REITs remain a good bet

Yields of between 5% and 8% encouraging

REITS

PETALING JAYA: Real estate investment trusts (REITs) are still deemed to be attractive despite rising bond yields, according to UOB Kay Hian.

In a report yesterday, UOB Kay Hian noted that while the share prices of REITs are negatively correlated to bond yields, it had not observed this trend since 2020.

"In fact, the correlation turned slightly positive in 2020 (-0.5 for 2013 to 2020 compared with +0.05 for 2020 to 2021).

"The spread between the Malaysian Government Securities (MGS) and the average REIT has narrowed to 2.1 percentage points compared with an average of 2.6 percentage points due to rising bond yields," it said.

The MGS comprises marketable debt instruments that are issued by the Malaysian government to raise funds from the domestic capital market.

UOB Kay Hian added that it does not see share prices of REITs to be negatively affected in the short term, given that prices have run up 4% on average since end-February.

"Moreover, yields are still attractive, between 5% and 8%, further buoyed by an expected earnings recovery through 2022."

UOB Kay Hian said Malaysian REITs still commanded attractive yields compared with fixed income instruments in the current low interest rate environment.

"The high yielding and Covid-19 resilient office REITS offer better interim gains via dividend yield compression. However, in the long run, we continue to prefer the retail segment, particularly prime and niche malls for their proven business resilience.

"As vaccines are disseminated, we expect earnings to recover starting with tenant sales as the economy opens up. However, rental reversion will be minimal."

The research house has "buy" calls on IGB REIT, Pavilion REIT, Sentral REIT and Sunway REIT. "We prefer Sentral REIT and Pavilion REIT as our top picks as Sentral REIT offers high and resilient yields of 8% and Pavilion REIT is the sole laggard having declined 2% year-to-date."

According to UOB Kay Hian, channel checks revealed that footfall at malls are recovering, in tandem with the easing of standard operating procedures.

"In addition, travel bubbles between states in the recovery movement control order phase are allowed for domestic tourism (REITS under coverage are still under the conditional movement control order phase).

"About 0.9% of the Malaysian population has received the first dose of the vaccine. We will be able to see the light at the end of the tunnel as the vaccination programme continues and the pandemic is brought under control."

UOB Kay Hian said the retail segment will likely rejuvenate as the economy revives, spurred by domestic consumption.

"In addition, hotels will also see some recovery but will only see a significant impact when international borders reopen.

"Although we foresee soft first-quarter 2021 results, we expect the sector to deliver 29% and 5% earnings growth in 2021 and 2022, with 2022 earnings at 97% of 2019 earnings."

Cagamas concludes RM1bil bond issuance

PETALING JAYA: Cagamas Bhd has announced the successful conclusion of its aggregate issuance of RM1bil bonds, of which proceeds will be used to fund the purchase of housing loans from the financial system.

The issuances comprise S$130mil (RM397mil) one-year Singapore dollar denominated fixed rate medium-term notes (SGD EMTNs), HK$800mil one-year Hong Kong dollar denominated fixed rate MTMs (HKD EMTNs) and RM175mil one-year conventional MTMs (CMTNs).

In a statement, the national mortgage corporation said the SGD EMTNs and HKD EMTNs were concluded at 1.00% and 0.85% per annum respectively, while the issuance of the CMTNs was competitively priced at 2.20% – a spread of 37 basis point (bps) above the corresponding Malaysian Government Securities.

The SGD EMTNs and HKD EMTNs were issued by the corporation's subsidiary, Cagamas Global PLC, and carries an issue rating of *A3*.

President and chief executive officer Datuk Chung Chee Leong said Cagamas was pleased with the successful conclusion of the SGD EMTNs, HKD EMTNs and CMTNs issuances, amid market volatility due to the rising US Treasury yields which triggered a rout in bond markets globally.

"Domestic bond markets were not spared from the knee-jerk reaction. Despite the headwinds, Cagamas successfully secured funding from three different markets to meet its funding needs, signalling continued strong demand for the company's foreign currency and domestic debt securities," he said.

The SGD EMTNs and HKD EMTNs represented the company's first dual foreign currency issuances for 2021, underlining its capability to provide competitive funding to onshore financial institutions through combined issuances of foreign currency and ringgit-denominated bonds, he added. — Bernama

MGB making progress in reinventing group

PETALING JAYA: JF Apex Securities has initiated coverage on construction and property company MGB Bhd, giving it a "buy" call following what it calls a "successful" transformation of the group.

In a report to clients, the research house said for the past two to three years, the group has reinvigorated and repositioned itself as a niche contractor-cum-developer, mainly targeting construction works in the affordable residential market segment.

Moving into the mass housing segment, it has also participated in an affordable housing project named "Rumah Selangorku Idaman" (RSI), which was mooted by the Selangor state government, it noted.

