REIT

Defensive Sector

POSITIVE (Maintain)

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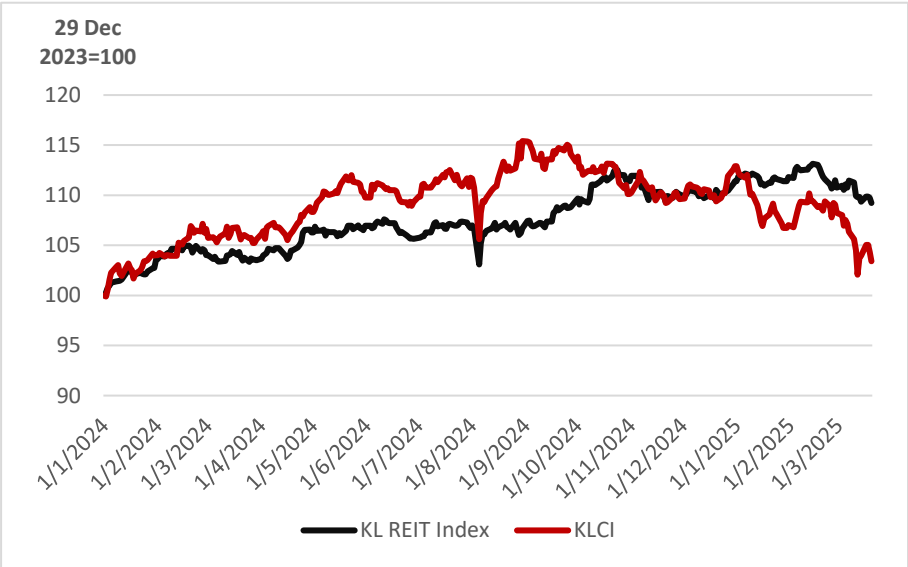
HIGHLIGHTS

- Resilient KL REIT Index with narrower losses than KLCI due to defensiveness of REIT
- CY24 earnings of REIT were in line with decent growth
- Yield spread remains stable at 170bps
- Positive prospect for retail and industrial sectors but office segment remains unexciting
- Maintain Positive on REIT with top picks for the sector are Sunway REIT (BUY, TP: RM1.99) and Pavilion REIT (BUY, TP: RM1.69)

Resilient KL REIT Index due to defensiveness of REIT. Performance of REIT was relatively stable amid volatile market with marginal decline of -1.8%ytd against KLCI's decline of -8.4%. The resilient performance of KL REIT Index was mainly underpinned by flight to safety and strong interest on defensive stocks during market turbulence. Top five gainers of KL REIT Index year-to-date were AME REIT (+12.8%), IGB REIT (+7.8%), Axis REIT (+6.5%) and Amanahraya REIT (+5.3%) and KLCCP Stapled Group (+5.2%). Meanwhile, top five laggards of KL REIT Index year-to-date were Hektar REIT (-12.4%), YTL Hospitality REIT (-10.3%), UOA REIT (-7.6%), Al-`Aqar Healthcare REIT (-6.2%), and IGB Commercial REIT (-5.7%). We think that REIT should continue to be favoured by investors as market uncertainties are likely to persist which should keep interest on safe-haven stocks and high yielding stocks supported.

Figure 1: KL REIT Index and KLCI



Source: Bloomberg, MIDF Research

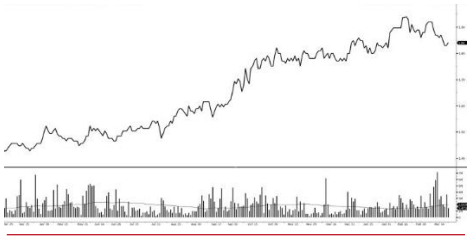
COMPANY *IN FOCUS*

Sunway REIT

Maintain BUY | Target Price: RM1.99
Price @ 24 March 2025: RM1.84

- FY24 core net income grew 3.9%yoy, spurred by retail division.
- Stronger contribution from retail division due to positive rental reversion and contribution from newly acquired assets
- Distribution yield is estimated at 5.0%.

