Malaysian retail real estate investment trusts (REITs) were hit by the Covid-19 pandemic as an asset class that was once deemed as "low risk" due to the nature of the stable recurring rental income from the term leases.

That has been upended when non-essential goods and services providers were forced to shut down during the start of the pandemic to curb the spread of the disease. Multiple lockdowns throughout the past two years have also dealt a huge blow to the footfall of malls and shopping centers, leading to many retailers shuttering their doors and some for good. During the period, asset owners assisted their tenants by giving rental rebates and financial assistance to tenants who could not make any sales due to the closure of their businesses. As a result, retail REITs registered losses for the first time as the operating costs such as the maintenance of the assets and overheads exceeded rental income.

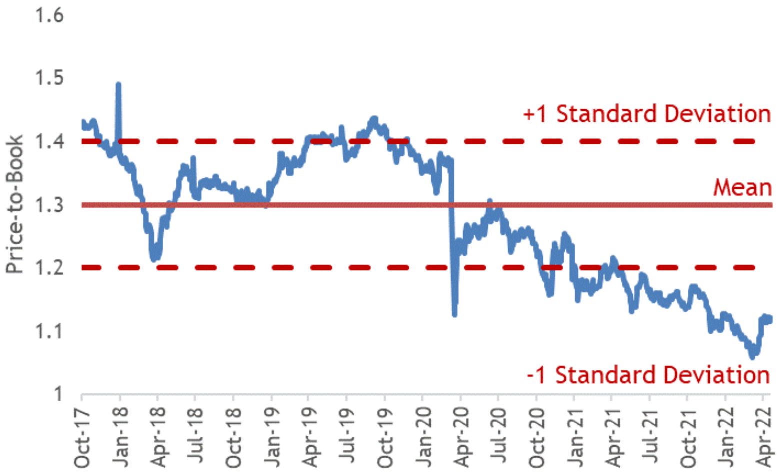
As the country is entering an endemic phase, things are looking better for retail REITs. In the latest reporting season, IGB REIT, which owns the Mid Valley Megamall and The Gardens Mall recorded net property income (NPI) that jumped 73% year-on-year and 15% quarter-on-quarter to RM107.7 million. Pavilion REIT, which counts Pavilion KL, Pavilion Elite and Intermark Mall as its assets, saw NPI rose by 60% year-on-year and 13.7% quarter-on-quarter to RM94.0 million.

The mall operators attributed the improvement in NPI to the reopening of the economy and improving retail sales of their tenants.

REIT managers expect brighter outlook ahead as the country transitions into an endemic phase with further relaxation of standard operating procedures and movement restrictions but remain vigilant in any possible new variants of the virus that could affect the pace of recovery. Other potential risks include higher cost of living, which could hurt consumers' spending power.

As of 25 April 2022, the Bursa Malaysia REIT index is still trading below -1 standard deviation of its 5-year mean price-to-book ratio of 1.3x, implying that the valuation of the asset class is considerably attractive at the onset of the recovery theme.