"We think it is a timely call to bring investors' attention to this stock after the group's successful transformation," it said.

Calling MGB an under-researched and under-the-radar company, JF Apex said it deserved to be re-rated mainly driven by a few catalysts such as it potentially benefiting from the affordable residential market segment which is relatively unfazed by the prevailing property market downturn.

It also has a sizeable construction outstanding order book of RM2.2bil (3.9 times its 2020 revenue) as well as a whopping RM1.1bil worth of property RSI launches targeted for 2021-2022, said the research house."

Earnings are back to growth trajectory as the group is expected to attain 2021 and 2022 bottom line growth of 117% and 118% year-on-year (y-o-y) on the back of its top line growth of 74.1% and 43.2% y-o-y respectively."

The group also has a strong balance sheet with 0.2 times net gearing as of 2020, according to JF Apex.

Moving forward, MGB, whose main shareholder is LBS Bina Group Bhd aims to secure RM1bil construction works for 2021 and JF Apex opined that it can easily achieve its target, judging by its track record as it managed to clinch RM1bil construction jobs in 2020.

"We are not overly concerned about more property developers jumping on the bandwagon of selling affordable housing, as MGB's primary focus is on product offerings which are below RM300,000," it said.

At last look, MGB shares were at RM1.02 apiece, valuing the group at some RM512mil. JF Apex has a target price of RM1.15 on it.

FROM LOCAL TO GLOBAL

Malaysian MNCs grooming local talent to be world class

PETALING JAYA: In their quest for business success and growth, Malaysian multinational companies are quick to acknowledge that talent play a crucial role in making their goals and ambitions happen.

For Oracle, a Fortune 500 technology giant, this means that the development of talent is vital to support businesses as they continue to grow and adapt to the changing environment, its Malaysian managing director Fitri Abdullah said.

A fundamental aspect that the company looks at is interpersonal skill. According to Fitri, this includes communication skills and how an individual conducts him or herself in a team dynamic.

"Communication skills are critical because in this current working environment, not one person will have the skills or knowledge to do everything. In a teamwork environment, where a project involves 10 to 15 people, each person will bring in their expertise and knowledge either from the domain or technology side.

"So it's important that new talent have the ability to communicate and collaborate in one big group, to ensure that they can communicate effectively when escalating issues and prioritising urgency to ensure high performing teams".

For US-based oil and gas player, Subsea 7, Asia Pacific human resources manager Nicole Irvine said the group supports projects in Australia, Africa, the Middle East and Asia from its regional hub in KL.

"Subsea 7 is an increasingly diverse business and we need a diverse talent pipeline. We have a well-established and growing renewables business and we are supporting a large renewables project in Taiwan from KL. Renewables is a global focus for everyone in the coming years."

"Malaysian talent are more than ready to work with and compete with some of the world's leading corporations."

InvestKL chief executive officer Muhammad Azmi Zulkifli.

Irvine said Subsea 7 tries, where possible, to "grow our own" talent.

"One of the ways we have don't this is via our IGEDS (International Graduate Engineering Development Scheme). In this program, Malaysian graduates are hired in KL and are assigned abroad in Norway or Aberdeen for two years.

"This provides the graduates with experience on live projects in other parts of the world. They are then able to bring this international experience back into our office in KL."

Irvine added that Subsea 7 also focuses on the development of local talent.

"We currently have managers from our KL office participating in our global Management Development Program. This program focuses on leadership competencies and provides a great opportunity for reflection and development as a manager.

"Subsea 7 expects to continue growing its hub in KL and continue to develop local talent on global projects," she said.

France-based Veolia, a water management, waste management and energy services company, also considers talent development a crucial part of its business strategy.

"We take human resources quite seriously, doing periodical reviews to find opportunities, highlight talent strengths and chart a path for future talent development going forward," said Veolia Asia Pacific human resources director Selvi Murugiah.

"This process is done at the departmental level and then repeated at a country-wide and then regional Asia Pacific level. Key talent are put through development plans, whether it is coaching, mentoring or postings in the Paris or China offices, to gain exposure to global projects."

InvestKL is an investment promotion agency under the International Trade and Industry Ministry. It is tasked to attract large global multinationals to establish regional business services headquarters in Greater Kuala Lumpur and strategically grow their business in Asia.

InvestKL chief executive officer Muhammad Azmi Zulkifli said Malaysian talent are more than ready to work with and compete with some of the world's leading corporations.

"Malaysian MNCs are consistently making strides to develop and invest in their talent, so as to be able to sustain business performance and compete on the global stage.

"The continuous efforts by Malaysian MNCs, especially in an era where digital innovation is key, clearly reinforces the fact that we are on the right path to become world-ready as far as talent development is concerned."