SHARE PRICE CHART

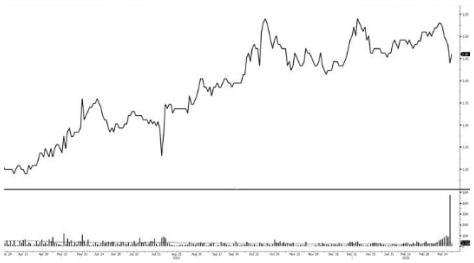


Pavilion REIT

Maintain BUY | Target Price: RM1.69
Price @ 24 March 2025: RM1.46

- FY24 earnings grew 8.7%yoy due to higher contribution from Pavilion KL Mall and Pavilion Bukit Jalil.
- Rental reversion of Pavilion KL Mall is expected to remain positive.
- Distribution yield is estimated at 5.6%.

SHARE PRICE CHART



CY24 earnings of REIT were in line with decent growth. Earnings of REIT in 4QCY24 were in line with expectations as all six REIT under our coverage reported earnings that met expectations. Earnings growth in 4QCY24 were largely positive except for Pavilion REIT and IGB REIT as earnings growth of REIT were underpinned by higher rental income. Note that earnings of Pavilion REIT and IGB REIT were dragged by higher expenses while rental income was stable. Meanwhile, most of the REIT recorded higher earnings in CY24 with Axis REIT recorded highest earnings growth of +13.3%yoy mainly due to earnings contribution from Bukit Raja Distribution Centre 2 and newly acquired assets. Similarly, Pavilion REIT recorded second highest earnings growth of +8.7%yoy due to solid performance of Pavilion KL Mall and contribution from Pavilion Bukit Jalil. Overall, earnings growth of REIT in CY24 were driven by recovery of retail market which support tenant sales growth and positive rental reversion. Rental reversion of malls was positive at mid-single digit as shopper footfall at malls remains encouraging. Looking forward, we expect earnings in CY25 to continue support by organic growth of positive rental reversion. Besides, earnings of Axis REIT, Sunway REIT and Pavilion REIT are expected to drive by earnings contribution from newly acquired assets in CY25.

