REITS

POSITIVE (Maintain)

Earnings Resiliency Underpins Appeal

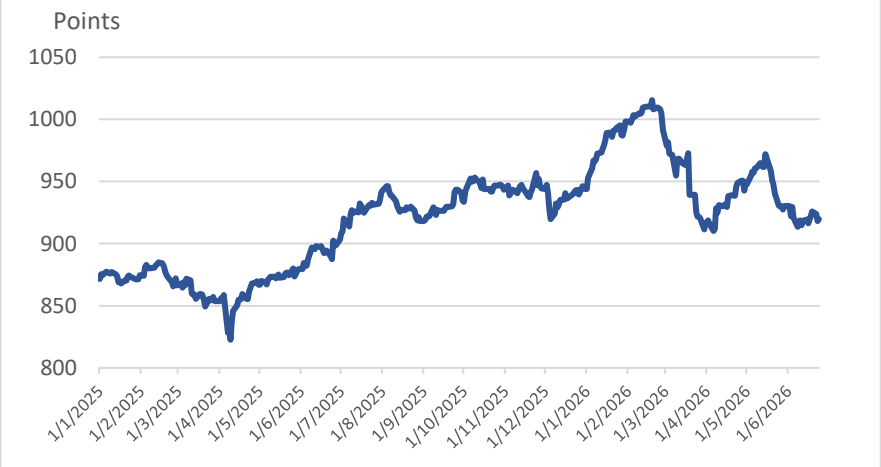
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HIGHLIGHTS

- Recent weakness in KL REIT Index creates attractive entry point
- Earnings of REITS off to a good start
- Retail REITs benefit from sustained consumer spending
- Wider yield spread underpins REITS attractiveness
- Maintain POSITIVE on REITS
- Top picks are Pavilion REIT (TP: RM2.00) and Axis REIT (TP: RM2.17). Upgrade Sunway REIT to BUY with an unchanged TP of RM2.39

Recent weakness in KL REIT Index creates attractive entry point. The KL REIT Index declined by 2.9% in 1QCY26, largely attributable to a knee-jerk sell-off following the announcement of the expiry of the withholding tax concession for REIT distributions. Despite this, the index remained relatively resilient, posting a marginal gain of 0.4% quarter-to-date, outperforming the FBMKLCI, which recorded a slight decline of 0.5% over the same period. Overall, the KL REIT Index was down 2.4% year-to-date, primarily weighed down by the weakness experienced in 1QCY26. The index also softened in June, declining 1.2% month-to-date, which we believe was driven by concerns over a potential rise in global interest rates, potentially reducing the relative attractiveness of REITs compared to other yield-generating assets. Nevertheless, we view the recent weakness in the KL REIT Index as a buying opportunity, as REIT yields remain attractive and the sector continues to offer defensive earnings and stable income streams.

Figure 1: Performance of KL REIT Index



Source: Bloomberg, MBSB Research

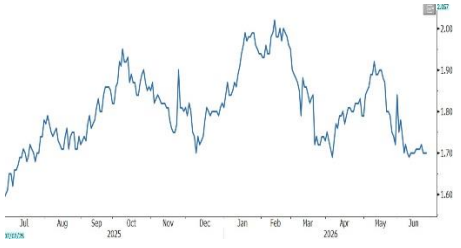
COMPANY *IN FOCUS*

Pavilion REIT

Maintain BUY | Unchanged Target Price: RM2.00
Price @ 26 June 2026: RM1.70

- Decent earnings in 1QFY26 at RM105.8m (+17%yoy), underpinned by higher contribution from all malls under its portfolio.
- Positive earnings outlook for Pavilion REIT
- Gross distribution yield estimated at 5.9%.

