

Research house: REITs may continue to face uncertainties

PETALING JAYA: Real estate investment trusts (REITs) are one of the casualties of the Covid-19 outbreak and have entered a period of heightened uncertainties with REIT managers feeling cautious on the outlook.

The REITs listed on the Bursa Malaysia which are mainly operating in the commercial retail, hotel and office space segment could continue to face uncertainties and this would impact them in the near to middle term, said Affin Hwang Research.

"We expect the otherwise defensive Malaysian REITs to report a steep 19% decline in 2020 forecast earnings per unit, before recovering in the forecast 2021. At a 5.4%

2021 forecast distribution yield, the sector valuation is within its 6-year average and looks fair," the report said.

The research house said that it had spoken to several of the REIT managers to get their updates on the situation of late noting that some will be more impacted by the current economic situation.

For the retail REITs, Sunway REIT and Pavilion REIT had offered a 14-day free rental for the non-essential retailers during the 1st movement control order (MCO) period.

It noted that this offer was not extended and the REITs have yet to finalise their rental rebate / support plan for the 2nd and 3rd

MCO periods.

Affin Hwang Research said IGB REIT has granted rental assistance to its tenants based on a new rental structure designed to make it affordable for them to continue paying rent and noted that there will be no rent-free schemes here.

Affin Hwang Research said KLCC REIT has yet to disclose its rental rebates or any support strategy for its tenants.

"Broadly speaking, the shopping mall managers are still in the midst of finalising their rental rebates / support schemes; the long process is due to heightened uncertainties surrounding the duration of the MCO and the

post-MCO consumer sentiment," it said.

For Sunway REIT it noted that the Sunway Clio Hotel and Sunway Pyramid Hotels are among the 49 hotels gazetted as quarantine stations for Malaysians returning from abroad.

"For Sunway REIT, the decision (to offer its hotels) was attributable to both business and corporate social responsibility considerations.

"Notwithstanding a lower daily room rate, we expect these hotels to achieve operational breakeven as quarantine stations, rather than lose money due to low occupancy," the research house said.