REIT

Yield Compression

NEUTRAL (Maintain)

Analyst
Jessica Low Jze Tieng
jessica.low@midf.com.my
03-2173 8391

HIGHLIGHTS

- 1HCY25 earnings of REIT largely in line
- Retail REIT benefits from strong retail sales and higher tourist arrivals
- KL REIT Index retreated in Aug 2025 on narrowing yield spread
- Maintain NEUTRAL on REIT
- The only BUY call for the sector is Pavilion REIT (TP: RM1.88)

1HCY25 earnings of REIT largely in line. For the recently concluded earnings reporting season, earnings of REIT were largely within expectations. Out of six REIT under our coverage, five reported earnings that met expectations except for Axis REIT that reported earnings that beat expectation (refer to Figure 1 for earnings summary). The positive earnings surprise was due to higher-than-expected rental income growth which underpinned by contribution from newly acquired assets and positive rental reversion.

Notably, Sunway REIT recorded highest earnings per unit (EPU) growth of +24.6% in 1HFY25, underpinned by increase in rental income of Sunway Pyramid Mall and reconfiguration of Oasis wing. Meanwhile, Axis REIT reported encouraging EPU growth of +9.4% in 1HFY25 due to decent performance of industrial assets. On the other hand, IGB REIT registered EPU growth of +9% in 1HFY25 due to solid performance of Mid Valley Megamall and The Gardens Mall.

Retail REIT benefits from strong retail sales and higher tourist arrivals. We think that earnings outlook for retail REIT should remain positive due to sustained momentum of the retail industry which will support tenant sales and footfall at shopping malls. Retail sales in Malaysia were resilient at RM466.6b for 7MCY25, an increase of +5.9%yoy which underscored strength of retail industry in Malaysia. Meanwhile, food & beverage business at malls are resilient due to social gathering and dining at malls, thanks to ample parking space and ambient environment of shopping mall.

In addition, we opine that the anticipated higher tourist arrivals should serve as another impetus to the retail industry in Malaysia. Note that Malaysia recorded higher tourist arrivals of 12.85m (+8.8%yoy) in 1HCY25. Moving forward, tourist arrivals are expected to trend higher due in conjunction with the Visit Malaysia 2026 campaign which aims to attract over 35m tourist arrivals. Hence, we expect retail REIT with malls at tourist hotspots such as Pavilion REIT, KLCCP Stapled Group, Sunway REIT and IGB REIT to benefit from the higher tourist arrivals.

COMPANY *IN FOCUS*

Pavilion REIT

Maintain BUY | Unchanged Target Price: RM1.88
Price @ 17 Sept 2025: RM1.81

- 1HFY25 earnings driven by higher contribution from Pavilion Bukit Jalil and Elite Pavilion Mall.
- Positive rental reversion driven by high shopper footfall and strategic location of its malls.
- Distribution yield estimated at 4.5%

