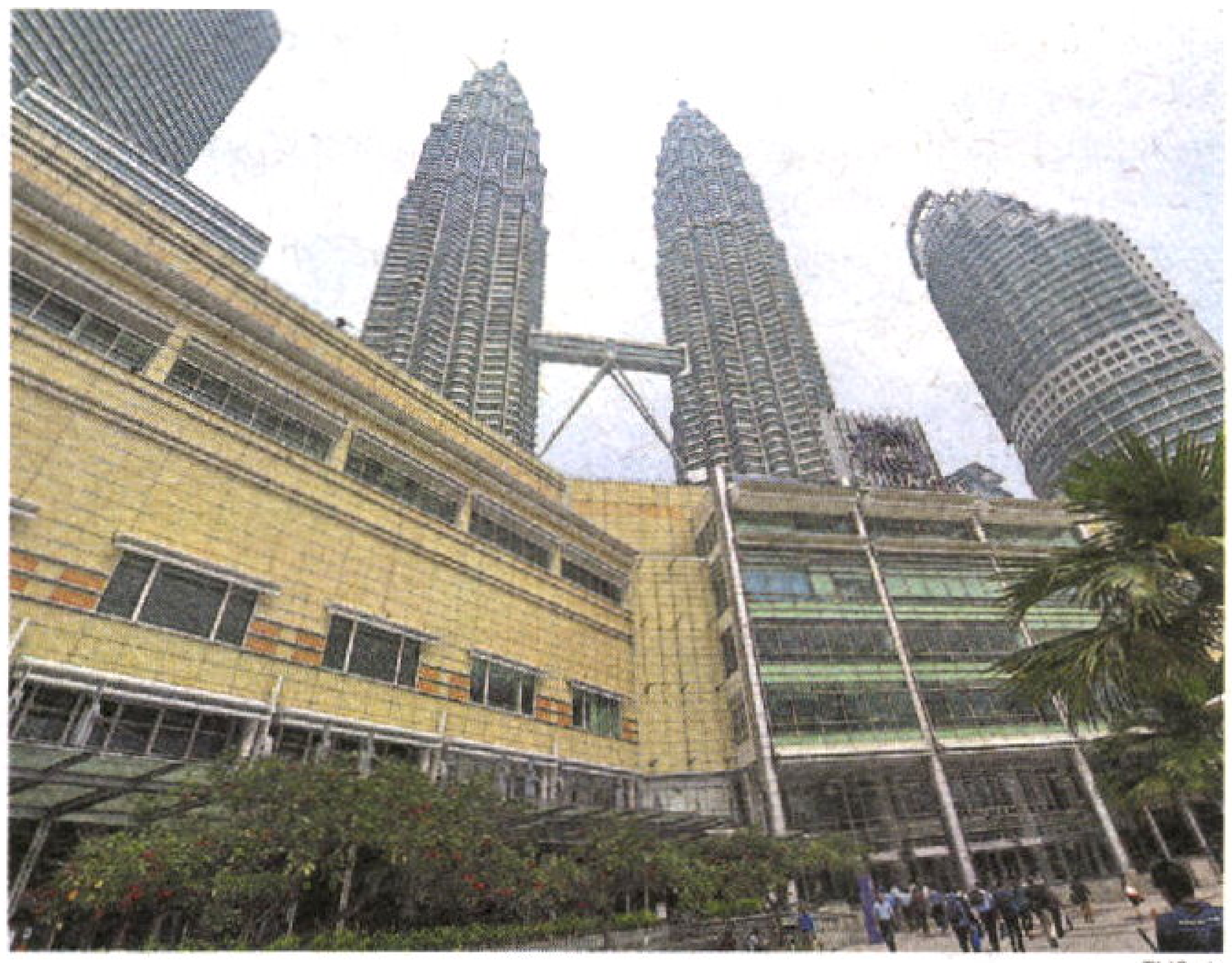
REIT segment to remain resilient despite tough times ahead

It's a popular asset class for investors looking for sustainable returns at fairly low risk profiles

by **SHAZNI ONG**



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KLCCP Stapled Group is the largest listed REIT in the country

REAL estate investment trusts (REITs) are expected to face a challenging environment in 2019, despite measures being taken to improve performances.