SHARE PRICE CHART

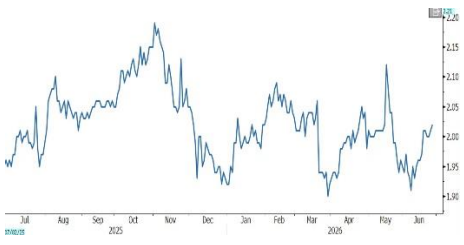


Axis REIT

Maintain BUY | Unchanged Target Price: RM2.17
Price @26 June 2026: RM2.02

- Positive rental reversion of 3.5% in FY25.
- Active asset acquisition underpins earnings growth.
- Near-term outlook for Axis REIT should remain driven by positive rental reversion of industrial assets

SHARE PRICE CHART



Earnings of REITS off to a good start. Earnings of REITS in 1QCY26 were well within expectations as all six REITS under our coverage reported earnings that met expectations. Earnings of REITS particularly retail REITS reported stellar earnings in 1QCY26, boosting by higher consumer spending for festive season. Notably, IGB REIT reported highest earnings growth of 27.1%yoy in 1QCY26 due to festive boost from Chinese New Year and Hari Raya Aidilfitri as well as contribution from the newly acquired Mid Valley Southkey Mall. Meanwhile, Sunway REIT recorded second highest earnings growth of 10%yoy, lifted mainly by its retail division. On the other hand, as a healthcare-focused REIT, Al-'Aqar Healthcare REIT continues to deliver steady earnings growth of 9.6%yoy in 1QCY26 due to contribution from newly acquired assets. Going forward, we remain positive on earnings outlook for REITs in CY26 as positive rental reversion outlook is largely intact.

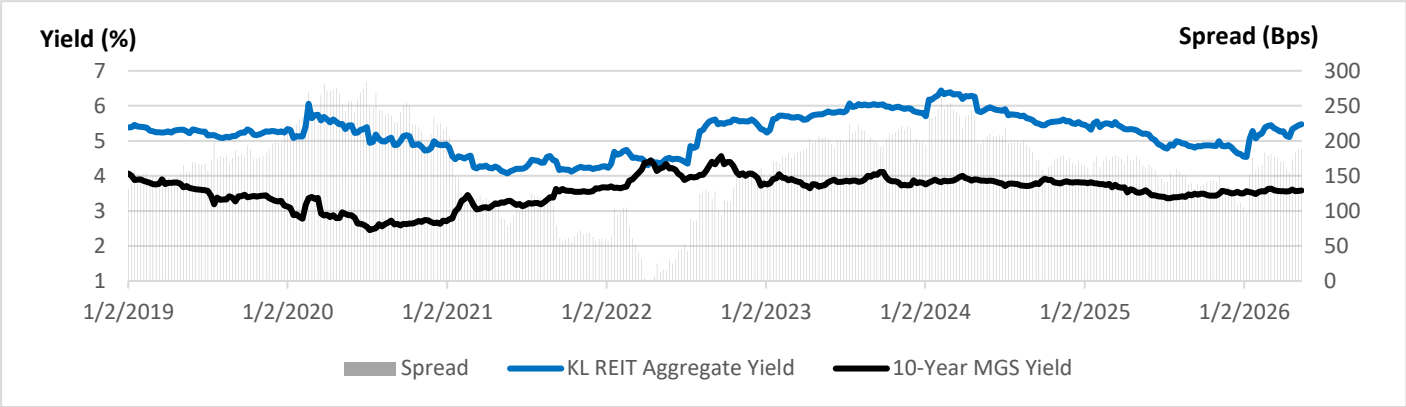
Figure 2: Earnings summary of REIT in 1QCY26

	Quarter	Results	Remarks	1QFY26 EPS Growth (%)
IGB REIT	1Q26	Within	1QFY26 core net income was higher at RM168m (+51.9%yoy), as earnings were exceptionally strong in 1QFY26 due to festive boost from Chinese New Year and Hari Raya Aidilfitri as well as contribution from the newly acquired Mid Valley Southkey Mall.	27.1%
Sunway REIT	1Q26	Within	1QFY26 core net income was higher at RM114.8m (+10%yoy) due to better contribution from retail division which offset the lower contribution from hotel segment and loss of income from Sunway university & college campus.	10.0%
Al-`Aqar Healthcare REIT	1Q26	Within	1QFY26 core net earnings grew to RM17.3m (+9.6%yoy), underpinned by contribution from newly acquired KPJ Ampang Puteri Specialist Hospital (New Building) and KPJ Penang Specialist Hospital (New Building)	9.6%
Pavilion REIT	1Q26	Within	1QFY26 earnings were higher at RM105.8m (+17%yoy), underpinned by higher contribution from all malls under its portfolio and earnings contribution from Banyan Tree KL and Pavilion Hotel KL which were acquired in June 2025.	9.2%
KLCCP Stapled Group	1Q26	Within	1QFY26 core net income was higher at RM204.2m (+0.7%yoy) on stable contribution from office segment and narrower losses of hotel segment.	0.7%
Axis REIT	1Q26	Within	1QFY26 core net income was marginally weaker at RM49.9m (-1.2%yoy) while topline was flattish (+0.8%yoy), partly attributed to the higher administrative expenses.	-1.4%