SHARE PRICE CHART

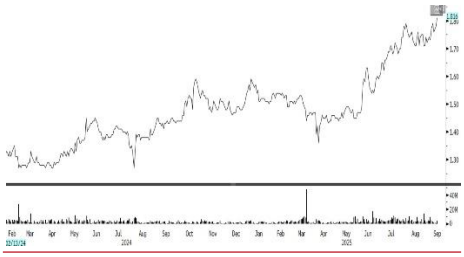


Figure 1: Earnings summary of REIT

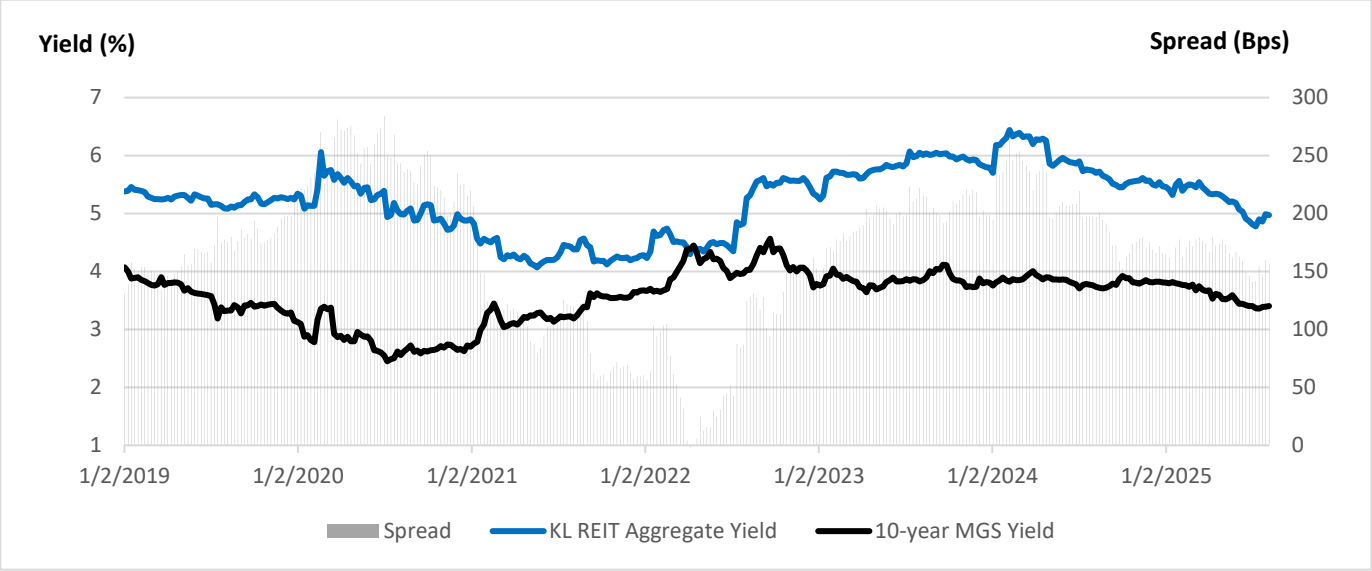
	Quarter	Results	Remarks	1HFY25 EPU Growth (%)
Axis REIT	2Q25	Above	1HFY25 earnings came in above our expectation due to the higher-than-expected rental income growth. 2QFY25 net income increased to RM50.5m (+29.5%yoy), bringing 1HFY25 net income higher at RM101m (+26.5%yoy) due to higher rental income following acquisition of 5 properties as well as positive rental reversion.	9.4%
Pavilion REIT	2Q25	Within	2QFY25 core net income was higher at RM78.7m (+17.2%yoy), bringing 1HFY25 net income higher at RM169.1m (+12.5%yoy), driven by higher contribution from Pavilion Bukit Jalil and Elite Pavilion Mall.	8.9%
KLCCP Stapled Group	2Q25	Within	2QFY25 core net income was higher at RM200m (+4.6%yoy), bringing 1HFY25 core net income higher at RM401m (+5.9%yoy). The higher earnings were mainly due to higher contribution from retail division and office segment which offset the losses from hotel division.	6.2%
IGB REIT	2Q25	Within	2QFY25 earnings were higher at RM97.8m (+11%yoy), bringing 1HFY25 core earnings to RM208.4m (+9.4%yoy) as tenant sales and shopper footfall at Mid Valley Megamall and The Gardens Mall remain resilient while rental reversion is positive.	9.0%
Sunway REIT	2Q25	Within	2QFY25 earnings jumped to RM102.4m (+29.7%yoy), bringing cumulative earnings in 1HFY25 higher at RM206.7m (+24.6%yoy). The decent earnings growth was spurred by higher contribution from retail division which offset the weaker contribution from hotel and office divisions.	24.6%
Al-`Aqar Healthcare REIT	2Q25	Within	2QFY25 core net income was higher (+5%yoy) mainly due to lower property expenses (-28.6%yoy). 1HFY25 earnings at RM31.9m (+0.5%yoy) while topline was lower (-2%yoy). The lower topline was due to loss of income from Damai Care & Wellness Centre following disposal of the asset which cushioned by annual rental increment of its healthcare assets.	1.7%

