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PETALING JAYA: Despite the negative impact of the Covid-19 on the local real estate investment trust (REIT) segment, some players are still able to prove resilient in this challenging environment.

CGS-CIMB in a recent report said IGB REIT and Axis REIT are among the most resilient REITs currently weathering the economic turmoil.

“IGB REIT’s (high occupancy and prime assets) and Axis REIT’s (industrial warehouse assets) earnings and dividend per share could be among the least impacted.”

Upside risk to the companies’ businesses, the research house said, would be if the movement control order (MCO) is once lifted.

“We expect IGB REIT’s prime mall assets with almost 100% occupancy rates to remain relatively resilient amidst the falling retail sales in the first quarter of 2020. IGB REIT has not resorted to any tenant incentive plans since the MCO began,” CGS-CIMB said.

Meanwhile, Maybank Investment Bank Research said IGB REIT’s long-term outlook still remains positive.

“Our medium to long-term outlook for IGB

IGB REIT, Axis REIT stay resilient in economic storm

CGS-CIMB: Their earnings may be among the least impacted

REIT remains positive as the prominent locations of its malls will attract high shopper traffic. This, in turn, would ensure high demand for IGB REIT’s retail space.

“In addition, low gross gearing of 0.23-times will give it room to fund sizeable acquisitions of retail assets in the future.”

An analyst said Axis REIT was a resilient stock as the MCO was currently having its biggest impact on retail and hospitality-based businesses.

“Axis REIT is in the warehouse and industrial business, which is more stable than other segments. However, the longer the MCO, the more disruptions there will be to the business supply chain, which would mean negative implications on Axis REIT’s earnings.”

The MCO was imposed on March 18 to help curb the rise in Covid-19 infections. For now,

the MCO is slated to last until April 28.

Retail Group Malaysia (RGM) in its latest report this month said the Malaysian retail industry is expected to record a 5.5% decline in sales this year, its first contraction in over 20 years, due to business disruptions caused by the Covid-19 pandemic.

CGS-CIMB said statistics by RGM point to a potentially more severe-than-expected situation for retail tenants of retail REITs.

“We believe this may assert more pressure on mall owners to consider extending the rental-free period, which was initially for the first two weeks of the MCO period.

“So far, Sunway REIT and Pavilion REIT initiated a rent-free period for MCO phase 1. KLCCP Stapled Group and CapitaLand Malaysia Mall Trust have not officially rolled out any form of tenant incentive plans since

MCO phase 1.”

Overall, the research house said the risks of a prolonged rental-free period for retail tenants, weaker tenant sales and subdued footfall, compounded by the deteriorating occupancy rates of hotel assets during the MCO period, could pose between a 10% and 17% downside to 2020 earnings and dividend per share of REITs under our coverage.”

AmInvestment Bank Research in a recent report said it expects a challenging near-term outlook for retail and hospitality REITs.

“As the economy may take some time to regain its momentum, we believe the impact to the bottom line will be felt for at least several months.

“We maintain our ‘neutral’ view on the sector as the overall sentiment remains weak,” it said.