

## BNM cuts OPR to 3%, little impact on MREITs

Outthink. Outperform.

BNM cut its Overnight Policy Rate (OPR) by 25bps to 3.0%. We believe BNM in taking a pre-emptive action to support the country's domestic demand from downside risks to global growth; we do not expect further OPR cuts for the remainder of 2019. Overall, we believe that the market has somewhat priced in an OPR cut, as reflected in the MGS yield compression and healthy investor appetite for defensive yielding assets. As such, we do not expect this OPR cut to have a material impact on MREIT share prices. Maintain NEUTRAL; our top picks are AXRB, YTLREIT and SREIT.

### Sector Update

## MREIT

Neutral (maintain)

### OPR cut by 25bps to 3.0%; not expecting further cuts in 2H19

Bank Negara Malaysia (BNM) cut its Overnight Policy Rate (OPR) by 25bps to 3.0%, after holding the rate steady at 3.25% since January 2018. This was the first policy rate cut since July 2016. BNM maintained its cautious tone on the global growth outlook, where it cited that risks remain tilted toward the downside, stemming from unresolved trade tensions and prolonged country-specific weaknesses in the major economies, which will dampen global trade and investment activities. We believe BNM is taking a pre-emptive action to support the country's domestic demand from downside risks to global growth. Our Economic Research Team expects BNM to keep its OPR unchanged at 3.0% throughout 2019.

### Positive, but small impact on MREIT earnings

The OPR cut should lower finance costs and lift earnings, but the impact is minimal as half of the MREITs under our coverage (KLCCSS, IGBREIT and YTLREIT) have the majority of their borrowings pegged at a fixed rate, while the others (AXRB, SREIT, PREIT) have partly hedged their 2019-20E interest exposure. AXRB has the highest sensitivity to an OPR cut - we estimate that a 25bps cut in the OPR lifts its full-year EPU by 1.5%.

### Cut is partly priced in; impact on MREIT prices likely muted

We believe the OPR cut is somewhat priced in - 61% of the economists surveyed by Bloomberg had predicted an OPR cut and the 10-year MGS yield has compressed by 31bps in ytd to 3.76%, partly in anticipation of the OPR cut.

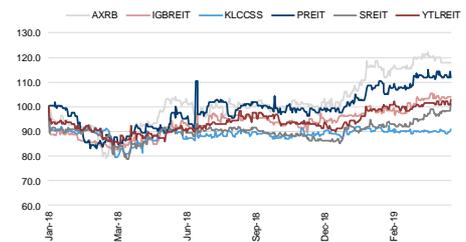
### Stay Neutral; top picks are AXRB, YTLREIT and SREIT

We maintain our NEUTRAL rating on the MREITs. We expect 2019 to be a firmer year for the MREITs - positive consumer sentiment supports retail REITs, stable (or lower) OPR helps lower finance costs while declining MGS yields may lift asset prices. For exposure, we like AXRB for its sector-leading earnings growth, YTLREIT for its high yield and SREIT for its diversified asset base. Key upside risk: further cut(s) in the OPR; downside risk: weaker-than-expected earnings.

### Absolute Performance (%)

	1M	3M	12M
AXRB	-2.7	1.7	27.3
IGBREIT	0.5	6.3	19.9
KLCCSS	0.8	-0.5	5.1
PREIT	0.0	2.9	21.6
SREIT	4.9	9.7	15.7
YTLREIT	1.5	3.9	17.9

### Relative Performance to KLCI (%)



Source: Affin Hwang, Bloomberg

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### Peer Comparison

Company	BBG Ticker	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x)		EPS growth (%)		P/NAV (x)	DPU (sen)		DPU yield (%)	
							CY19E	CY20E	CY19E	CY20E		CY19E	CY20E	CY19E	CY20E
Axis REIT	AXRB MK	BUY	1.77	2.04	2,190	Dec	17.9	17.5	7.6	2.3	1.32	9.9	10.0	5.6%	5.6%
IGB REIT	IGBREIT MK	HOLD	1.87	1.90	6,619	Dec	21.0	20.1	3.2	4.5	1.74	9.4	9.8	5.1%	5.3%
KLCCPSG	KLCCSS MK	HOLD	7.86	8.14	14,190	Dec	18.9	18.7	1.0	1.5	1.08	39.0	40.2	5.0%	5.1%
Pavilion REIT	PREIT MK	HOLD	1.80	1.87	5,470	Dec	20.2	18.8	5.8	7.4	1.37	9.2	9.8	5.1%	5.5%
Sunway REIT	SREIT MK	BUY	1.92	2.06	5,655	Jun	19.3	18.4	2.7	5.2	1.30	9.9	10.4	5.2%	5.4%
YTL REIT	YTLREIT MK	BUY	1.32	1.38	2,250	Jun	15.2	14.6	(1.0)	4.2	0.84	8.3	8.7	6.3%	6.6%
<b>Sector Average</b>							<b>18.8</b>	<b>18.0</b>	<b>3.2</b>	<b>4.2</b>				<b>5.4%</b>	<b>5.6%</b>

Source: Company data, Affin Hwang estimates, Bloomberg, Prices as of May 7, 2019.

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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