Source: Company, MBSBR

KL REIT Index retreated in Aug 2025 on narrowing yield spread. KL REIT Index had a good run year-to-date, gaining 6.5% mainly supported by gains in IGB REIT (+24.7%), Axis REIT (+19%), Pavilion REIT (+16.7%), Al-Salam REIT (+14.7%) and Sunway REIT (+13.5%). The strong gains in IGB REIT were spurred by the acquisition of Mid Valley Southkey Mall in Johor which offers attractive earnings upside. The acquisition was announced on 24th June 2025. Performance of KL REIT Index was positive in June 2025, gaining +2.7% due to strong share price performance of IGB REIT (+9.5%) and gains in Pavilion REIT (+8.1%). Subsequently, performance of KL REIT Index remains positive in July 2025, gaining +3.6% due to declining 10-year MGS yield which spurred by buying interest on high-yielding REIT.

Note that 10-year MGS yield declined to 3.4% in July 2025 from 3.5% in June 2025 due to OPR cut by 25bps on 9th July 2025. Meanwhile, KL REIT Index was in the red in August 2025, losing -2.6% which we think was due to narrowing yield spread between 10-year MGS yield and yield of REIT. Spread between KL REIT aggregate yield and 10-year MGS yield narrowed to below 150bps in July which is below its long-term average of 164bps. Looking forward, we think that the narrowing yield should keep upside of REIT limited and as MGS yield is expected to remain at around 3.4% level. Current spread between aggregate yield of KL REIT and 10-year MGS yield is at 156bps which we view is not appealing enough to investors.

Figure 2: Yield spread between KL REIT aggregate yield and 10-year MGS yield



Source: Bloomberg, MBSBR

Maintain NEUTRAL on REIT. While fundamental of REIT are expected to remain stable with rental reversion outlook staying positive, we think that the yield compression of REIT should keep upside of REIT limited. Average yield of REIT under our coverage is at 4.6% which we think is unappealing. Hence, we maintain our **NEUTRAL** stance on REIT. Our only BUY call for REIT under our coverage is Pavilion REIT with a target price of RM1.88. Earnings prospect for Pavilion REIT is expected to remain positive as we expect growing contribution from Pavilion KL Mall and Pavilion Bukit Jalil. We see Pavilion KL Mall to continue growing organically on the back of positive rental reversion due to the strategic location of the mall. Meanwhile, earnings of Pavilion Bukit Jalil should improve due to low base rental and stable shopper footfall.

Peers Comparison

Stock	Rec.	Price @ 17-Sept-2025	Target Price (RM)	Core EPS (sen)		Core PER (x)		Net DPS (sen)		Net Dvd Yield	
				FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Pavilion REIT	BUY	1.81	1.88	8.5	9.1	21.3	20.0	8.2	8.0	4.5%	4.6%
Axis REIT	NEUTRAL	2.06	2.07	10.0	10.4	20.6	19.8	9.1	9.3	4.4%	4.5%
Sunway REIT	NEUTRAL	2.10	2.10	11.2	11.7	18.8	17.9	10.2	10.4	4.8%	5.0%
IGB REIT	NEUTRAL	2.67	2.70	11.1	12.8	24.0	20.9	10.1	11.6	3.8%	4.3%
KLCCP Stapled Group	NEUTRAL	8.60	8.40	45.9	46.4	18.7	18.5	42.4	42.8	4.9%	5.0%
Al-`Aqar Healthcare REIT	NEUTRAL	1.24	1.26	7.8	8.0	15.9	15.5	6.4	6.5	5.2%	5.2%

Source: MBSBR

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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