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REIT boom on Bursa Malaysia

There are 14 REITs on Bursa with a total market cap of RM17.8b, which could double within a year

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REUTERS

Rents at Petronas Twin Towers will withstand the increase in office space coming on the market in the Klang Valley because of the quality of its offering.

REIT comparison

Name	Market capitalisation (RM mil)	Yield (%)	June 29 Price (RM)
Sunway REIT	3,667	5.58	1.36
Pavilion REIT	3,661	0.73	1.22
CapitaMalls Malaysia Trust	2,772	5.29	1.57
STARHILL REIT	1,351	7.87	1.02
AXIS REIT	1,271	6.12	2.80
Al-Hadharah Boustead REIT	1,122	6.70	1.79
Al-Aqar Healthcare REIT	954	7.99	1.37
UOA REIT	579	7.21	1.37
Amanahraya REIT	527	7.92	0.92
AmFirst REIT	480	8.55	1.12
Quill Capita Trust	456	7.41	1.17
Hektar REIT	442	7.48	1.38
Tower REIT	396	8.09	1.41
Atrium REIT	144	7.46	1.18
Average	1,273	6.74	na

*Estimates by HwangDBS Vickers Research

KUALA LUMPUR: The real estate investment trusts (REITs) listed on Bursa Malaysia have a total market capitalisation of RM17.82 billion, and this figure could easily double within a year.

There are 14 REITs on Bursa. The largest are Pavilion REIT, Sunway REIT and CapitaMalls Malaysia Trust.

IGB REIT, with RM4.6 billion in assets, is expected to list in mid-August with IGB's two iconic malls, Mid Valley Megamall and The Gardens Mall.

Last week, KLCC Property Holdings Bhd (KLCCP) announced that it would explore a REIT structure. Should this materialise, it could put additional RM13 billion or more in assets into the REIT ecosystem.

KLCCP's asset portfolio of prime real estate includes the Petronas Twin Towers, Suria KLCC Mall and the Mandarin Oriental Hotel. There is also speculation that another prized asset, the Kuala Lumpur Convention Centre, could be injected into the REIT by the group's parent, KLCC (Holdings) Sdn Bhd.

"There is always demand for REITs. I think IGB REIT will receive a good response, assuming it gives a good price," said Loong Kok Wen, an analyst at RHB Research. "The KLCCP REIT could easily be the biggest REIT and will have no trouble attracting investors with its high quality assets in central KL," she said.

The introduction of the mega REITs would create a split in the sector between big and small REITs.

"The bigger REITs will attract more funds than the smaller ones and therefore have a lower yield. The smaller REITs may have higher yields but will also be riskier and have less liquidity," noted Loong.

However, Yee Mei Hui, an analyst with HwangDBS Vickers Research Sdn Bhd (HDBSVR) believes there is sufficient liquidity in the system to absorb the introduction of two mega REITs.

Due to the volatile market conditions, many investors have flocked to REITs to shelter from the external economic headwinds. Consequently, the surge in interest has stretched the existing REITs on Bursa to close to peak valuations.

"I am not very bullish on REITs at the moment. Their valuations appear to be peaking, although they will stay there as long as there is uncertainty in the market," said Loong.

The uncertainty in the broader market has whet investor appetite for REITs and as a result yields have become compressed, limiting upside.

"Investors and funds have flocked to defensive stocks, and REITs fall under this category. Funds prefer to invest in REITs that offer high dividend payouts instead of holding cash," said Loong, who noted that the trend could reverse when risk appetite returns.

"The yields are very stretched at the moment, especially considering that the fixed deposit (FD) rate is 3.2% for 12 months. The spread of REIT yields over the FD rate is at its smallest since the 2008 financial crisis," said Loong.

The top five biggest REITs by market capitalisation have an average 12-month trailing dividend yield of 5% and have seen their share prices rise 15% in the past one year.

"The bigger REITs have slightly lower yields but they are also more stable. On top of that, their yields cannot fall much further. As risky assets, I don't see them trading at yields of less than 4%. At 4% they would be trading a premium of only 80 basis points on the risk-free FD rate," said Loong.

HDBSVR's Yee, in contrast, is positive on the REIT sector and believes that there is a healthy demand for REITs due to the attractive yields.

"I am still positive on REITs, especially retail REITs compared with office REITs, because retail rentals are on an upward trend while office rentals are being smothered by a huge oversupply coming into the market. In addition, consumer spending in Malaysia continues to be robust," said Yee.

While office rentals would underperform retail rentals, the KLCCP REIT would not be affected due to the high quality of its offices, said Loong.

"KLCCP REIT has Petronas as the master leasee of the twin towers and should have no problems at all with rentals. The buildings it owns boast excellent technical specifications and amenities that will attract multinational companies to its offices," said Loong.

"For now, my top picks of the REITs are Axis REIT and Hektar REIT. When IGB REIT lists, then it will be my favourite. Why? Because I expect the IPO to be good and it will also be the biggest REIT until KLCCP," said Loong.