REITs sector poised for a strong comeback

PETALING JAYA: The worst could be over for real estate investment trusts (REITs) that have been affected by the Covid-19 pandemic fallout.

The sector is expected to be on a recovery path as consumer activities pick up and more asset acquisitions are to take place in the next two years to drive growth.

AmInvestment Bank Research, for instance, is optimistic on the prospects of the sector.

Maintaining its "overweight" stance on REITs, the brokerage said the sector was poised for a strong comeback as consumer spending and footfall pick up, following the relaxed restrictions on the movement control order as well as the upcoming Hari Raya festive season.

"Earnings visibility of the REITs has been improving following the wide rollout of vaccines globally," it said in a report.

However, the research house warned that while Malaysia would achieve herd immunity by the end of 2022, any further outbreaks of Covid-19 might still cause bumps to the recovery.

According to a report by Retail Group Malaysia (RGM), departmental stores-and-supermarkets are one of the hardest-hit sectors with a decline of 20.2% recorded in sales, while speciality retailers were the least impacted sub-sector, recording the smallest decline in sales of 11.7% in 2020.

RGM expects a similar trend to persist moving forward. It is also forecasting the retail sales to grow by 4.1% for 2021, after declining by 13.4% in the first quarter this year before returning to its growth path from the second quarter.

Interestingly, despite the pandemic, AmInvest said there have been no major losses recorded for the commercial property assets owned by the REITs under its coverage.

Quoting property consultancy Knight Frank, it anticipated that the values of the prime grade retail assets to remain relatively stable despite the rental decline, supported by the more resilient tenant and lease profiles, as well as the existing low-interest-rate environment which will cushion the yields of the properties.

In addition, Knight Frank highlighted that it is expecting some good quality prime assets to trade in 2021.

"It believes the prices of Malaysian hotels might be trading at 10%-30% discount as compared to the pre-Covid values.

"In view of that, we do not rule out the chances of potential acquisitions to happen in the next 12 to 18 months for the REITs under our coverage, taking a cue from their strong financial ability and debt headroom of 23% to 42% debt-to-asset ratio compared to 60% of the regulatory threshold," AmInvest said.

The threshold was temporarily raised from 50% up to Dec 31, 2022, by the Securities Commission as a Covid-19 relief measure, which allows the REITs to gear up for further acquisitions.

"We view this as a good opportunity for the REITs to acquire yield-accretive assets to drive its medium to long-term growth despite the short-term earnings pressures," AmInevst said.

Its top picks for the sector are IGB REIT for its balanced footfall profile that has moderate exposure to tourists compared with Pavilion REIT, enabling it to capitalise on the recovery in domestic consumption while waiting for Malaysia's borders to reopen.

"We also favour Sunway REIT for its diversified investment portfolio, which includes retail malls, hotels, offices, university, hospital among others, and the large pipeline of potential assets for future injection," AmInvest said.