The weaker economy activity forecast and bearish property market fundamentals limit pricing power, and hence, returns for its shareholders.

REITs have become a popular asset class on Bursa Malaysia for investors looking for sustainable returns at fairly low risk profiles and capital gains over the long run.

The exchange now has 18 listed REITs. The REITs have in their portfolios some of the most expensive commercial real estates in the country.

Below are the recaps for the performances of some of the biggest REITs for 2018.

KLCC REIT

KLCC REIT and KLCC Property Holdings Bhd (KLCCP) make up the largest listed REIT in the country known as KLCCP Stapled Group.

As a stapled security, it constitutes about one-third or 33% of the market capitalisation of the country's REIT segment, with a market capitalisation of about RM14 billion.

KLCC REIT is the proud owner of the Petronas Twin Towers, Menara ExxonMobil and Menara 3 Petronas.

KLCCP has stakes in Suria KLCC, Mandarin Oriental Kuala Lumpur, Kompleks Dayabumi, Menara Maxis and a vacant land known as Lot D1.

KLCC REIT posted a drop in net profit to RM183.66 million in the fourth quarter ended Dec 31, 2018 (4Q18), against a net profit of RM345.51 million a year ago.

Revenue for the quarter rose 4% to RM366.34 million from RM352.07 million in 4Q17.

For the full year, KLCC REIT posted a cumulative 2018 financial year (FY18) net profit of RM724.91 million, a drop from RM877.9 million it made in FY17, despite revenue rising marginally by 2.9% to RM1.4 billion in FY18 from RM1.36 billion in the previous year.

The higher revenue was attributed to the stability of the office segment and resilience of the retail segment.

It declared a 10.9 sen dividend per unit, bringing total dividends for FY18 to 37 sen per unit. Moving forward, KLCC REIT's financial performance is expected to remain resilient, reinforced by long-term office tenancies.

The company, in its recent exchange filing, noted the retail segment is expected to maintain its competitiveness with its strong fundamentals.

IGB REIT

IGB REIT is the second-biggest REIT on Bursa Malaysia with a market capitalisation of about RM6.2 billion.

The company owns two retail properties — Mid Valley Megamall and The Gardens Mall. Both are adjacent to one another.

IGB's net profit for 4Q18 declined 9.9% to RM105.5 million from RM117.12 million in 4Q17 due to lower revaluation surplus on its investment properties.

Revenue for the quarter rose 2.1% to RM137.2 million compared to RM134.35 million a year ago on higher rental income.

For the full year, IGB posted a cumulative FY18 net profit of RM333.75 million, a 2.7% drop from RM343.26 million it made in FY17 due to lower revaluation surplus on investment properties and a one-time writeback of step-up interest.

Its full year revenue rose 2% to RM535.68 million from RM524.91 million in FY17 due to higher rental income.

IGB declared a final dividend of 2.28 sen per unit for the quarter, bringing the full-year dividend payout to 9.19 sen per unit.

Moving forward, IGB noted it will continue to strengthen its performance by improving customers and shoppers' experience at both Mid Valley Megamall and The Gardens Mall.

The company will determine proactively in exploring asset enhancement initiatives and ensuring the tenancy mix at its malls is responsive to meeting the evolving demands and changing preferences of customers and shoppers.

Pavilion REIT

Pavilion REIT is the third-largest REIT on the exchange with a market capitalisation of RM5.3 billion.

It has five main property assets under its portfolio consisting of four retail malls and an office building — most of which are located in Kuala Lumpur's (KL) Golden Triangle.

Pavilion REIT posted a net profit of RM100.28 million in 4Q18 against a net profit of RM82.61 million in the preceding year.

Revenue for the three months rose 13.6% year-on-year (YoY) to RM147.05 million — largely due to income from a new property, the Elite Pavilion Mall; higher rental income from the Pavilion KL Mall; and a higher occupancy rate at the Intermark Mall, offset by a lower occupancy rate at Damen Mall.