Figure 1: Bursa Malaysia REIT index Price-to-Book band



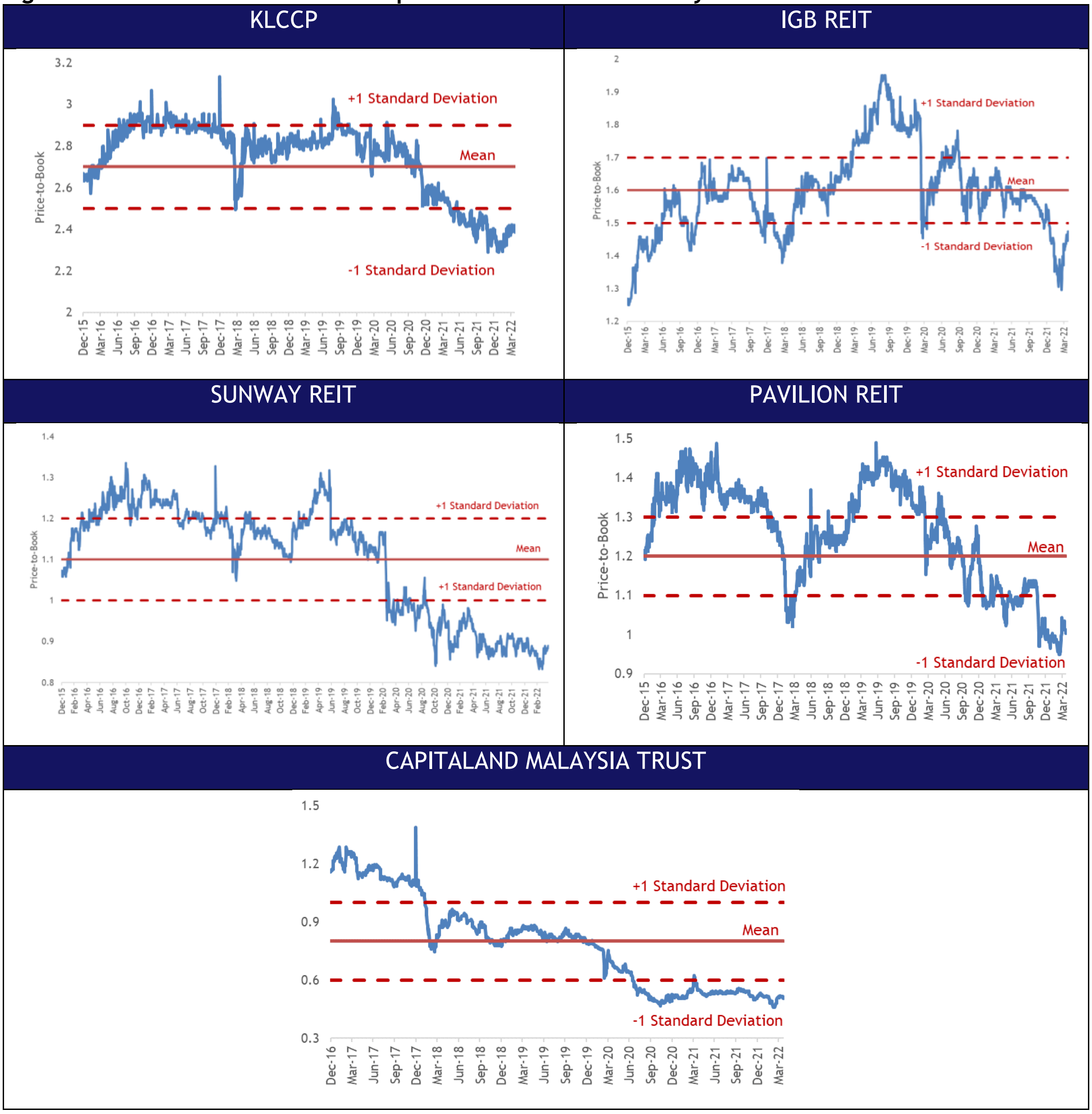
Source: Bloomberg

A look into the Bursa Malaysia REIT index shows that the top four members in weightage have retail assets that contribute substantially to their annual income (>50% of the REIT's revenue). We have picked the top five biggest retail REITs to further zoom in into their valuation for any potential opportunities. These five REITs collectively contribute to 71.6%* of the total weightage of Bursa Malaysia REIT Index.

Based on the price-to-book band, all five retail REITs are still trading at least one standard deviation below their respective 5-year average, indicating that they are still being undervalued.

**data from Bloomberg as of 25 April 2022.*

Figure 2: Price-to-Book band for the top 5 retail REITs on Bursa Malaysia



Source: Bloomberg

On top of the price-to-book valuation discount, REITs are also known to for the dividend yield. Based on Bloomberg data, the trailing 12-month yield for Bursa Malaysia REIT index is 4.4%. Meanwhile, retail REITs which are likely to recover from the reopening of borders and more relaxed movement are likely to see better earnings, which trickle down to their income distribution and dividend yield.

Figure 3: Retail REITs Trailing 12-month Gross Dividend Yield

REIT	Trailing 12-month Gross Dividend Yield
KLCCP	5.0
IGB REIT	3.6
SUNWAY REIT	3.0
PAVILION REIT	3.3
CAPITALAND MALAYSIA TRUST	3.1

Source: Bloomberg

For KLCCP, 6 out of 11 analysts covering the counter have "Buy" recommendations. For IGB REIT and Sunway REIT, 50% of the analysts that follow them called "Buy". There are 2 and 3 recent upgrades for IGB REIT and Sunway REIT respectively. Meanwhile, 4 out of 11 analysts covering Pavilion REIT have Buy recommendation on the REIT. As for the REIT sector as a whole, 48% of analysts have "Buy" recommendation based on our latest analyst consensus report.

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