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Premium shopping malls to retain their edge against less-established peers

PETALING JAYA: Premium and established shopping malls are expected to continue to enjoy a strong competitive advantage compared with their suburban and less-established peers, said Affing Hwang Capital.

“The solid six-month 2019 (6M19) results (in spite of ongoing refurbishments) have further solidified our conviction in their earnings resilience, even in a slowing economy,” it said in a research note today.

It said for prime and established shopping malls, stable occupancy rates, positive rental reversions and higher turnover rents have translated into consistent revenue growth.

“Commendably, several prime retail malls (ie, Suria KLCC and Pavilion KL) delivered higher revenue in 6M19 despite ongoing refurbishment/ reconfiguration exercises that are affecting their occupancy rates. Conversely, the less-established/suburban shopping malls do not fare as well.”

The research house attributes the divergence in the revenue trend between the prime shopping malls and their less-established peers to their strategic locations, good tenant mixes and established shopper bases with resilient spending habits.

Furthermore, managements remain positive on the prime retail malls’ business outlooks, citing higher tenant sales, especially with the food & beverage and speciality shops.

Affin Hwang noted that all five Malaysian REITs (MREITs) – real estate investment trusts – under its coverage reported higher 6M19 realised earnings per unit (EPU) with a year-on-year growth of 1.3% to 19.6%, attributed to positive rental rever-sion, contributions from newly acquired assets and higher other income.

Under its coverage, Axis REIT saw the highest EPU growth of 19.6% for the period driven by contributions from new assets, followed by IGB REIT’s 4.9%.

Overall, Affin Hwang expects all five REITs under its coverage to achieve higher realised earnings per unit in 2019, driven by contributions from new assets, positive rental reversions, higher turnover rents, and lower finance costs.

It has also raised target prices for IGB REIT, Pavilion REIT and KLCCP Stapled Group to RM2.02, RM1.97 and RM8.90, respectively.

The research house is maintaining its “overweight” rating on the sector.

“We believe the defensive earnings of high-quality MREITs make them an ideal investment proposition during periods of economic uncertainty,” it explained.

Apart from that, Affin Hwang noted that the dovish stance from major central banks should lead to further rate cuts, thereby boosting the appeal of MREITs as an alternative yield play.

However, it cautioned that the MREITs are not created equal and it prefers the high-quality REITs with sustainable yields to their higher-yielding small-cap peers.

For the sector, Affin Hwang’s top picks are KLCCP for its sustainable yield and Axis REIT for its high yield and strong acquisition pipeline.

(Source : https://www.thesundaily.my/business/premium-shopping-malls-to-retain-their-edge-against-less-established-peers-CC1343602)