/business/business-news/2021/01/08/malaysian-reits-earnings-to-improve)