For FY18, Pavilion REIT's net profit hit RM288.68 million compared to the RM249.44 million net profit a year ago.

Full-year revenue surged 13.2% YoY to RM554.97 million due to income from the Elite Pavilion Mall, its recent exchange filing noted.

The REIT declared a final dividend of 4.4 sen per unit, bringing the total dividend payout to 8.78 sen per unit for the year.

Moving forward, Pavilion REIT said it will continue to explore improvements to its tenant mix and cost management options, as well as bring improved shopping experiences to attract shoppers.

The company views the retail market conditions to be flattish for the first half of this year due to geopolitical tensions, uncertain investment activities, volatile commodity prices and a lack of positive catalysts.

CapitaLand Malaysia Mall Trust

CapitaLand Malaysia Mall Trust (CMMT) has a market capitalisation of RM2.3 billion.

Its property portfolio includes Gurney Plaza (GP) in Penang; Sungei Wang Plaza (SWP) in KL; 3 Damansara (3D) and Tropicana City Office Tower in Petaling Jaya; The Mines (TM) in Seri Kembangan; and East Coast Mall (ECM) in Kuantan.

CMMT recorded a net profit of RM34.62 million in 4Q18 compared to a net profit of RM53.64 million in the previous year.

Revenue for the quarter fell to RM86.9 million from RM92 million in 4Q17.

For the full year, net profit stood at RM135.62 million compared to RM162.1 million in FY17, as revenue fell to RM350.14 million in FY18 from RM368.93 million posted in FY17.

The company attributed the lower revenue for the year to lower occupancy at SWP, TM and 3D partly due to downtime for asset enhancement works at SWP, TM and the Tropicana City Office Tower, as well as lower rental rates at SWP and TM.

The performance was mitigated by better performance from GP, higher rental contribution from the completed asset enhancement works at ECM and the one-off compensation and forfeiture of rental deposit for premature termination of a mini anchor tenant at SWP.

CMMT declared a final dividend of 3.88 sen per unit for the 4Q, bringing the total dividend payout for FY18 to 7.9 sen per unit.

Moving forward, CMMT foresees consumer and business sentiments to remain cautious amid increasing uncertainties in the global economy and persistent concerns about the rising cost of living.

For 2019, the scheduled completion of new retail mall supply — particularly in the Klang Valley — and the increasing popularity of e-commerce are expected to intensify competition for shopping mall owners and operators.

MRCB-Quill REIT

MRCB-Quill REIT (MQREIT) has a market capitalisation of about RM475 million — the value of which is derived from its portfolio that includes Menara Shell, Platinum Sentral, Wisma Technip and part of Plaza Mont Kiara.

MQREIT posted a net profit of RM8.04 million for 4Q18 against a net profit of RM3.32 million in 4Q17.

Its revenue for the quarter dropped to RM41.81 million from RM46.05 million in 4Q17.

For the full year, MQREIT posted a cumulative FY18 net profit of RM73.13 million, an increase from RM69.91 million it posted in FY17.

Revenue for the year fell to RM172.52 million from RM181.5 million in FY17 due to lower revenue generated from Platinum Sentral and Menara Shell, as well as a loss of revenue from the disposal of Quill Building 8-DHL XPJ.

MQREIT declared a 3.85 sen per unit dividend in 4Q18, bringing total dividends for FY18 to 8.08 sen per unit.

Its recent filing noted the company expects the Klang Valley office market to remain challenging.

Hektar REIT

Hektar REIT posted a decline in net profit to RM2.63 million for 4Q18 from RM12.08 million a year ago, while its revenue increased marginally to RM33.88 million from RM33.44 million in 4Q17.

For the full year, Hektar made a cumulative FY18 net profit of RM33.12 million, a marginal increase from RM32.69 million a year ago, while its revenue rose to RM135.1 million versus RM125.54 million in FY17.

The group declared a final dividend of 2.31 sen per share, bringing the total dividend payout to 9.01 sen for the year.