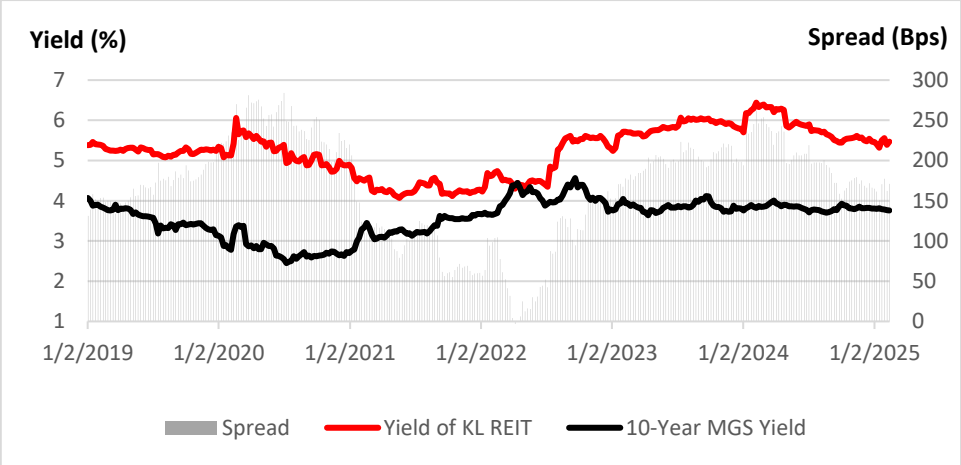
Figure 2: Earnings summary of REIT

	Quarter	Results	Earnings summary
Axis REIT	4QFY24	Within	4QFY24 core net income was higher (+10.7%yoy), bringing FY24 net earnings higher at RM162.7m (+13.3%yoy). The earnings growth in FY24 was underpinned by rental contribution from Bukit Raja Distribution Centre 2 and newly acquired assets.
Pavilion REIT	4QFY24	Within	4QFY24 core net income was marginally lower (-1.2%yoy). That brought full year earnings in FY24 to RM310m (+8.7%yoy). The earnings growth in FY24 was driven by higher contribution from Pavilion KL Mall and rental income from Pavilion Bukit Jalil which was acquired in June 2023.
KLCCP Stapled Group	4QFY24	Within	4QFY24 core net income was higher (+9.4%yoy), bringing full year core net income higher at RM782.3m (+7.7%yoy). The earnings growth in FY24 was driven by higher contribution from retail division as KLCCP Stapled Group completed acquisition of remaining 40% in Suria KLCC in April 2024.
IGB REIT	4QFY24	Within	4QFY24 core net income declined to RM85.5m (-8%yoy), mainly owing to higher property expenses. That brought full year earnings in FY24 at RM368.7m (+2.7%yoy). The marginal earnings growth in FY24 were mainly driven by the positive rental reversion.
Sunway REIT	4QFY24	Within	4QFY24 core net income was higher (+24.1%yoy), bringing FY24 core net income higher at RM351.3m (+3.9%yoy). The stable earnings growth was mainly spurred by retail division.
Al-`Aqar Healthcare REIT	4QFY24	Within	4QFY24 core net income was higher (+4.5%yoy) while FY24 core net income was marginally lower at RM63.8m (-3%yoy). The lower FY24 earnings were mainly dragged by lower contribution from Australia segment which cushioned by lower trust expenditure.

Source: MIDF Research

Yield spread remains stable at 170bps. Gross aggregate yield of KL REIT is at 5.47% which deemed attractive as 10-year MGS yield is hovering at 3.8% level. That translates into yield spread of 170bps which is close to 7-year average yield spread of 164bps. We think that the resilient performance of KL REIT was also partly attributed to the stable yield spread as yield of REIT remains attractive to investors. Moving forward, we expect yield spread to remain steady in the near-term as 10-year MGS yield is expected to remain stable at 3.8% level on the back of anticipation that OPR to remain unchanged for the rest of the year. Hence, we see that REIT should continue attract interest of investors who seek for high yield as we think that yield spread of above 150bps should keep REIT remain attractive to investors.

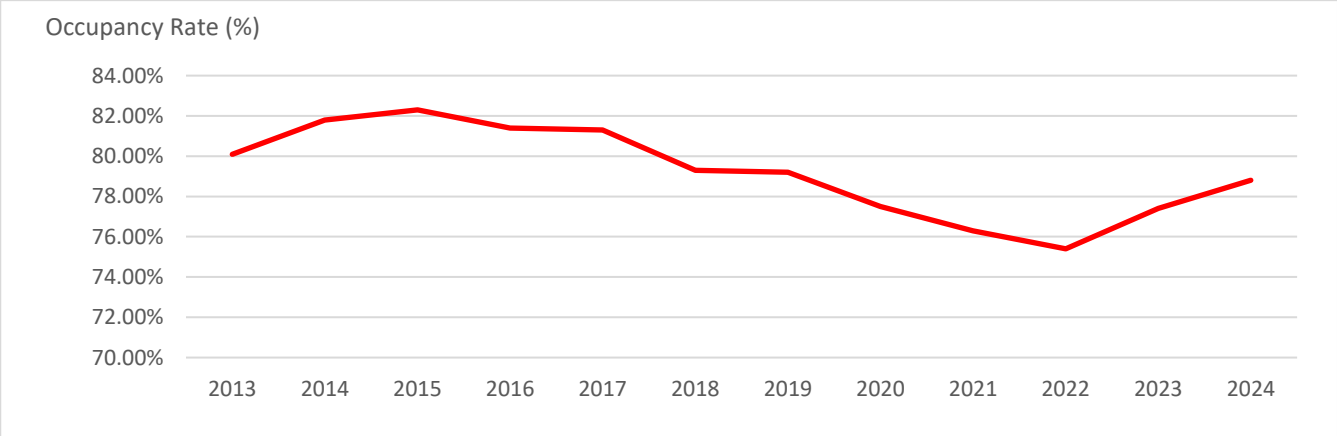
Figure 3: Yield spread



Source: Bloomberg, MIDF Research

Retail occupancy rate recovers. According to data released by National Property Information Centre (NAPIC), occupancy rate of shopping complex in Malaysia recovers to 78.8% in 2024 from 77.4% in 2023. Note that occupancy rate of shopping complex dipped to 75.4% in 2022 due to Covid-19 pandemic and subsequently recovered to 77.4% in 2023 as retail industry in Malaysia recovered. The recovery in occupancy rate of shopping complex in Malaysia was mainly driven by improving tenant sales as a result of higher shopper footfall and recovery in consumer spending at malls. We see prospect for shopping complex in Malaysia to remain positive going forward as malls are served as a social hub for gathering which prompted higher tenant mix of food & beverage. Besides, shopping at malls have also become a pastime activity in city centre and suburban area. Hence, we think that the stable prospect for retail industry will continue to support positive rental reversion of shopping malls and drive earnings growth of retail REIT.