Retail REITs benefit from sustained consumer spending. We expect the outlook for retail REITs to remain stable in 2HCY26, supported by resilient consumer spending. Retail sales in Malaysia remained robust at RM70.95b (+6.3%yoy) in April 2026, lifting total consumer spending to RM283.2b (+6.9%yoy) in 4MCY26. While retail spending may moderate somewhat in the coming months amid rising inflationary pressures, we believe it will continue to record growth, supporting the rental reversion prospects of retail REITs. Retail REITs generally achieved positive mid-single-digit rental reversions in 2025, and we expect a similar trend to persist in 2026. Overall, we anticipate continued earnings growth for retail REITs, underpinned by stable consumer spending

Wider yield spread underpins REITS attractiveness. Gross aggregate yield of KL REIT Index increased to 5.5% in June 2026 from 5.1% in May 2026 amid declining share prices of REITS. The increase in gross aggregate yield of KL REIT Index has widened the yield spread between gross aggregate yield of KL REIT Index and 10-year MGS yield to 189bps in June 2026 from 160bps in May 2026. The current yield spread of 189bps is higher than 8-year average yield spread of 163bps. We believe the widening yield spread will continue to enhance the attractiveness of REITs as income-generating assets. As such, we expect REITs to remain appealing to investors seeking stable and attractive yields.

Figure 3: Yield spread



Source: Bloomberg, MBSB Research

Maintain POSITIVE. We maintain our **POSITIVE** stance on the REITS sector, supported by its healthy underlying fundamentals and resilient earnings outlook. We expect REIT earnings to remain underpinned by the favourable backdrop of the retail industry, particularly for retail-focused REITs. In addition, we believe REITs will continue to be favoured by investors given their defensive characteristics, stable earnings profile, and recurring income streams. These attributes should continue to support investor demand and provide downside support to REITS share prices. Our top picks for the sector are **Pavilion REIT (BUY, TP: RM2.00) and Axis REIT (BUY, TP: RM2.17)**. We see positive earnings outlook for Pavilion REIT as earnings growth will be supported by the positive rental reversion of Pavilion KL Mall and Pavilion Bukit Jalil. Meanwhile, gross distribution yield is attractive at 5.9% We also have **BUY call for Axis REIT with an unchanged TP of RM2.17** as earnings outlook for Axis REIT is expected to remain stable in the near to medium term, driven by positive rental reversion of industrial assets and active assets acquisition. We also upgrade **Sunway REIT** to **BUY** from NEUTRAL with an unchanged **TP of RM2.39** as the recent weakness in share price makes gross yield attractive at 6.1%. Fundamentally, earnings of Sunway REIT are expected to underpin by the solid retail division.

Peers Comparison

Stock	Rec.	Price @ 26-June-2026	Target Price (RM)	Core EPS (sen)		Core PER (x)		Gross DPS (sen)		Gross Dvd Yield	
				FY26F	FY27F	FY26F	FY27F	FY26F	FY27F	FY26F	FY27F
Pavilion REIT	BUY	1.70	2.00	9.5	10.1	17.9	16.9	10.1	10.2	5.9%	6.0%
Axis REIT	BUY	2.02	2.17	10.2	10.9	19.8	18.5	10.2	10.6	5.1%	5.2%
Al-`Aqar Healthcare REIT	BUY	1.18	1.30	7.5	7.6	15.8	15.6	7.2	7.3	6.1%	6.2%
Sunway REIT	BUY	2.20	2.39	13.7	14.6	16.0	15.1	13.3	14.0	6.1%	6.4%
IGB REIT	NEUTRAL	2.75	2.84	12.8	13.3	21.5	20.7	11.6	12.0	4.2%	4.4%
KLCCP Stapled Group	NEUTRAL	8.92	8.80	46.5	47.5	19.2	18.8	45.5	46.0	5.1%	5.2%

Source: MBSB Research

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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