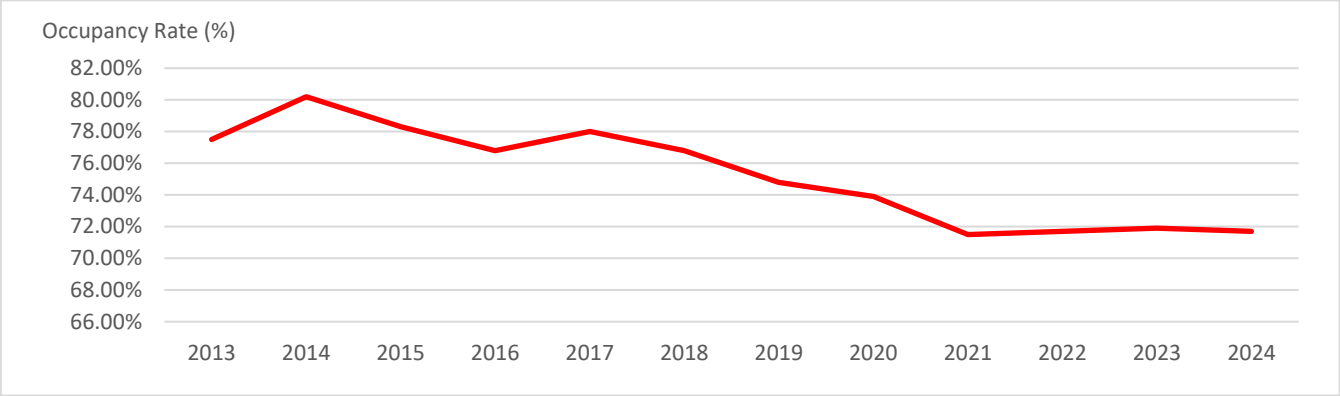
Figure 4: Shopping mall occupancy rate



Source: NAPIC, MIDF Research

Office occupancy rate remains subdued. Occupancy rate of office building (privately-owned) in Malaysia is subdued at 71.7% in 2024, little-changed from occupancy rate of 71.9% in 2023. Occupancy rate of office building declined to below 72% in 2021 as Covid-19 pandemic reduced demand for office space and as total office space increased to 18m square meter in 2022 from 17.3m square meter in 2021. Meanwhile, total office space in 2024 is flattish at 18.84m square meter from 18.7m square meter in 2023. The subdued occupancy rate of office buildings keeps rental rate of office buildings flattish. Looking forward, we see less exciting outlook for office building as adoption of hybrid-working arrangement reduced demand for office space and as subdued occupancy rate at 72% level keeps office market remains tenant's market with low upside to rental rate.

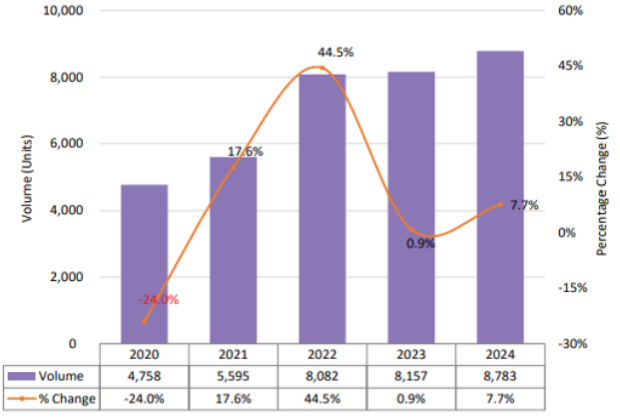
Figure 5: Office occupancy rate



Source: NAPIC, MIDF Research

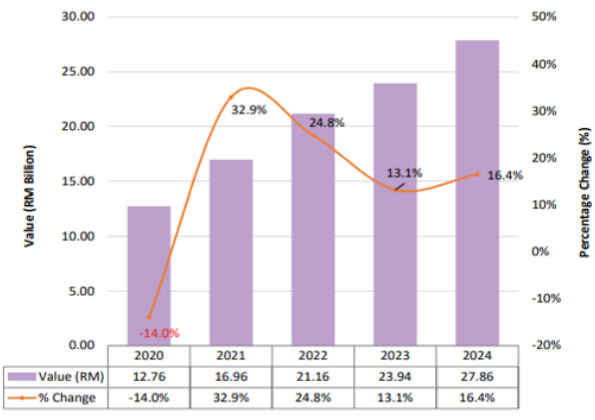
Industrial property market stays resilient. Industrial property market in Malaysia grew steadily in the past five years due to the resilient demand for industrial property in Malaysia. Industrial property market saw improving transaction volume and value in the past four years. Transaction volume and value of industrial property saw a dip in 2020 due to Covid-19 pandemic but subsequently recovered strongly and resumed uptrend trajectory in 2022 to 2024 due to strong demand for industrial property in Malaysia. The positive prospect for industrial property attracted more REIT increasing exposure to industrial property. For instance, Capitaland Malaysia Trust expanded its industrial property exposure in February 2025 through the acquisition of three freehold industrial properties in Senai Airport City for RM72m. Similarly, KIP REIT which is a retail-focused REIT increased its industrial sector exposure through acquisition of four industrial properties located in Selangor, Sarawak and Johor for RM98.3m. Meanwhile, earnings performance of industrial-focused REIT namely Axis REIT was solid due to positive rental reversion of industrial asset and active asset acquisitions.

Figure 6: Industrial Transactions Volume



Source: NAPIC

Figure 7: Industrial Transactions Value



Source: NAPIC

Maintain POSITIVE on REIT. We remain positive on outlook for REIT in 2025 as we expect organic growth from positive rental reversion for retail-focused REIT and industrial-focused REIT. Retail industry is expected to remain resilient in 2025 as shopper footfall and tenant sales should remain strong. Meanwhile, the expected higher tourist arrivals should improve occupancy rate of hotels and benefit REIT with exposure to hotel sector namely Sunway REIT and KLCCP Stapled Group. Average yield of REIT under our coverage tapered to 4.9% following increases in share prices. Nevertheless, we see REIT should remain favour by investors due to its defensiveness and earnings stability. **Our top picks for the sector are Sunway REIT and Pavilion REIT**. We have **BUY** call on Sunway REIT with a target price of RM1.99. We see better earnings outlook for Sunway REIT as earnings of retail division will be supported by Sunway Pyramid Mall and Sunway Carnival Mall. Besides, the newly acquired assets are expected to lift earnings in FY25. We also like Pavilion REIT with **BUY** call and target price of RM1.69. We are sanguine on earnings outlook for Pavilion REIT which will be driven by positive rental reversion of Pavilion KL Mall. Besides, earnings growth is also expected to buoy by contribution from Pavilion Bukit Jalil. Meanwhile, net distribution yield remains attractive at 5.6%.

PEER COMPARISON

Stock	Rec.	Price @ 24-March-2025	Target Price (RM)	Core EPS (sen)		Core PER (x)		Net DPS (sen)		Net Dvd Yield	
				FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Sunway REIT	BUY	1.84	1.99	11.2	11.7	16.5	15.7	9.2	9.5	5.0%	5.1%
Pavilion REIT	BUY	1.46	1.69	8.0	8.3	18.2	17.7	8.2	8.2	5.6%	5.6%
Axis REIT	BUY	1.83	2.02	9.0	9.3	20.3	19.7	7.9	8.2	4.3%	4.5%
IGB REIT	NEUTRAL	2.28	2.10	10.7	10.9	21.3	21.0	9.8	9.9	4.3%	4.4%
KLCCP Stapled Group	NEUTRAL	8.40	8.40	45.9	46.4	18.3	18.1	42.4	42.8	5.0%	5.1%
Al-`Aqar Healthcare REIT	NEUTRAL	1.26	1.26	7.6	7.8	16.6	16.2	6.5	6.8	5.2%	5.4%

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology