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ANCHOR REPORT

Global Markets Research

22 April 2025

Malaysia REITs – Defensive option in an uncertain world

We prefer premium retail assets, presence in KL

Given the current uncertain global macroeconomic environment, we see Malaysia REITs (M-REITs) as a defensive option for investors for two reasons: (1) M-REIT constituents possess stable revenue-generating assets with strong DPU yield of ~6%, a net debt-to-asset ratio of ~30% and low volatility, making them a strong defensive option, in our view. If the situation worsens, we would expect rate cuts, which would be beneficial for the industry; and (2) M-REITs are largely focused on the retail segment and if conditions rebound, we expect Malaysia's retail sector to be a major beneficiary of the underlying economic growth, improved consumer confidence and increased inbound tourism in the country. Since 2018, the M-REIT index has outperformed the KLCI, apart from 2020-2021 due to the COVID-19 pandemic and MCOs (movement control orders), which had a bigger impact on the retail mall sector compared to others.

We prefer companies with strong exposure to the retail segment, as we expect rental levels to rise for premium malls. While we expect the hotel sector will benefit from increased tourist inflow, we think the office sector will continue to be impacted by weak rentals.

We initiate coverage with Buy ratings on (1) Pavilion REIT, due to its attractive DPU yield of 6.4% and its strong asset base focused on the retail segment complemented with an expansion into the hotel segment; and (2) Sunway REIT, as we view its 6% DPU yield as attractive given its strong and diversified asset base. We also initiate coverage of KLCCP Stapled Group with a Neutral rating.

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EQUITY: PROPERTY

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We prefer companies that focus on premium assets in the retail segment and have a presence in Kuala Lumpur

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The M-REIT index has largely outperformed the KLCI since 2018

Since its inception in 2018, the M-REIT index has outperformed the KLCI based on total returns, except in 2020-2021 when the heavily retail-focused sector was affected by the COVID-19 pandemic and the resultant movement control orders (MCOs). Given the current uncertain macroeconomic environment, we see REITs as an attractive option for investors for two reasons: (1) stable revenue-generating assets with strong DPU yield of over 6%, net debt-to-asset ratio of about 30%, and relatively low volatility, which should make them a strong defensive option if the global environment worsens further; and (2) M-REITs are largely focused on the retail segment and once the global macroeconomic conditions rebound, we expect Malaysia's retail sector to be a major beneficiary of the underlying economic growth, improved consumer confidence, and increased inbound tourism in the country.

Trump 2.0 – M-REIT index can potentially outperform KLCI; OPR cut likely to benefit REITs

During the Trump 1.0 trade war in 2018-2019, the KLCI declined by about 12% with most major sectors also witnessing a decline amid the concurrent political uncertainty in the country. M-REIT was the only sector to deliver growth during this period, and we think it remains well-placed during the current Trump 2.0 trade war to weather the uncertainty. With Malaysia's headline inflation moderating in early 2025 and economic slowdown risks rising, we are seeing the likelihood of a rate cut in 2025F rising. We think this would be beneficial for consumer spending and along with it, the M-REIT sector.

M-REITs appear well positioned for yield compression, earnings accretion

Since the post-COVID recovery, we have seen DPU yields for the index and earnings rise sharply, but unit prices have not kept up with the increase. Going forward, we see two key factors pushing the M-REIT index higher: (1) yield compression – DPU yield is +1SD above its 5-year average and with the spread to the 10Y government bond at about 1.3SD above the average level, we see the index as well positioned for yield compression; and (2) earnings accretion – we expect earnings for the index to rise 5% y-y in FY25F. As we believe retail spending will remain strong and inbound tourist numbers should increase, M-REIT's P/E ratio should expand from its current 1SD below average levels.

Initiate coverage of Pavilion REIT and Sunway REIT at Buy; and KLCCP at Neutral

We initiate coverage of **Pavilion REIT** with a Buy rating and a TP of MYR1.70, representing 16.4% return and 22.8% total return from current levels. We like the company's premium assets that are retail-focused, and estimate its income available for distribution will record a CAGR of 6% over FY24–27F. We initiate coverage of **Sunway REIT** with a Buy rating and a TP of MYR2.20, representing 15.2% return and 21.1% total return from current levels. We like the company's premium assets that are focused on retail and hospitality, and we project a DPU distribution CAGR of 6% over FY24–27F. We initiate coverage of **KLCCP Stapled Group** with a Neutral rating and a TP of MYR9.40 as we await a better entry point given the 5.2% DPU yield and 4% distribution CAGR over FY24-27F.

Key downside risks to our view include weaker-than-expected occupancy and rental reversion, margin pressure, interest rate risk, and outbreak of communicable diseases.

Fig. 1: Stocks for action

Pricing as of 18 April 2025

REIT	Ticker	Rating	Mkt cap (USDmn)	Pricing currency	TP	Price	Upside	Total return
Pavilion REIT	PREIT MK	Buy	1,213	MYR	1.70	1.46	16.4%	22.8%
Sunway REIT	SREIT MK	Buy	1,483	MYR	2.20	1.91	15.2%	21.1%
KLCC Stapled Group	KLCCSS MK	Neutral	3,537	MYR	9.40	8.64	8.8%	14.0%

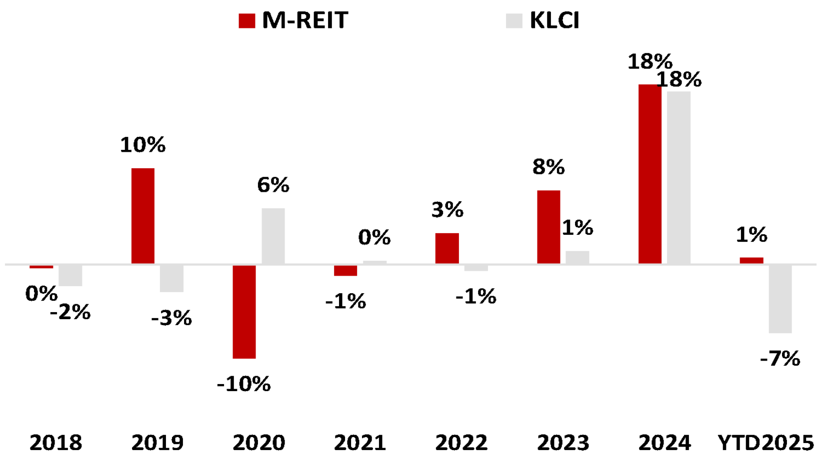
Note: We are initiating coverage of Pavilion REIT, Sunway REIT, and KLCC Stapled Group. Source: Bloomberg Finance L.P., Nomura estimates

M-REITs: Defensive option in an uncertain world

Given the current uncertain global macroeconomic environment, we see Malaysian REITs (M-REITs) as a defensive option for investors for two reasons: (1) The constituents of the M-REIT index possess stable revenue-generating assets with strong DPU yield of ~6%, net debt-to-asset ratio of ~30% (*Fig. 3*) and low volatility compared to the KLCI index, making the REITs a strong defensive option in the event of a worsening global environment. If the situation worsens, we would expect the central banks to lower interest rates, which would be beneficial for the industry; and (2) M-REITs are largely focused on the retail segment and once the global macroeconomic conditions rebound, we expect Malaysia's retail sector to be a major beneficiary of the underlying economic growth, improved consumer confidence and higher inbound tourism in the country.

As shown in *Fig. 2* , since its inception in 2018, the M-REIT index has outperformed the KLCI, except in 2020-2021 primarily due to the COVID-19 pandemic and the resultant MCOs (movement control orders) that curtailed free movement of citizens in the country, which had significantly greater impact on the retail mall sector compared to other sectors. The movement restrictions also spilled over into 2021, which led the M-REIT index to underperform the KLCI by 1%.

Fig. 2: Performance of M-REIT vs KLCI (total returns)



Source: Bloomberg Finance LP., Nomura research

We prefer companies with strong exposure to retail segment

Retail segment – rental levels to rise for premium malls

Since bottoming out in 2022, Malaysia's retail occupancy has been steadily rising, particularly in the Kuala Lumpur (KL) region, where retail occupancy is currently over 85%, according to NAPIC. While there is a risk of oversupply, we think malls in strategic and premium locations will be more immune to this. We see them benefiting from the continued retail spending growth in the country, which we think is bolstered by the minimum wage hike that took effect in February 2025, the civil servants pay hike and the increase in inbound tourist numbers.

Premium malls owned by REITs under our coverage are seeing near-full occupancy rates while enjoying strong reversions. As Malaysians' affluence continues to grow alongside an increasing urban population, demand from end consumers will drive demand for retail space, in our view. With occupancy levels remaining high, we expect rental rates in the Central KL region to increase by ~3% y-y in 2025F. Given the strong market environment for the retail segment, we also expect REITs to continue to make new investments in malls in 2025F. We prefer companies where premium malls constitute a more sizeable chunk of their retail segment as we think they will be more immune to the current macroeconomic environment than those with exposure to mid-range malls and offices, and will also benefit from the increased number of inbound tourists.

Office segment – weak rental environment

The average occupancy rate of KL offices has continued to decline and according to

NAPIC, already reaching 72% in 2024. With the increasing supply of new Grade A buildings attracting larger companies and multinational corporations, vacancies in older buildings have been rising. Many companies are prioritising sustainability, wellness features and a hybrid-working environment, and hence many building owners are also adapting to this new environment by upgrading their buildings and enhancing sustainability features. We note the increased demand for co-working spaces after the COVID-19 pandemic has accelerated the shift toward remote or hybrid work.

In 2025, we expect six new office buildings to be completed in WP Kuala Lumpur, which should add about 0.2mn sq m of office space and put more pressure on occupancies in older buildings. As a result, we expect rental rates to remain steady in 2025F in the WP KL region, and we prefer companies that have a large share of committed long-term leases for their office buildings.

Hotel sector – to benefit from stronger inbound tourism

Malaysia attracted about 25mn tourists in 2024 (Tourism Malaysia), and it aims to attract 31.4mn tourists with projected receipts of MYR125.5bn in 2025E, scaling up to 35.6mn tourists and MYR147.1bn in receipts by 2026E through its Visit Malaysia 2026 initiative. The government has also allocated about MYR550mn in the 2025 budget to boost tourism promotion and related activities. Most of this tourist inflow will benefit the KL region due to its presence as a hub for both business and leisure tourists, and CBRE expects about 2,200 rooms to be added in 2025E in Central KL or up about 7% y-y.

KL currently has about 19,000 Airbnb listings (up 14% y-y) and while we see this emerging as a risk, we think the hotel industry is adjusting to this by focusing on luxury 5-star rooms to cater to higher-end tourists and business travellers, since 2022. Most of the luxury hotels are located in the Central Kuala Lumpur region, which has easy access to the major office regions in the KL City Center and major landmarks, including the Twin Towers, the Tun Razak Exchange Financial district and the Bukit Bintang shopping ares. In 2025F, we expect the average daily rate to grow by over 2% y-y through the country, led by: (1) rising demand due to an increase in business travellers and leisure tourists; and (2) higher operational costs due to rising costs related to staffing and supplies. Within the hotel segment, we prefer companies with strong presence in the Central KL region.

Our pecking order: PREIT MK > SREIT MK > KLCCSS MK

PREIT MK (Buy, TP: MYR1.70) – 6.4% DPU yield suggests an attractive entry point

Pavilion Real Estate Investment Trust (PREIT) owns five retail malls and one office building in Malaysia with a total appraised asset valuation of MYR8.5bn. The company's flagship Pavilion Kuala Lumpur Mall accounts for 62% of the total portfolio value and is the primary driver of the REIT's valuation. In December 2024, the company announced the acquisition of two hotels – Banyan Tree and Pavilion Kuala Lumpur – for MYR480mn (*link*).

PREIT is currently trading at a DPU yield of 6.4%, which we see as an attractive entry point given the company's strong asset base focused on retail and its expansion into the hospitality segment. Going forward, we see yields compressing, due to: (1) stable occupancy levels at the Pavilion Kuala Lumpur mall; (2) rising occupancy levels at the Pavilion Bukit Jalil mall; (3) improved prospects for the DA MEN mall following the signing of a master lease agreement with Easyhome International (unlisted) for three years; and (4) revenue recognition from its planned acquisition of hotels from mid-2025.

With the new hotels being revenue-accretive from 2H25F and with rising contribution from Pavilion Bukit Jalil mall, we estimate a revenue/NPI CAGR of 4%/6% over FY24-27F. Interest expenses are likely to decline due to repayment of debt and, as a result, we estimate income available for distribution will record a 6% CAGR over FY24-27F.

SREIT MK (Buy, TP: MYR2.20) – diversified asset base primed for growth

Sunway Real Estate Investment Trust (Sunway REIT) owns 12 retail malls, six hotel assets, five office towers, a university and college campus and three industrial projects, with a total appraised valuation of MYR10.4bn. The company's retail assets account for ~65% of the total portfolio value and are the primary driver of its valuation, with Sunway Pyramid mall itself accounting for ~40% of the total, based on our estimates. In 2024, the company completed the acquisition of six hypermarkets, an industrial property in Penang and two malls – 163 Retail Park in Mont Kiara and Kluang mall in Johor. In January 2025, the REIT also announced the acquisition of the Aeon mall in Perak (*link*).

SREIT is currently trading at a DPU yield of 6%, which we see as an attractive entry point given the company's strong and diversified asset base. Going forward, we see yields compressing due to: (1) stable occupancy levels at its retail malls following the refurbishment of Sunway Pyramid and Sunway Carnival malls; (2) rising occupancy at its hotels business; (3) rising rentals at its retail malls and offices, which have a weighted average lease expiry (WALE) of 2.02 years and 1.70 years respectively; and (4) revenue recognition from acquired assets since 2024.

With the new acquisitions becoming revenue accretive from FY25F, we project a revenue CAGR of 6% over FY24-27F. Considering its acquired hypermarkets which have a triple net lease and the strong lease renewal cycle for its retail and office businesses, we see a NPI CAGR of 7% and a dividend distribution CAGR of 6% during FY24-27F.

KLCCSS (Neutral, TP: MYR9.40) – quality assets awaiting a better entry point

KLCCP Stapled Group (KLCCSS) is Malaysia's largest REIT in terms of market capitalisation and the only stapled security. It comprises KLCC Property Holdings and KLCC REIT and owns five offices including Petronas Twin Towers, one of the premier retail malls in KL – Suria KLCC and a luxury hotel, Mandarin Oriental. The combined value of these assets is MYR16.9bn. Out of this, the company's office assets account for 58% of the total portfolio value and is the primary driver of the REIT's valuation, with the Petronas Twin Towers itself accounting for 41% of the total, as of FY24.

Currently, KLCCSS trades at a DPU yield of 5.2%, which is close to its average level. Going forward, while there is scope for further yield compression, we do not see significant upside given: (1) the long-term leases for its office buildings have been recently renewed with Petronas (unlisted), and we do not expect a significant rental revision going forward; (2) Suria KLCC already has an occupancy level of 99%, and we see upside coming only from rental increases; and (3) operating costs for the Services Management business should rise further due to the minimum wage hike and increased utility costs.

With three of its office complexes locked into long-term leases with Petronas, we estimate a revenue CAGR of 4% over FY24 -27F. We expect operating expenses to rise due to increased minimum wages, higher utility and increased maintenance expenses. Hence, we project an operating profit CAGR of 3% over FY24-27F and a total income distribution CAGR of 4% during this period.

Fig. 3: Peer valuation comparison

As of 18 April 2025

Company	Bloomberg Ticker	M Cap US$ mn	Rating	Target Price LC	Last Price 18-Apr-25	Upside (%)	3M ADTV (USDmn)	NAV	Prem/Disc to NAV (%)	Net Debt/Assets		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)	
										FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Malaysia																			
Pavilion REIT	PREIT MK	1,212	Buy	1.7	1.46	16%	1.0	1.37	6%	0.29	0.29	18.5	16.4	1.1	1.1	7.5	7.6	6.4	6.6
Sunway REIT	SREIT MK	1,482	Buy	2.2	1.91	15%	0.9	1.52	26%	0.41	0.41	16.0	15.6	1.1	1.1	7.4	7.6	5.9	6.0
KLCCP Stapled Group	KLCCSS MK	3,534	Neutral	9.4	8.64	9%	0.4	7.57	14%	0.15	0.15	18.2	17.3	1.1	1.1	6.2	6.5	5.2	5.5
IGB REIT	IGBREIT MK	1,885	Not Rated	na	2.30	na	1.1	1.18	95%	0.17	0.17	20.4	19.7	2.0	2.0	9.6	10.0	5.1	5.3
Axis REIT	AXRB MK	838	Not Rated	na	1.83	na	0.7	1.64	12%	0.31	0.33	18.8	17.9	1.1	1.1	5.8	6.1	5.2	5.4
CapitaLand Malaysia Trust	CLMT MK	422	Not Rated	na	0.64	na	0.1	0.97	-34%	0.43	0.43	12.4	11.9	0.6	0.6	5.1	5.3	7.6	7.9
YTL Hospitality REIT	YTLREIT MK	390	Not Rated	na	1.01	na	0.2	1.67	-39%	0.43	0.42	11.5	11.0	na	na	2.9	3.1	6.9	7.3
Median										*0.31*	*0.33*	*18.2*	*16.4*	*1.1*	*1.1*	*6.2*	*6.5*	*5.9*	*6.0*
Singapore																			
CapitaLand Integrated Commercial Trust	CICT SP	11,821	Not Rated	na	2.12	na	38.6	2.12	0%	0.35	0.35	18.8	17.6	1.0	1.0	5.4	5.6	5.3	5.6
CapitaLand Ascendas REIT	CLAR SP	8,823	Not Rated	na	2.63	na	24.2	2.27	16%	0.36	0.36	17.1	16.2	1.1	1.1	6.5	6.7	5.8	6.1
MapleTree Pan Asia Commercial Trust	MPACT SP	4,819	Not Rated	na	1.20	na	10.2	1.73	-31%	0.35	0.35	14.9	14.6	0.7	0.7	4.2	4.6	6.7	6.9
Keepel DC REIT	KDCREIT SP	3,491	Not Rated	na	2.03	na	14.1	1.53	33%	0.32	0.32	20.0	18.1	1.3	1.3	6.8	7.2	5.0	5.3
Suntec REIT	SUN SP	2,528	Not Rated	na	1.13	na	6.2	2.05	-45%	0.36	0.36	20.4	19.0	0.5	0.5	2.7	3.0	5.6	6.1
Parkwaylife REIT	PREIT SP	2,079	Not Rated	na	4.18	na	3.4	2.41	73%	0.34	0.35	24.9	23.2	1.7	1.5	8.5	8.2	3.6	4.3
Median										*0.35*	*0.35*	*19.4*	*17.9*	*1.1*	*1.1*	*5.9*	*6.1*	*5.4*	*5.8*
Hong Kong																			
Link REIT	823 HK	11,625	Not Rated	na	34.95	na	46.8	66.80	-48%	0.21	0.20	13.2	13.2	0.5	0.5	3.8	3.9	7.6	7.7
Champion REIT	2778 HK	1,551	Not Rated	na	1.98	na	0.5	7.16	-72%	0.22	0.22	14.3	14.3	0.3	0.3	1.9	1.9	7.4	7.4
Fortune REIT	778 HK	1,043	Not Rated	na	4.02	na	1.5	13.21	-70%	0.25	0.25	13.9	13.9	0.3	0.3	2.2	2.3	8.5	8.7
Yuexiu REIT	405 HK	454	Not Rated	na	0.72	na	0.3	2.91	-75%	na	na	11.3	11.5	na	na	2.1	2.1	8.0	7.8
Sunlight REIT	435 HK	400	Not Rated	na	1.83	na	0.4	7.53	-76%	na	na	na	na	0.2	0.3	na	na	10.4	9.8
Median										*0.22*	*0.22*	*13.5*	*13.5*	*0.3*	*0.3*	*2.1*	*2.2*	*8.0*	*7.8*
Overall median										*0.33*	*0.34*	*17.1*	*16.2*	*1.0*	*1.0*	*5.4*	*5.6*	*6.1*	*6.3*

Note: Bloomberg Finance L.P. consensus estimates for Not Rated (NR) stocks
Source: Nomura estimates, Bloomberg Finance L.P.

Trump 2.0 – M-REIT likely to outperform KLCI

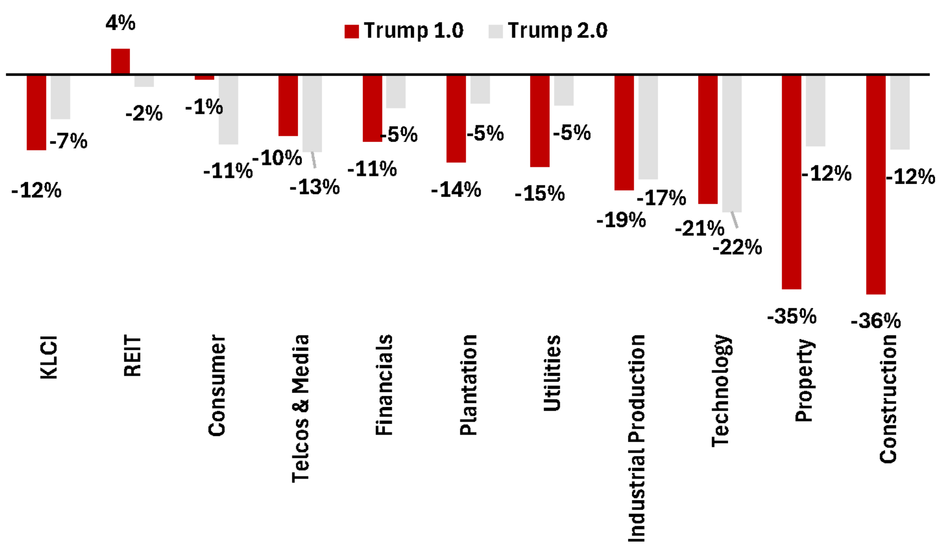
The Trump 1.0 trade war negatively impacted the global economy, including Malaysia, but M-REIT remained resilient, outperforming the KLCI.

President's Trump's first administration from 2017 to 2021 was marked by a trade war with China, its biggest trading partner. It started in January 2018 with the decision to impose tariffs of 20%-50% on solar and washing machines with the administration also imposing other trade barriers on China to lower its trade deficit with the country. In response to these measures, the Chinese government also took retaliatory measures, including levying 15-25% tariffs on 128 products imported from the US. Following continued escalations, the US and Chinese governments announced in early September 2019 that ministerial-level talks would be held in the coming period to resolve the issue. This resulted in the 2020 signing of the US-China Phase One trade deal.

The escalating trade war between the two biggest economies of the world had a significant negative impact on the macroeconomic environment globally, including Malaysia, which saw its GDP growth decline from 5.8% in 2017 to 4.8% in 2018 and 4.4% in 2019. Concurrently, Malaysia was also going through a significant government change with the incumbent Barisian Nasional coalition government, which had governed the country since independence in 1957, being voted out for the first time.

As a result of these factors, the KLCI index declined 12% during the January 2018-September 2019 period, which marked the peak of the US-China trade conflict. As shown in *Fig. 4* , most of the sectors underperformed the KLCI, although some sectors, including construction, were impacted more by domestic factors. M-REITs were the best performing sector and actually saw a 4% increase during this period, while other defensive sectors, including consumer and telcos & media, also outperformed the KLCI despite negative growth.

Fig. 4: Index returns during Trump 1.0 and 2.0 trade war periods



Note: Trump 1.0 period of analysis is from 23 Jan 2018 when President Trump first imposed tariffs on China until 2 Sep 2019 when trade-deal expectations started getting priced in.
Trump 2.0 period of analysis is from President Trump's election on 4 Nov 2024 until now.
Source: Bloomberg Finance L.P., Nomura research

Trump 2.0 has seen tariffs being imposed on the rest of the world

During his 2024 campaign for the US Presidency, Trump had pledged to impose higher tariffs as compared to his first term, including a 60% tariff on China, 100% on Mexico and 20% on all other countries. Following his inauguration in January 2025, President Trump announced a 10% tariff on China from February 2025 and followed this up with a further 10% tariff on the country from March. This was further escalated on 2 April with "reciprocal" tariffs being imposed on all other countries including a 24% tariff on Malaysia and an additional 34% tariff on China (on top of the 20% announced earlier). After significant turbulence in both the equity and fixed income markets following this announcement, President Trump announced a 90-day pause on tariffs for most countries that did not announce counter-measures, except for China where tariffs have been raised upto 245%. However, a global tariff of 10% on all countries would remain in place.

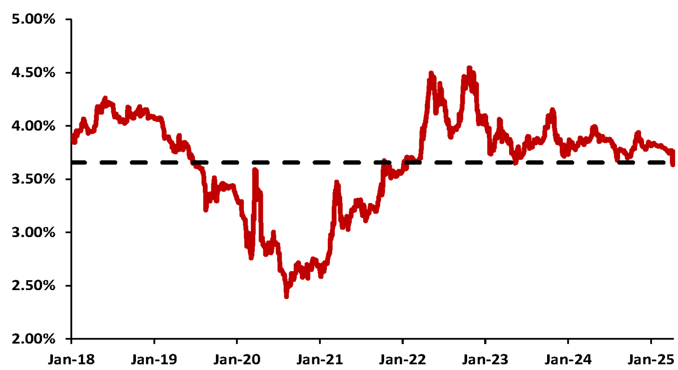
As shown in *Fig. 4* , since the election of President Trump in November 2024, the KLCI index is down about 7% led by declines in the industrial production and technology sectors. On the other hand, the REIT index has emerged as an outperformer again, having corrected by only 2% during this period. While a prolonged global trade conflict could exacerbate the situation, we think the M-REIT index should emerge as a key defensive option for investors.

OPR cut could be a positive for M-REITs

Malaysia's benchmark overnight policy rate (OPR) has been relatively stable at 3.0% since 2023. Our economics team had previously expected this to be hiked by 25bp in 4Q25, but now expects it to be maintained at 3.0% through the year given the current macroeconomic headwinds (see their 11 April report – *Asia Economic Monthly* for more details). While the team sees an OPR cut as unlikely, given their view on the resilience of domestic demand, they believe that the Bank Negara Malaysia (BNM) considers an SRR (statutory reserve requirement) cut from the current 2% as more plausible, if liquidity conditions are affected. The SRR has been maintained at 2% since the start of the COVID-19 pandemic to ensure that banks had enough liquidity.

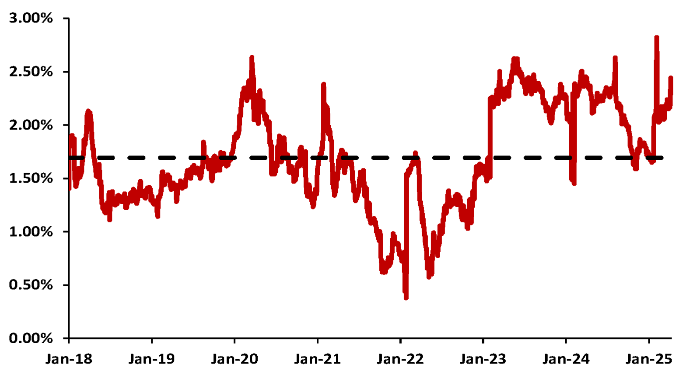
With headline inflation in Malaysia moderating to 1.5% y-y in February from 1.7% in January and economic slowdown risks rising, the likelihood of an interest rate cut in 2025 is increasing according to Bloomberg consensus. As shown in *Fig. 5* , Malaysia's 10 year (10Y) government bond yields have been above average levels since March 2022 but have declined about 22bp since the November 4 US elections, likely due to rising expectations of an OPR cut by the BNM.

Fig. 5: Malaysia 10Y yields are in line with average levels



Source: Bloomberg Finance LP., Nomura research

Fig. 6: KL REIT yield spread is more than +1SD above average



Source: Bloomberg Finance LP., Nomura research

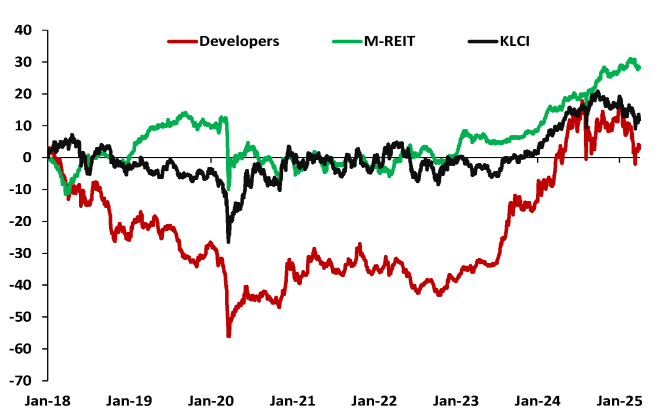
As shown in *Fig. 6* , the yield spread for M-REIT over the 10Y is currently about +1.3 SD above the long-term average. If the BNM lowers the OPR in 2025, we think it would be positive for the M-REIT index as: (1) it would lower the 10Y yield and increase the yield spread further, putting further upward pressure on M-REIT prices and downward pressure on the yield spread; and (2) it would be positive for consumer spending, which would benefit the constituents of the M-REIT which are more geared towards the retail segment. This would improve earnings and DPU for the sector and further raise the spread putting upward pressure on M-REIT price.

During turbulent times, we prefer M-REIT over developers

During periods of global macroeconomic uncertainty or domestic instability, consumer and business confidence generally decline with the population prioritizing savings and spending on essential and smaller-ticket items over larger-ticket items. Interest rates are also generally at their near-term peak at the start of this period. With new housing construction generally taking three years or more from start to completion, there can often be a supply-demand mismatch as new housing demand suddenly declines, leading to an increase in overhang.

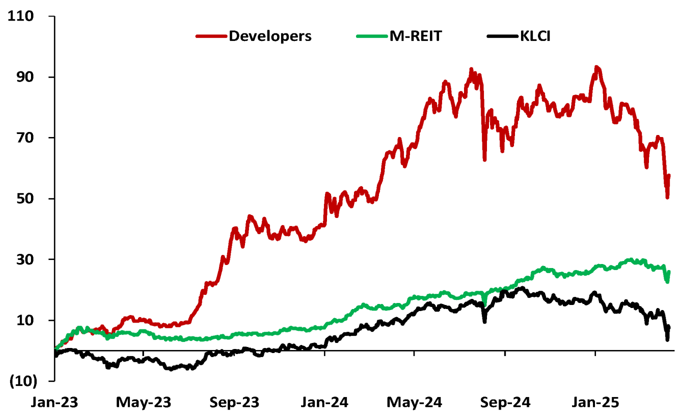
In such a scenario, we would prefer M-REIT over KL Property. A case in point was the 2018- 2022 period, which was punctuated by political instability in Malaysia, trade war between the US and China and the COVID-19 pandemic. During this period, the M-REIT index outperformed the KL Property index by 25%, as shown in *Fig. 7*. In fact, had it not been for the COVID-19 pandemic, the M-REIT index would have also outperformed the KLCI. Moreover, over the last six months also, the M-REIT index has outperformed the KL Property index by 11% and the broader KLCI by 8%. This was a period when markets were impacted by the US elections in November 2024, the restriction on export of chips and technology to China, and the announcement of global reciprocal tariffs by the US.

Fig. 7: During 2018-2022 M-REIT outperformed Developers by 25%



Source: Bloomberg Finance L.P., Nomura research

Fig. 8: Since 2023 M-REIT has underperformed Developers by 37%



Source: Bloomberg Finance L.P., Nomura research

During periods of relative stability/expansion, developers should outperform M-REIT

On the other hand, during periods of relative stability as consumer and business confidence starts to improve, we expect KL Property to outperform KL REIT. With interest rates at their bottom at the start of the cycle and everyday needs of most people are already met, the focus tends to shift to bigger-ticket items including housing. In a scenario where supply is still to catch up with demand, overhang starts to decline.

As shown in *Fig. 8*, since 2023 the KL Property index has outperformed the M-REIT index by 37% on the back of strong housing sales and rising consumer confidence. During this period, Malaysia has seen strong growth backed by political stability and the post COVID-19 recovery. Additionally, if we consider the period from the start of 2023 to the November 2024 election of US President Trump, the outperformance was about 55%.

M-REITs well positioned for yield compression

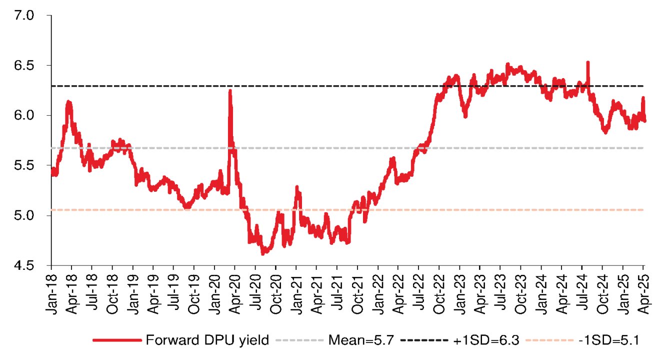
Since its inception in 2018, the bulk of the returns from M-REITs has come in the form of DPU with the index remaining relatively range-bound , apart from the sharp decline of March 2020 following the first MCO due to the COVID-19 pandemic. During this time, DPU yields for the index and earnings rose sharply while unit prices were not able to keep pace with the increase. Going forward, we see two key factors pushing the M-REIT index higher: (1) yield compression; and (2) earnings accretion.

M-REIT DPU yield is currently about +1SD above average

As shown in *Fig. 9* , DPU yield for the M-REIT index has been steadily rising since 2022 due to a strong recovery in earnings and DPU as the retail, office and hotel segments benefited from a recovery post COVID-19. Currently, with DPU yield about +1SD above average levels, and with the spread to the 10Y at about 1.3SD above average levels, we believe that the KLCI is well positioned for yield compression.

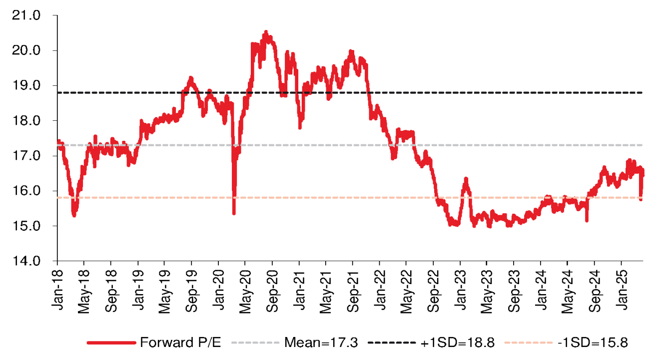
Apart from the COVID-19 period, the last significant phase of yield compression was seen in 2019 when M-REIT yields declined to about 5% of 1SD below average levels and the yield spread over the 10Y declined to slightly below average levels. During this time, P/B had also increased to 1.40x as compared to the current 1.15x. Should yields compress back to (1) 1SD below average levels; or (2) slightly below average yield spread over the 10Y, we would see a (1) 20%; or (2) 15% increase in the M-REIT index from current levels. If P/B goes back to about 1.4x, we would see a 22% increase in the M-REIT index from current levels.

Fig. 9: M-REIT – DPU yield is close to +1SD above average



Source: Bloomberg Finance LP., Nomura research

Fig. 10: M-REIT – P/E ratio is 1SD below average levels now



Source: Bloomberg Finance LP., Nomura research

M-REIT P/E ratio is about 1SD below average levels

As shown in *Fig. 10* , the forward P/E ratio for the M-REIT index has been steadily declining since 2022 and is now at about 1SD below average levels. This has come largely on the back of stronger earnings due to the post-COVID recovery and economic stability along with a return of tourists. On the other hand, the M-REIT index has not kept up with the stronger earnings and DPU during this period. With retail spending expected to continue to rise in the near term, M-REIT earnings excluding extraordinary items are expected to rise 5% y-y, according to consensus estimates. In such a scenario, if the P/E ratio returns to the +1SD level as seen in September 2019, the M-REIT index would rise about 18% from current levels, with total returns of about 24%.

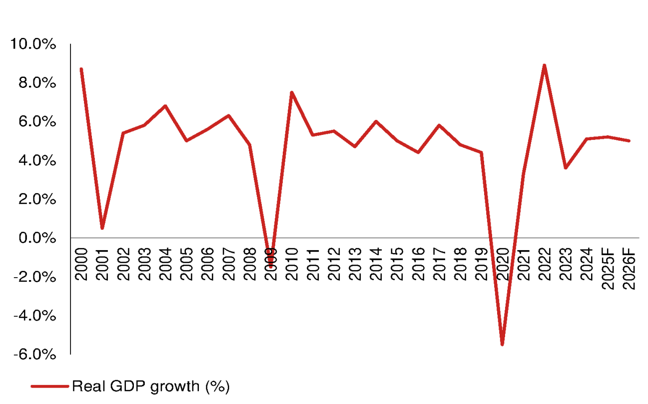
Strong economic fundamentals in place

Malaysia's GDP growth to remain stable at 5.2% in 2025F

Following the rising global trade tensions and US reciprocal tariffs, Nomura's Economics team lowered its forecast for Malaysia's 2025 GDP growth to 5.2%. This is still close to the top end of the official financial forecast of 4.5-5.5% and 0.1pp y-y higher than the 5.1% growth seen in 2024 and is expected to be driven by robust domestic demand. We expect strong public and private investment growth to continue to drive economic outperformance, taking into account rising structural improvements, including *supply-chain reorientation* benefits and ongoing public infrastructure projects. The *Johor-Singapore Special Economic Zone* further supports our view of a sustained investment upcycle and rising *potential growth*.

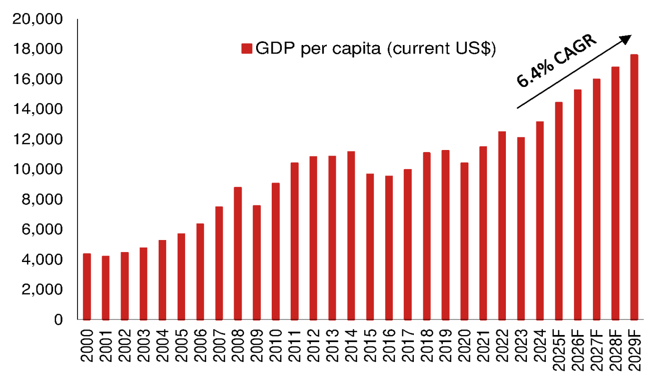
The current GDP per capita of Malaysians amounts to ~USD12,000, according to the latest 2023 data by the IMF, which is projected to increase at a 6.4% CAGR to ~USD17,600 by 2029F (*Fig. 12*). The World Bank defines a high-income economy by a country's Gross National Income (GNI) per capita threshold of USD14,005 as of 2023 (using the Atlas method). Malaysia is expected to achieve high-income nation status between 2025-2028F, according to the World Bank, up from USD11,710 recorded in 2023 (*Fig. 13*).

Fig. 11: Real GDP growth likely to rise from 5.1% in 2024 to 5.2% in 2025F



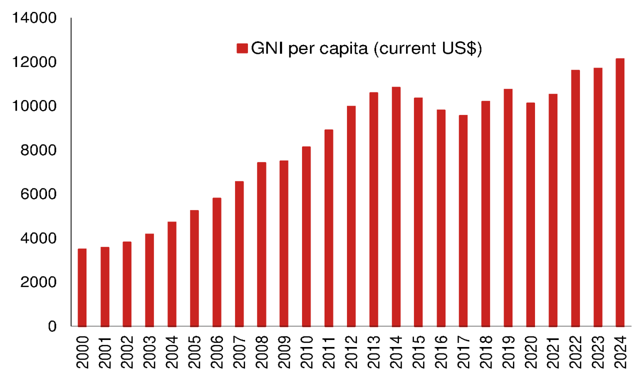
Note: Actuals until 2024, Nomura forecasts for 2025-2026F
Source: IMF, Nomura Global Economics Team, Nomura estimates

Fig. 12: Growing GDP per capita (current USD)



Source: IMF, Nomura research

Fig. 13: GNI per capita (current USD)



Source: World Bank, Nomura research

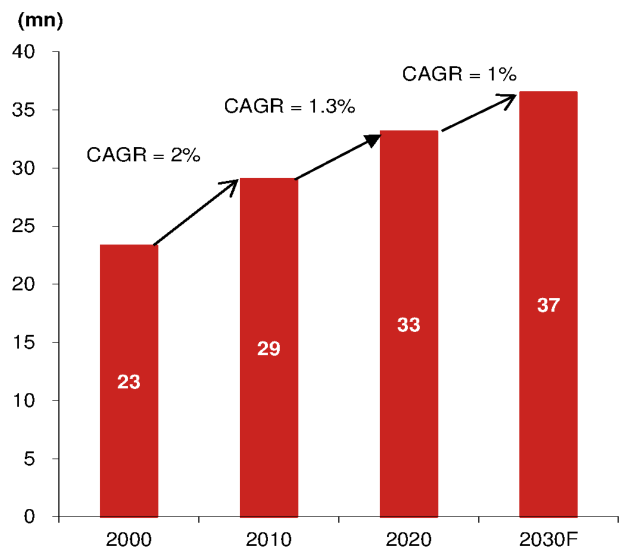
We believe this reflects rising affluence, stronger consumer sentiment, and increased spending power, all of which create a positive cycle for the real estate and REIT sectors. Higher disposable income should fuel greater demand for retail, dining, and entertainment, benefiting retail REITs, while improving affordability supports residential and mixed-use REITs as more individuals seek quality housing. Businesses also tend to expand in line with economic growth, which could drive demand for commercial REITs through higher office space occupancy. Additionally, rising income levels generally boost travel and tourism, benefiting hospitality REITs. As economic prosperity rises, we expect overall real estate demand to also rise, making Malaysia's REIT market well-positioned for sustained growth.

Malaysia's demographic growth and rising urbanization

Malaysia's population growth remains one of the strongest in the ASEAN region with a 1.2% CAGR over the past decade. Even while projecting a conservative 1% 10-year CAGR, Malaysia's population will expand by 3.5mn by 2030 (*Fig. 14*), equivalent to adding the entire population of its capital city Kuala Lumpur every five years.

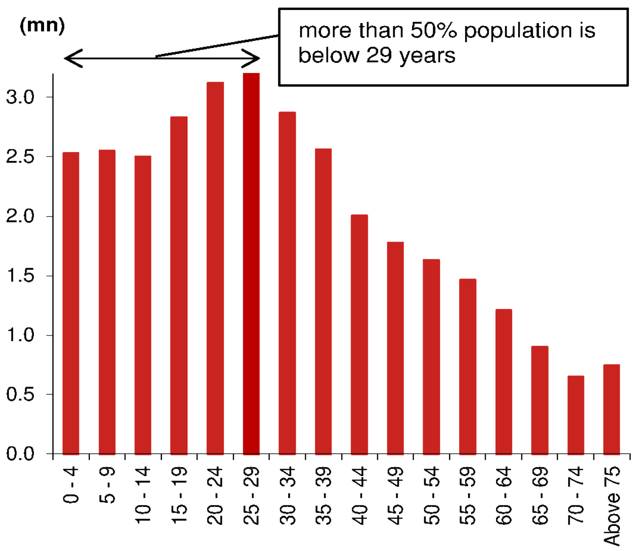
The country's median age of 29 (as shown in *Fig. 15*) indicates that approximately 50% of the population will enter their prime, high-income age in the coming years, suggesting robust occupancy demand across REIT asset classes. A younger population suggests a growing workforce leading to higher urban migration (79% urban population as of 2023 in *Fig. 16*) for job opportunities, driving demand for commercial properties including office spaces and retail malls, benefiting commercial REITs. Rising disposable income among younger consumers benefits retail REITs as shopping malls and entertainment hubs see stronger foot traffic.

Fig. 14: Malaysia population



Source: CEIC, Nomura research

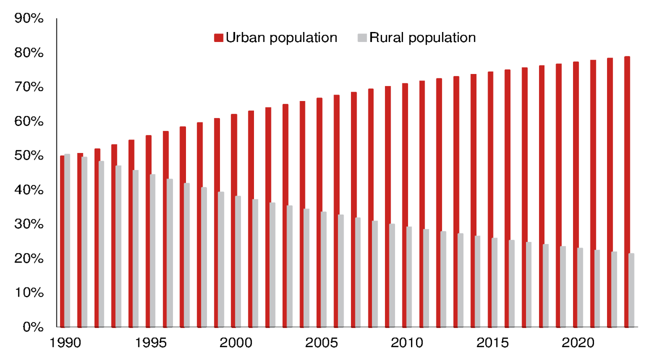
Fig. 15: Malaysia's population by age group, 2020 (last census)



Source: CEIC, Nomura research

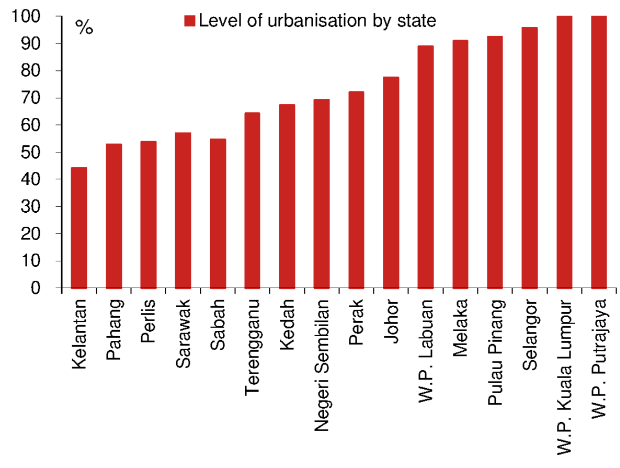
Fig. 16: Malaysia has an increasing urban population

(%)



Source: World Bank, Nomura research

Fig. 17: Malaysia: Level of urbanization by state, 2020



Source: Department of Statistics Malaysia

Additionally, a tech-savvy demographic accelerates e-commerce adoption, driving demand for warehouses and fulfillment centers, supporting industrial-focused REITs. Even over the long term, as the population ages, demand for hospitals, nursing homes, and medical centers will rise, making healthcare REITs even more relevant. Malaysia's demographic trends thus position REITs across multiple sectors for sustained growth.

Unemployment rate trending downwards, business confidence index on the rise

According to data from the Department of Statistics Malaysia (DOSM), the unemployment rate had peaked at over 5% in May 2020 due to the COVID-19 pandemic, but has steadily declined since amid a recovery. As of end 2024, it reached 3.2%, which is close to full employment. Going forward, we expect the unemployment rate to continue to steadily decline to about 3.1% in 2026F.

Despite headline inflation moderating to 1.5% y-y in February from 1.7% y-y in January, reflecting base effects from the water tariff hike last year, our Global Economics team currently expects CPI inflation to rise from 1.8% in 2024 to 2.4% in 2025E, as shown in *Fig. 20* . This is backed by their view of strong domestic demand and labour market conditions (minimum wages were hiked by 13.3% on 1 February), as well as the implementation of the Ron95 petrol subsidy rationalization, which is expected in June 2025. Inflation is expected to remain benign in 1H25F before steadily increasing in 2H25F, to then hit 2.5% by 2026E.

Given the decline in unemployment rates and benign CPI, Malaysia's business confidence index rose an impressive 18.7 points q-q to 104.9 in 3Q24, above its average level of 99.7 during 2005-23, as shown in. Additionally, as per the World Bank's 2019 Ease of Doing Business Index in *Fig. 22* , Malaysia ranks 12th – suggesting that Malaysia, as a business-friendly country, could see increasing investment from foreign companies, implying more demand for office spaces.

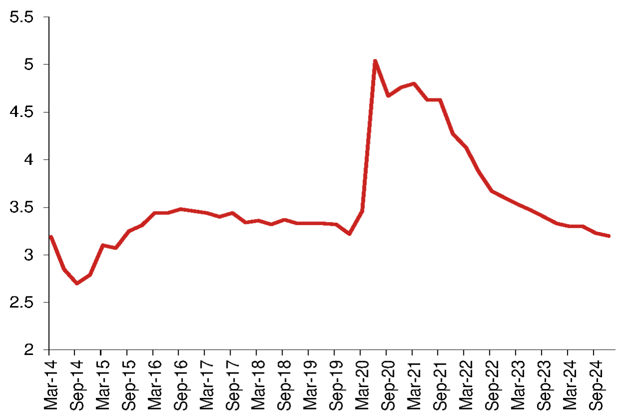
Fig. 18: Malaysia – Nomura economic forecasts

(last updated on 11 April 2025)

% y-o-y growth unless otherwise stated	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2023	2024	2025	2026
Real GDP (sa, % q-o-q)	**1.5**	**2.9**	**1.9**	**-1.1**	2.3	1.8	0.8	0.9	1.3	1.4				
Real GDP	**4.2**	**5.9**	**5.4**	**5.0**	6.0	4.9	3.8	5.9	4.9	4.5	**3.6**	**5.1**	5.2	5.0
Private consumption	**4.7**	**6.0**	**4.8**	**4.9**	5.2	4.7	5.4	5.4	4.7	4.9	**4.7**	**5.1**	5.2	5.0
Government consumption	**7.3**	**3.6**	**4.9**	**3.3**	3.8	5.0	4.6	5.0	4.5	4.6	**3.3**	**4.7**	4.6	4.5
Gross fixed capital formation	**9.6**	**11.5**	**15.3**	**11.7**	12.9	12.5	10.6	14.7	12.9	11.4	**5.5**	**12.0**	12.7	11.5
Exports (goods & services)	**5.2**	**8.4**	**11.8**	**8.5**	8.2	7.9	3.1	4.8	3.6	3.8	**-8.1**	**8.5**	5.9	5.4
Imports (goods & services)	**8.0**	**8.7**	**13.5**	**5.7**	7.2	7.6	7.3	9.9	7.4	7.1	**-7.4**	**8.9**	8.0	7.3
Contributions to GDP (% points)														
Domestic final sales	**5.7**	**6.5**	**6.6**	**5.7**	6.4	6.2	6.1	7.0	6.3	6.2	**4.3**	**6.1**	6.4	6.3
Inventories	**-0.1**	**-0.7**	**-0.8**	**-2.7**	-1.3	-1.8	0.3	1.9	0.8	0.3	**0.1**	**-1.1**	-0.2	-0.3
Net trade (goods & services)	**-1.4**	**0.1**	**-0.4**	**2.0**	1.0	0.4	-2.6	-2.9	-2.3	-2.1	**-0.9**	**0.1**	-1.1	-1.0
Unemployment rate (% sa)	**3.3**	**3.3**	**3.2**	**3.2**	3.2	3.2	3.2	3.2	3.2	3.2	**3.4**	**3.2**	3.2	3.1
Consumer prices	**1.7**	**1.9**	**1.9**	**1.8**	1.6	1.9	2.7	3.3	3.4	2.8	**2.5**	**1.8**	2.4	2.5
Exports (BOP basis)	**-3.7**	**4.4**	**15.0**	**14.1**	16.9	17.2	5.4	7.0	6.2	7.1	**-17.7**	**7.4**	11.3	9.0
Imports (BOP basis)	**1.4**	**7.5**	**21.4**	**12.1**	15.2	15.4	6.5	12.1	10.4	10.1	**-15.6**	**10.6**	12.1	9.6
Trade balance (US$bn, BOP basis)	**6.8**	**5.2**	**5.2**	**8.5**	8.8	7.0	4.8	6.1	6.8	5.7	**29.9**	**25.7**	26.8	27.8
Current account balance (US$bn)	**3.4**	**0.6**	**0.5**	**2.6**	3.5	2.2	0.2	1.8	3.8	1.6	**6.3**	**7.2**	7.7	10.2
Current account balance (% of GDP)	**1.8**	**1.5**	**1.2**	**1.7**	1.6	2.0	1.9	1.7	1.7	1.5	**1.5**	**1.7**	1.7	2.0
Fiscal Balance (% of GDP)											**-5.0**	**-4.1**	-3.8	-3.4
Overnight policy rate (%)	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**	3.00	3.00	3.00	3.00	3.00	**3.00**	**3.00**	3.00	3.00
Exchange rate (USD/MYR)	**4.73**	**4.72**	**4.11**	**4.47**	**4.43**	4.40	4.39	4.38	4.37	4.36	**4.59**	**4.47**	4.38	4.34

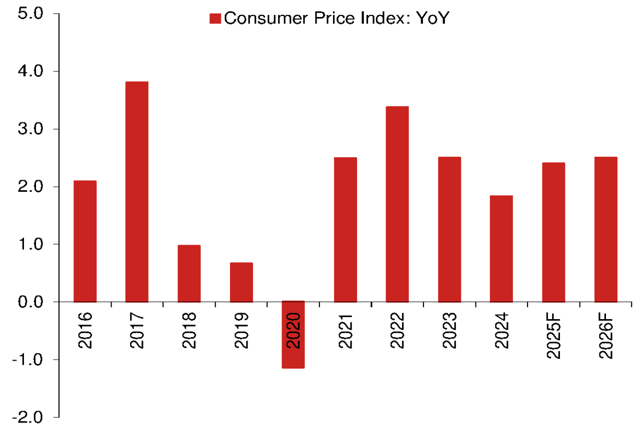
Source: CEIC, Nomura Global Economics, Nomura estimates

Fig. 19: Malaysia: Unemployment rate



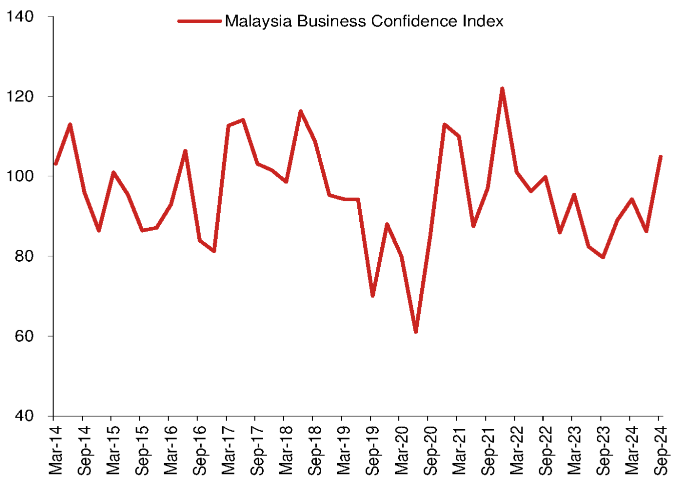
Source: Malaysia Department of Statistics, Nomura research

Fig. 20: Malaysia: CPI



Source: CEIC, Nomura Global Economics, Nomura estimates

Fig. 21: Malaysia: Business Confidence Index



Source: MIER, Nomura research

Fig. 22: Ease of Doing Business Index – 2019

Economy	Ease of Doing Business Rank
New Zealand	1
Singapore	2
Hong Kong SAR, China	3
Denmark	4
Korea, Rep.	5
United States	6
Georgia	7
United Kingdom	8
Norway	9
Sweden	10
Malaysia	12
Australia	14
UAE	16
Thailand	21
China	32
Indonesia	73

Source: World Bank, Nomura research

Tourist arrivals to accelerate growth

Accelerated tourism recovery in 2024, ambitious targets set for 2025-26F

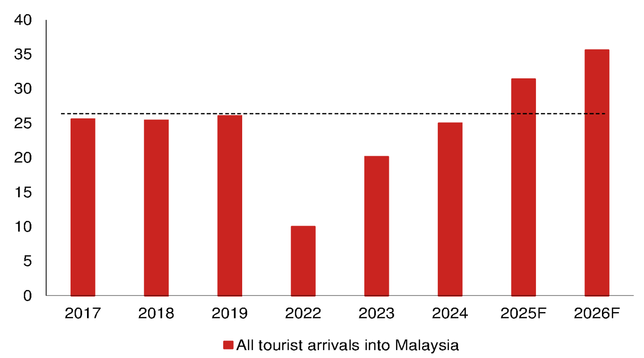
Malaysia's tourism sector demonstrated remarkable resilience and growth in 2024, with visitor numbers reaching an impressive 38mn for the full year, up 31% y-y and surpassing the pre-pandemic benchmark of 35mn set in 2019. The country welcomed 25mn tourists during 2024, increasing by 24% y-y and achieving ~96% of its pre-pandemic levels (*Fig. 23*), signaling a robust recovery in the tourism sector. Singapore continues to be Malaysia's strongest source market, contributing 9mn tourists or 36% in total, followed by Indonesia at 15% and China at 13% contribution each. Thailand and Brunei round out the top five source markets with 7% and 5% contributions respectively.

The tourism landscape has also witnessed a significant rise in excursionist (same-day visitors) arrivals, particularly from neighboring countries. Singapore leads this category with ~10mn excursionists due to its proximity to the Johor border, while Thailand and Brunei contribute substantially with 0.63mn and 0.59mn excursionists respectively. This trend has prompted strategic initiatives to convert these day-trippers into longer-staying tourists through targeted promotions and events.

Looking ahead, Malaysia has set ambitious yet achievable targets for 2025 and 2026, aligning with their "Visit Malaysia 2026" (VM 2026) initiative. The country aims to attract 31.4mn tourists with projected receipts of MYR125.5bn in 2025, scaling up to 35.6mn tourists and MYR147.1bn in receipts by 2026. Strategic initiatives including extending visa-free access for visitors from major countries such as China and India, enhanced international air connectivity coupled with the nation's emerging status as a premier destination for MICE (Meetings, Incentives, Conferences and Exhibitions) should enable further growth in inbound toursim.

Fig. 23: Malaysia tourist arrivals in 2024 at 96% of pre-pandemic levels

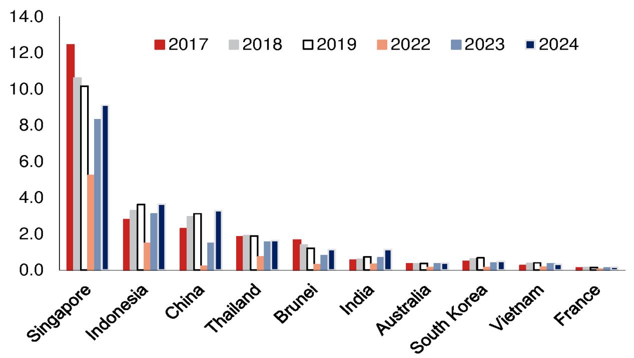
(mn persons)



Source: Tourism Malaysia, Nomura research
Note: 2020 and 2021 data excluded due to the Covid-19 pandemic impact

Fig. 24: Malaysia tourist arrivals by top countries of origin

(mn persons)



Source: Tourism Malaysia, Nomura research
Note: 2020 and 2021 data excluded due to the Covid-19 pandemic impact

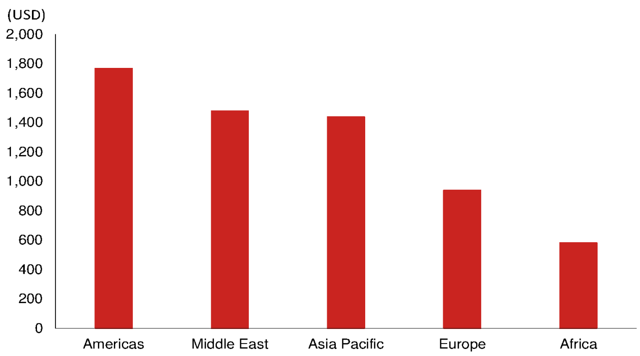
Malaysia's receipts per arrival among the lowest across Asia Pacific

Malaysia's tourism sector finds itself at an inflection point – within Asia Pacific, Malaysia ranks third in terms of share of inbound tourist arrivals of the region, standing at 8%, only behind China's ~40% and Thailand's ~11%. Despite its status as a top travel destination in Southeast Asia, the country continues to underperform in terms of tourist receipts per arrival, a critical metric that reflects the economic value derived from each visitor. According to UNWTO, Malaysia's receipts per tourist arrival in 2024 stands at just USD863—one of the lowest in the Asia Pacific region, despite the region itself receiving a significant chunk of global tourism flows. As highlighted in *Fig. 26* , Malaysia's average receipts per arrival pale in comparison to regional peers. Australia leads the region with tourist receipts nearing USD6,000 per arrival, while even smaller or less geographically advantaged markets like the Philippines, Japan, and Thailand register significantly higher receipts.

There seem to be several structural factors at play – Malaysia primarily attracts budget-conscious travelers from neighboring ASEAN nations, who often enter through land borders for brief stays, naturally limiting their total spending. This is compounded by

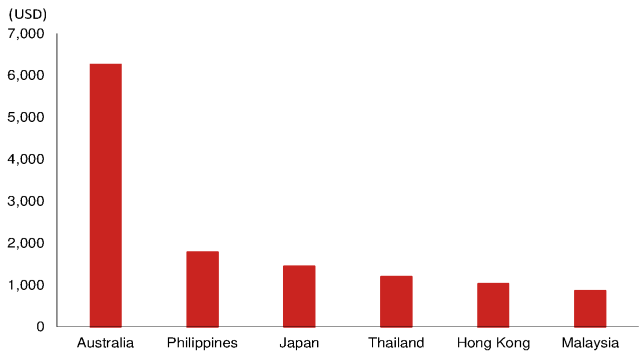
Malaysia's more affordable attractions and high-end offerings that could attract more affluent visitors. While destinations like Japan and Australia have successfully positioned themselves in premium tourism segments, Malaysia has yet to fully develop and properly market its full potential in lucrative areas such as medical tourism, international events, and integrated resorts. The country's diverse attractions, while numerous, lack the sophisticated ancillary services and premium experiences that drive higher per-visitor spending. This combination of short stays, budget-focused visitors, and underdeveloped premium tourism infrastructure creates a persistent gap between Malaysia's impressive visitor numbers and its relatively modest tourism receipts.

Fig. 25: Asia Pacific receipts per arrival second only to Americas



Source: UNWTO, Nomura research

Fig. 26: ...but Malaysia's receipts per arrival among the lowest across the region



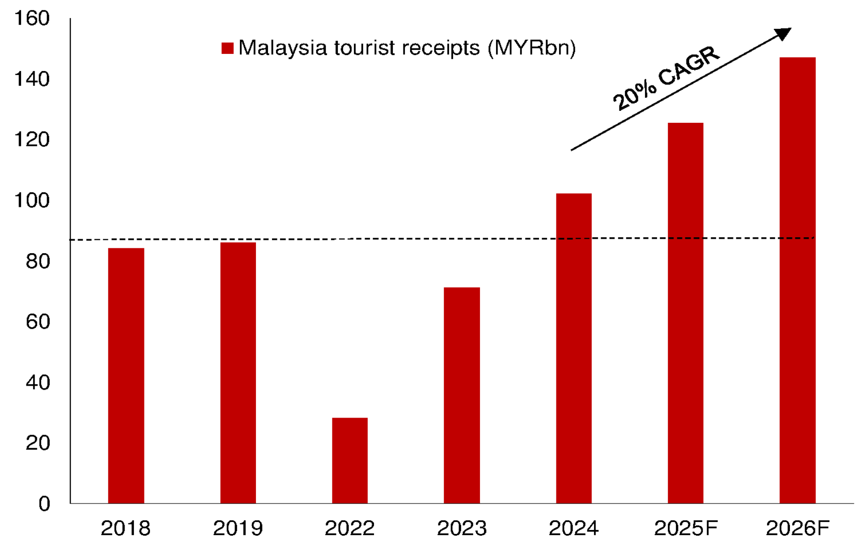
Source: UNWTO, Nomura research

Despite this low base, *Fig. 27* highlights that Malaysia's tourist receipts are projected to register a 20% CAGR across FY24-26F, growing from below MYR100bn in 2023 to MYR147.1bn by FY26F, given the Visit Malaysia 2026 initiative. This growth trajectory is supported by a confluence of tailwinds, from policy shifts targeting higher-spending tourists, visa relaxations for key markets like China and India, and renewed investments in premium tourism offerings, as detailed further below:

- A key strategic shift involves the reassessment of previously strong markets that have shown declining trends recently. Countries like Vietnam, South Korea, and the GCC markets, which have experienced unfavorable performance, are being re-evaluated to develop new approaches for recovery and growth.
- Malaysia is also expanding its focus to promising Central Asian markets, leveraging existing direct flight connections with Kazakhstan, Uzbekistan, and Turkmenistan.
- The European market expansion is gaining momentum with the introduction of four weekly flights between Kuala Lumpur and Paris starting March 2025, thus opening new opportunities in Western Europe.
- A key component of the strategy involves maximizing arrivals via land and sea, particularly from neighboring countries. This includes joint promotions with operators and leveraging Singapore's air connectivity as a gateway to Malaysia through Johor borders.
- An innovative approach to converting Singaporean excursionists into longer-staying tourists now includes a variety of targeted initiatives such as concert promotions through the GSSP program, Midnight Sales events, and the YES program. One such creative initiative includes specialized hotel packages offering 10 PM to 10 AM weekday stays, designed to cater to the workday patterns of Singaporean visitors.
- Air connectivity enhancement includes intensifying GSPC (Government Support Program for Connectivity) efforts with airlines to enhance capacity and route development. Special attention is being paid to managing seasonal fluctuations, with targeted promotions during lean periods focusing on four key markets: Indonesia, China, India, and Australia. These markets have been identified as having the potential to maintain steady tourist flows during traditionally slower periods.

In essence, by aiming to address both immediate challenges and long-term opportunities – Malaysia's tourism landscape is trying to evolve from one of low returns and high volumes, to a more sustainable, premium high-yield growth model.

Fig. 27: Malaysia tourist receipts to register a 20% CAGR through FY24-26F



Source: Tourism Malaysia, Nomura research

Furthermore, Malaysia's ascension to the 2025 ASEAN Chairmanship could serve as a modest but meaningful catalyst for tourism, which may in turn benefit the retail and hospitality segments of REITs. The country is expected to host high-profile ASEAN meetings and summits, attracting diplomats, business leaders, and media—boosting demand for hotels, retail, and F&B services, especially in key urban centres like Kuala Lumpur. This increased activity could support hospitality REITs through higher hotel occupancy and room rates, while retail REITs may benefit from greater footfall and tenant sales, particularly in malls located in tourist-heavy areas.

Malaysia's rise as a duty-free shopping haven

As Malaysia charts a recovery in its tourism sector, it has been steadily carving out a niche as Southeast Asia's premier duty-free shopping destination. With a blend of competitive pricing, expansive retail experiences, and strategic government support, shopping has emerged not just as a leisure activity but a central pillar of Malaysia's tourism value proposition.

Malaysia's appeal as a shopping haven is rooted in its proactive policy landscape and geographic advantage. The government's move to waive import duties on ~300 goods since 2011—including leather apparel, jewellery, electronic gadgets, and cosmetics—has positioned Malaysia as a more affordable alternative to high-duty markets like China, Thailand, and India. This has been further enhanced by the recent designation of Forest City as a duty-free island, a strategic development under Budget 2025 to boost tourism and regional retail spending.

The proximity of cities like Johor Bahru to Singapore also allows Malaysia to act as a "shopping corridor," offering high-value shopping experiences to Singaporean and international tourists at more attractive prices. These policy shifts have been instrumental in turning Malaysia into what Hong Kong is to China—a destination where luxury goods come with fewer taxes and greater savings. While the government had planned to impose a high-value goods tax (HGVT), we note that it is currently on hold as the government needs to prioritize several newly implemented fiscal reforms, according to the Prime Minister Anwar Ibrahim.

Retail campaigns driving tourism recovery

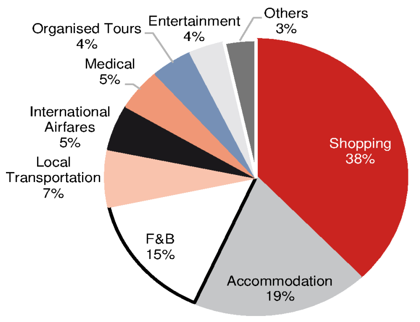
The Malaysia Year-End Sale 2024 (MYES), held between November and January, served as a centerpiece of Malaysia's retail tourism strategy. Backed by Mastercard and over 60 industry players—including malls, airlines, and hospitality brands—the campaign offered discounts of up to 90%, along with high-profile giveaways such as a GWM HAVAL H6 HEV and Toyota Vellfire. This created a compelling call to action for tourists, with retail spending firmly embedded in their travel experience.

In tandem, the Malaysia Midnight Sale 2024, centered in Johor Bahru, extended shopping hours and introduced late-night promotions aimed at cross-border consumers and local night owls alike. These events not only elevated footfall in major shopping hubs but also reinforced Malaysia's image as a vibrant, tourist-friendly shopping hub.

The impact of these retail campaigns is clearly reflected in the numbers. Shopping accounted for 36.8% of total tourism receipts (MYR73.2bn) in 2024, underscoring its dominance in Malaysia's travel economy. Kuala Lumpur led in retail-related tourism receipts with MYR4.85bn, followed by Selangor (MYR4.14bn) and Sarawak (MYR2.66bn), indicating strong nationwide traction and spillover effects across regions.

Fig. 28: Tourist expenditure breakdown

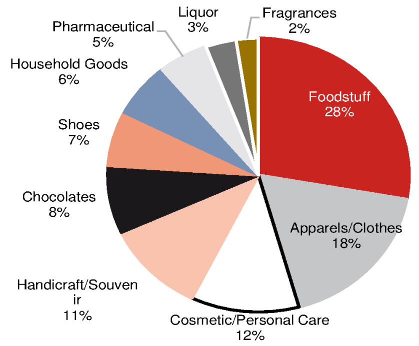
(updated as of 2023)



Source: Ministry of Tourism, Nomura research

Fig. 29: Top shopping items purchased

(updated as of 2023)



Source: Ministry of Tourism, Nomura research

As Malaysia looks ahead to Visit Malaysia Year 2026, shopping is poised to play an even larger role. With the theme "Malaysia: A Sustainable and Culturally Rich Destination," the campaign aims to pair Malaysia's rich cultural offerings with its value-driven shopping experiences. Continued expansion of duty-free zones, deeper collaboration with retailers, and curated tourism packages combining culture, wellness, and shopping will be central to this push.

Retail – rental levels to rise for premium malls

Retail sales in Malaysia grew about 6% y-y as shown in *Fig. 30* and this was one of the key drivers of GDP growth in 2024. We expect retail sales to continue to grow in 2025 with Retail Group Malaysia forecasting a 4% y-y increase in retail spending and Nomura's Economic Team also expects private consumption to rise about 5.2% y-y in 2025 and about 5.0% y-y in 2026. Growth in retail spending is also expected to be bolstered by the minimum wage hike starting in February 2025, the civil servants pay hike in Dec 2024 and with another tranche to come in Jan 2026 and higher inbound tourist numbers. Tourism Malaysia is also organising three national sales campaigns – (1) Malaysia Super Sale from 1 March to 31 March, (2) Malaysia Mega Sale from 15 June to 31 July and (3) Year-end sale from 15 November to 31 December. We see malls and shopping complexes being the major beneficiaries of this increased spending, and we see premium malls benefiting the most as they cater to a clientele that would be more resilient to adverse macroeconomic impacts.

Fig. 30: Malaysia retail sales and growth rate

Source: Department of Statistic Malaysia, Nomura research

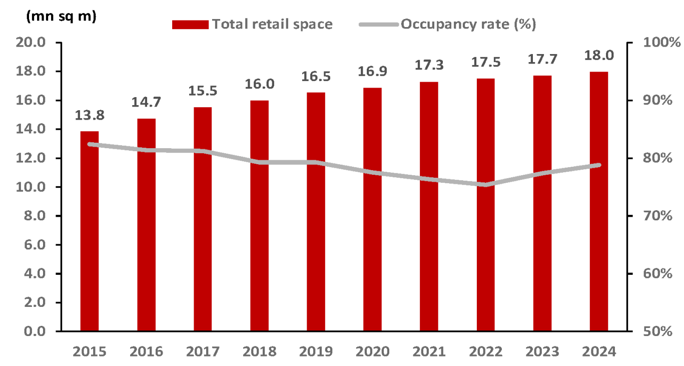
Occupancy levels have been rising especially in KL since 2021

WP Kuala Lumpur accounts for only about 20% of the total retail space with Selangor accounting for about 20%

During 2015-2019, occupancy levels for shopping complexes in Malaysia were steadily declining largely due to continued increase in retail space, which rose nearly 20% during this period. The COVID-19 pandemic and the resulting MCOs led to a sharp drop in the occupancy rate, which declined from about 80% in 2019 to about 75% in 2022 despite only a minor addition in retail space. Over the last two years, however, we have seen occupancy rates rise sharply, reaching about 79% due to a return of domestic shoppers and international tourists, as shown in *Fig. 31* . Most of the states in the country have an occupancy rate ranging from 60% to 80% with only Selangor (80.6%), WP KL (86.8%), Sarawak (80.6%), Perak (88.4%), WP Putrajaya (83.2%), Perlis (87.5%) and WP Labuan (99.3%) having an occupancy rate of above 80%.

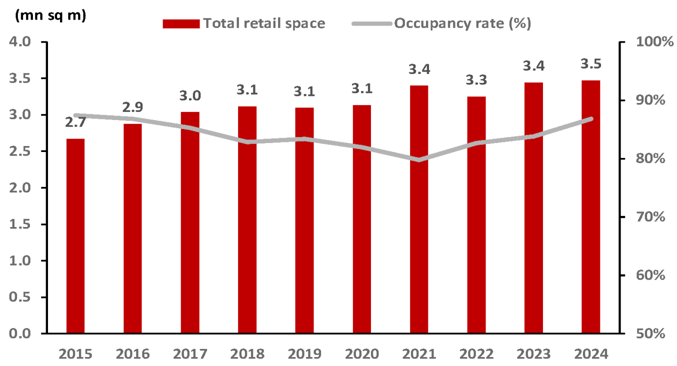
The WP Kuala Lumpur market accounts for about 20% of the total Malaysia retail market with the adjoining Selangor and WP Putrajaya accounting for a further 23%. This market also saw continued decline in occupancy levels during 2015-2019 due to increase in total retail space and this was exacerbated by the COVID-19 pandemic with occupancy declining to below 80% in 2021. However, there has been a strong correction since then with current occupancy levels in 2024 surpassing pre-pandemic levels and reaching close to the levels seen in 2015, as shown in *Fig. 32* .

Fig. 31: Malaysia – retail occupancy rates have risen over the last 2 years



Source: NAPIC, Nomura research

Fig. 32: KL – Retail occupancy rate has risen to over 85%



Source: NAPIC, Nomura research

KL to continue to add capacity, but we see it being filled up

According to NAPIC, there were ten new shopping complexes completed in 2024, adding about 270,000 sq m (~2.7mn sq ft) as shown in *Fig. 33*. The incoming supply includes about 888,000 sq m from 32 complexes with the planned supply adding over 352,000 sq m across 10 buildings. According to the CBRE, Klang Valley saw a 60,000 sq m increase in supply and is expected to see a further increase of about 160,000 sq m in 2025. We think that this new retail capacity should be easily filled given the expected increase in retail spending and higher tourist numbers. We think Premium malls including Suria KLCC, Pavilion KL, TRX mall and Mid Valley mall will remain the focus for major retailers as they offer a strong catchment area to sustain shopper traffic and profitability.

Fig. 33: Malaysia – Key shopping complex completions in 2024

State	Name	Location	Nett Lettable Area (sq m)
WP Kuala Lumpur	Bloomsvale Mall	Jalan Puchong	27,871
Perak	Econsave Tasek	Jalan Kuala Kangsar, Ipoh	5,310
Teregganu	Pasar Payang Baru	Jalan Bandar, Kuala Terengganu	5,724
Teregganu	Mayang Mall	Off Jalan Sultan Zainul Abidin, Kuala Terengganu	65,868
Kelantan	G-Orange Mall	Bandar Gua Musang	16,603
Selangor	Elmina Lakeside Mall	Urban Park, Elmina	18,175
Selangor	168 retail Park	Persiaran 3, Bandar Baru Selayang	51,000
Pulau Pinang	Sunshine Tower Mall	Jalan Thean Teik, Georgetown	76,772
Negeri Sembilan	Bizbox Nilai	Putra Nilai	328
Perlis	Padang Besar Street	Jalan Kangar - Padang Besar	3,838
Total			**271,489**

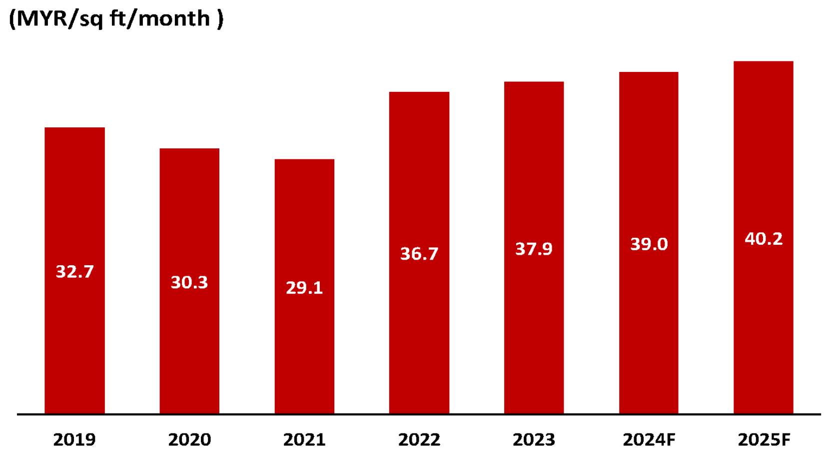
Source: NAPIC, Nomura research

We expect rental rates in CKL to rise

According to NAPIC, rental rates for retail space were generally stable in 2024 with upward movements seen in some complexes, particularly in Klang Valley. In WP KL, a number of shopping complexes including Intermark and Kompleks Wilayah saw a rental increase of more than 15%. Premium malls including Suria KLCC and Pavilion Kuala Lumpur continued to see the highest rental range in the country exceeding monthly rental rates of MYR2,100 per sq m (~MYR210 per sq ft).

For the prime Central KL – Golden Triangle region, average rentals for REIT have risen sharply from their bottom in 2021 to over pre-pandemic levels currently, as shown in *Fig. 34*, backed by strong tenancy renewals and higher spending. We currently expect malls in this region to continue to outperform the broader retail market and see rental rates rising about 3% annually in 2025F, equivalent to a 3-year rental growth of about 10%.

Fig. 34: Average prime REIT rental in central KL – Golden Triangle



Source: CBRE, Nomura estimates

Retail transactions likely to continue in 2025F

In 2024, NAPIC highlighted about 17 major retail-related transactions totaling about MYR2.3bn, as shown in *Fig. 35* . This was up from 19 transactions worth MYR723mn in 2023 and five transactions worth MYR272mn. Most of these were in the key markets of WP Kuala Lumpur and Selangor. With the Malaysian economy expected to remain stable, retail spending expected to rise and with tourist numbers expected to grow sharply in 2025, we expect retail transactions to remain resilient in 2025 with new investments from REITs. Among the key transactions expected to be completed in 2025 are the acquisitions of the AEON Mall Seri Manjung by Sunway REIT for MYR138mn and the KIPMall Desa Coalfields in Kuala Selangor.

Fig. 35: Major shopping complex transactions in 2024

Property	Location	State	Amount (MYR)
Kelana Jaya Urban	Kelana Jaya Urban Centre, Petaling Jaya	Selangor	155,000,000
GIANT Kinrara	Jalan BK 5A/1, Perumahan Kinrara	Selangor	130,000,000
GIANT USJ	Persiaran Subang Permai, SS 13, Subang Jaya	Selangor	80,000,000
Brem Mall	Jalan Jambu Mawar, Jalan Kepong	WP Kuala Lumpur	70,000,000
Perda City Mall	Jalan Perda Timur, Bandar Perda	Pulau Pinang	160,000,000
Temerloh Mall	Jalan Jaya, Off Jalan Tok Muda Awang	Pahang	25,750,000
Plaza Anggerik	Bukit Anggerik	WP Kuala Lumpur	19,000,000
Senibong Cove Mall	Bandar Baru Permas Jaya	Johor	47,180,000
ECONSAVE Bercham	Jalan Bercham	Perak	7,089,900
GIANT Hypermarket	Madan Bercham Bistari	Perak	25,000,000
Kluang Mall	Bandar Kluang	Johor	158,000,000
Sunway 163 Mall	Jalan Kiara, Mont Kiara	WP Kuala Lumpur	215,000,000
TF Value Mart	D'Gerik Commercial Square	Perak	14,800,000
Tropicana Garden Mall	Persiaran Surian, Tropicana Gardens	Selangor	680,000,000
Plaza Alam Sentral	Seksyen 14, Bandar Shah Alam	Selangor	150,000,000
NSK Trade City	Klang Sentral	Selangor	53,550,000
D'Pulze	Persiaran Multimedia, Cyberjaya	Selangor	320,000,000
Total			**2,310,369,900**

Source: NAPIC, Nomura research

Office market – weak rental environment

Grade A buildings seeing strong demand but rising vacancies in older buildings

The Asia-Pacific office market continued to face headwinds with prime office rents declining by about 1.6% y-y in 2024, a slight improvement from the 2.4% y-y decline seen in 2023, according to the Knight Frank Asia-Pacific Q4 2024 report. The Malaysia office market though remained competitive with key Grade A buildings in prime locations seeing strong demand. This trend benefited office spaces with superior amenities and sustainability features, according to the report and helped stabilize occupancy levels despite a weak rental environment.

Fig. 36: Southeast Asia office market outlook

City	4Q24		Forecast for the next 12 months
	Annual change (y-y%)	Quarterly change (q-q %)	
Phnom Penh	0.0%	0.0%	→
Jakarta	-0.9%	1.3%	→
Kuala Lumpur	2.1%	0.7%	→
Singapore	2.1%	0.1%	→
Bangkok	6.6%	1.5%	↑
Manila	-1.1%	0.6%	→
Ho Chi Minh City	4.7%	0.0%	↑

Source: Knight Frank, Nomura research

Challenges remain for the broader market but owners are learning to adapt

With the increasing supply of new Grade A buildings attracting larger companies and multi-national corporations, we have seen vacancies in older buildings rising. With many companies prioritising sustainability, wellness features and a hybrid-working environment, many building owners are also adapting to this new environment by upgrading their buildings and enhancing sustainability features. This includes an increasing use of solar power generation, use of motion sensing light switches, water conservation and the use of sustainable materials. To adapt to an increasingly hybrid working environment building owners are working with tenants to create flexible working spaces, build common areas and increase the ease of access of technology. Some owners are also offering new and attractive lease models and packages to attract new tenants and retain existing ones.

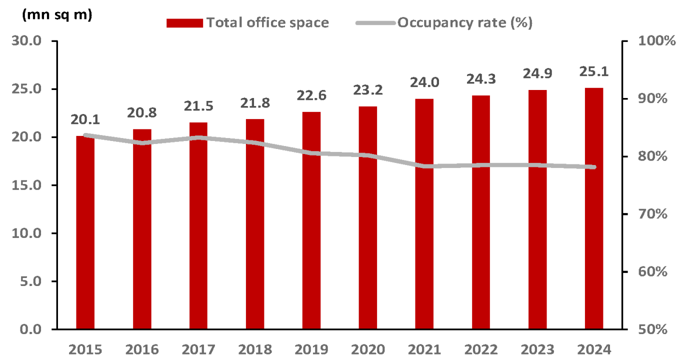
Stable occupancy in Malaysia but declining in WP KL

WP Kuala Lumpur accounts for about 40% of the market and has seen occupancy levels continuing to decline

Pre-COVID occupancy levels for purpose-built-offices in Malaysia remained above 80% despite a 15% increase in total office space during 2015-2020. However, since the COVID pandemic, occupancy levels have declined sharply reaching close to about 78% (*Fig. 37*) even as total office space continued to rise by about 11% over 2019-2024. Most of the states in the country have an occupancy rate of above 83% with only WL Kuala Lumpur (72%), Selangor (73.1%) and Johor (68.7%) falling below this mark. WP Putrajaya benefited from the higher share of government buildings although the occupancy level in private buildings was amongst the lowest at 52.7%.

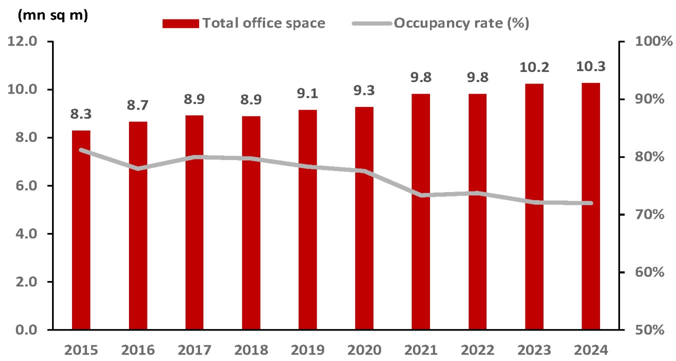
The WP Kuala Lumpur office market accounts for about 40% of the total Malaysia office market. While occupancy levels here were also strong at over 78% pre-COVID, they saw the sharpest decline due to the pandemic, declining about 4.3pp y-y in 2021 as offices remained shut due to the Movement Control Orders (MCO) and many smaller companies moved to a remote working environment. With overall office space rising about 12% between 2019 and 2024, overall occupancy levels have continued to decline to reach about 72% currently, as shown in *Fig. 38* .

Fig. 37: Malaysia – office occupancy rates have stabilized at 78%



Source: NAPIC, Nomura research

Fig. 38: KL – Office occupancy rate has declined to 72%



Source: NAPIC, Nomura research

Overall construction slowing but KL continues to add office space

According to NAPIC, there were eleven new building completions with a total 0.229mn sq m of office space added in 2024, compared to about 0.4mn sq m added in 2023. The incoming supply is about 1.07mn sq m from 38 buildings with the planned supply adding over 0.9mn sq m across 27 buildings. WP Kuala Lumpur contributed the major part of this increase with 0.55mn sq m in incoming supply and 0.76mn in planned supply. Increase in supply going forward, especially in the WP Kuala Lumpur region, could put further pressure on the overall occupancy environment especially for the older buildings.

Fig. 39: Malaysia – Key purpose-built-office completions 2024

Name	Location	State	Category	NLA (sq m)
Menara Felcra @ Semarak 20	Jalan Semarak	WP Kuala Lumpur	Private building	19,788
Menara Bank Rahyat @ Coronation Square	Jalan Trus, Johor Bahru	Johor	Private building	37,160
Bloomsvale Menara Vista	Jalan Puchong	WP Kuala Lumpur	Private building	7,070
Atwater Seksyen 13 (Tower A)	Seksyen 13, Petaling Jaya	Selangor	Private building	14,683
Atwater Seksyen 13 (Tower B)	Seksyen 13, Petaling Jaya	Selangor	Private building	12,654
Menara Lembaga Zakat Selangor	Seksyen 14, Shah Alam	Selangor	Government building	4,772
UMCITY Corporate Tower	Medini, Iskander Puteri	Johor	Private building	10,219
Sunshine Tower	Jalan Thean Teik, Georgetown	Pulau Pinang	Private building	20,215
Pusat Pentadbiran Sultan Haji Ahmad Shah	Bandar Indera Mahkota	Pahang	Government building	36,375
One Shell Square Building	Jalan Marina 1, Kuching	Sarawak	Private building	17,398
Hikmah Exchange	Jalan Haji Taha, Kuchhing	Sarawak	Government building	48,936
Total - 11 buildings				**229,270**

Source: NAPIC, Nomura research

Fig. 40: Malaysia – pipeline of purpose-built-office completion dates

Year	Name	Location	State
	PNB 1194	KL City Centre	WP Kuala Lumpur
	Oxley Tower @ KLCC	KL City Centre	WP Kuala Lumpur
	TNB Gold	Bangsar	WP Kuala Lumpur
	Finas Tower @ PJ Sentral	Petaling Jaya	WP Kuala Lumpur
2025	Pavilion Damansara Height CT10	Bukit Damansara	WP Kuala Lumpur
	Sunway Square Corporate Towers	Sunway City	WP Kuala Lumpur
	Multibay	KL City Centre	WP Kuala Lumpur
	Ideal MSC Tower	Bayan Lepas	Penang
	Office Tower at the Light City	Gelugor	Penang
	The Capitol Twin-Office Towers	Bandar Utama	WP Kuala Lumpur
2026	Plaza Conlay Tower 2	KL City Centre	WP Kuala Lumpur
	Pavilion Square Bukit Bintang	Bukit Bintang	WP Kuala Lumpur
	DUO Tower Bangsar South	Bangsar South	WP Kuala Lumpur
2027	GPS @ Technoplex	Bayan Lepas	Penang
	Capstone Corporate Suites	Batu Kawan	Penang

Source: CBRE, Nomura research

Co-working spaces – to continue to grow in Malaysia

With the COVID-19 pandemic accelerating the shift to remote or hybrid work, we have seen an increase in the demand for co-working spaces especially coming from smaller companies, technology start-ups and other entrepreneurs and freelancers. Co-working spaces provide a number of amenities and facilities including desks, secure high-speed internet access, printers, seating areas and common areas for meetings and networking. It also provides flexibility to its users who can choose from a number of options including hot desks (non-reserved desks allowing users to move from place to place easily), dedicated desks and office suites. Lease durations are also typically shorter for co-working spaces and this allows used to avoid long-term commitments.

Currently, there are about 72 operational co-working centers in Kuala Lumpur according to CBRE, with 60 of these located in prime office buildings. We estimate that there are about 150 co-working locations all across Malaysia operated by companies like WORQ, Common Ground and Commune. *Fig. 41* highlights the major co-working expansions in 2024 with further expansion expected in 2025 including the launch of SPACES by Regus in Merdeka 118 and Infinity8 at Mid Valley Southpoint in Kuala Lumpur.

Fig. 41: Major co-working space expansions in 2024

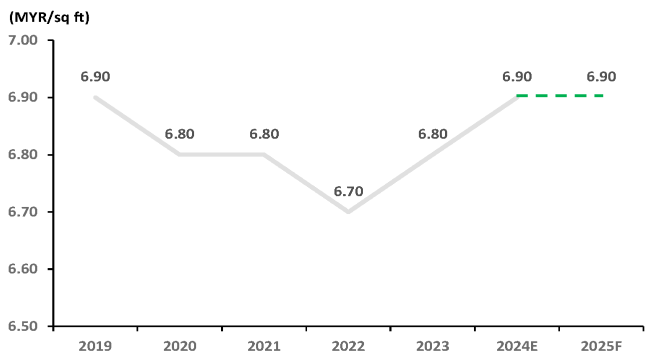
State	Co-working operator	Location	Space (sq feet)
WP Kuala Lumpur	Co-Lab	The Five Damansara Heights	15,000
	WORQ	Menara 1 Sentrum	7,200
	WORQ	Menara UOA Bangsar	17,500
	WORQ	Integra Tower and Intermark	23,000
	WORQ	Sunway Putra Mall	20,000
	Colony	The Met, Mont Kiara	18,500
	HQ by Regus	Menara AmBank	12,971
Penang	INFINITY8	Standard Chartered Bank Building, Georgetown	25,000
Johor	HQ by IWG	Menara Pelangi	14,000
	INFINITY8 Reserve	Eco Palladium	11,000
	INFINITY8 Reserve	Menara JLand	11,000
	INFINITY8 Reserve	Mid Valley Southkey	13,907
	INFINITY8 Reserve	Business Boulevard @ Central Park	12,000
	Regus by IWG	UMVity Premium Corporate Office Tower	12,475

Source: CBRE, Nomura research

We expect rental rates to remain steady in the WP KL market

In 2025, we expect six new office buildings to be completed in WP Kuala Lumpur – The Exchange Office Campus, PNB 1194, Oxley Tower, TNB Gold Bangsar, Finas Tower PJ Sentral and Sunway Corporate Tower, which should add about 0.2mn sq m of office complex. We see this new influx putting additional pressure on occupancy rates of older buildings with some companies looking for a step up in their office facilities and amenities. However, we expect overall rental levels to remain steady due to the higher rentals from the newer buildings. Additionally, older buildings who have already remodelled and restructured to include superior amenities and sustainability features should also see a marginal rental increase on renewing leases. Overall we see companies in the central KL region especially in the Golden Triangle region being the most immune to rental pressure. As shown in *Fig. 42* , we expect overall rental rates to remain steady in 2025F in WP KL.

Fig. 42: WP KL - rental rates to remain steady in 2025F



Source: CBRE, Nomura estimate

Hotel market – rising supply in anticipation of demand growth

Continued increase in business and leisure travellers to benefit the KL market

There are currently about 3,564 hotels and resorts spread across Malaysia with over 280,000 beds. Following a lull during the pandemic, construction has picked up sharply with 2,390 rooms being added in the country in 2024 (*Fig. 43*), up from about 337 rooms in 2021. New room starts also rose from 690 rooms in 2023 to about 804 rooms in 2024. NAPIC estimates a total incoming supply of ~17,000 rooms and 86 hotels and resorts. Further there are already plans in place to add 13,000 rooms and 71 hotels and resorts in the future across the country.

Fig. 43: Malaysia – Hotel openings in 2024

Name of Hotel	Location	State	Number of rooms
Park Hyatt Hotel (PNB 118)	Jalan Hang Tuah	WP Kuala Lumpur	348
Permas City	Bandar Bary Permas, Johor Bahru	Johor	150
Crowne Plaza Penang Straits City Hotel	Butterworth	Pulau Pinang	364
Green City Garden @ Hotel	Jalan Macalister, Georgetown	Pulau Pinang	100
Iconic Marjorie Hotel	Bayan Baru	Pulau Pinang	304
Sunshine Tower Hotel	Jalan Thean Teik	Pulau Pinang	320
The Bagan Suite	Butterworth	Pulau Pinang	92
Fairfield by Marriot Kuala Besut (Hotel)	Besut	Terengganu	128
Citadines Waterfront Kota Kinabalu	Jalan Tun Fuad Stephens	Sabah	288
Green World Hotel	Semporna	Sabah	49
Hotel Kapalai	Tawau	Sabah	199
Lighthouse Hotel	Semporna	Sabah	48
Total			**2,390**

Source: NAPIC, Nomura research

Malaysia saw about 25mn tourists in 2024 and aims to attract 31.4mn tourists with projected receipts of MYR125.5bn in 2025, scaling up to 35.6mn tourists and MYR147.1bn in receipts by 2026, through its Visit Malaysia 2026 initiative. The government has also allocated about MYR550mn in the 2025 budget to boost tourism promotion and related activities. Inbound tourism should also benefit from the extension of the visa-free policy to major countries including China and India, enhanced flight access and Malaysia's increasing role as host for international MICE (Meetings, Incentives, Conferences and Exhibitions) events. Most of these are expected to benefit the KL region due to its presence as a hub for both business and leisure tourists. Given this, the CBRE expects about 2,200 rooms to be added in 2025 in Central KL or up about 7% y-y.

Fig. 44: Central KL: ~2,200 rooms to be added in 2025

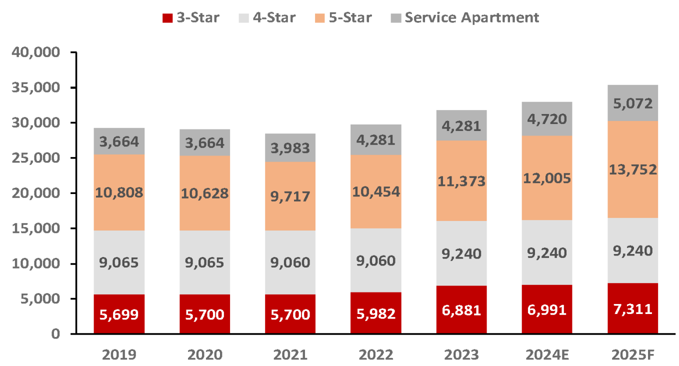
Name of Hotel	Location	Star rating	Number of rooms
SO Sofitel KL @ Oxley Tower	Jalan Ampang	5	226
Kempinski @ 8 Conlay	Jalan Conlay	5	260
Regent KL @ Menara Golden Eagle	Jalan Tun Razak	5	259
Kimpton KL @ TRX	Jalan Tun Razak	5	471
Waldorf Astoria Hotels and Resorts	Jalan Raja Chulan	5	279
Moxy Chinatown	Jalan Hang Lekiu	3	320
Marriott Executive Apartment	Jalan Kia Peng	Service Apartment	352
Total			**2,167**

Source: CBRE, Nomura research

KL market growth to come from 5-star rooms

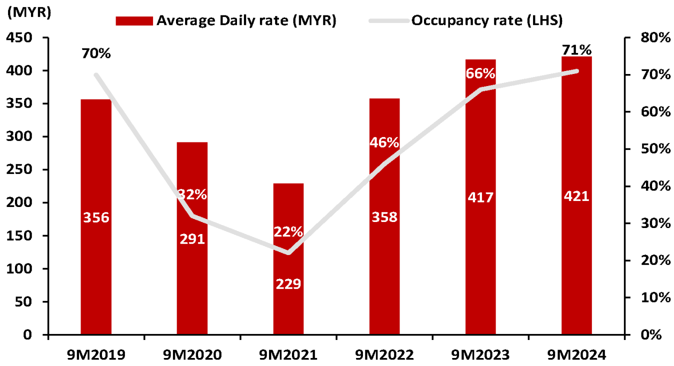
Since 2022 the KL market has focused on luxury 5-star rooms to cater to high-end tourists and business travellers. We think this is partly because of the continued growth of Airbnb listings, which have grown about 14% y-y to over 19,000 currently. Most of the luxury hotels in the city are located in the Central Kuala Lumpur region, which has easy access to the major office regions in KL City Center and major landmarks including the KLCC, Twin Towers, the Tun Razak Exchange Financial district and the Bukit Bintang shopping ares. As shown in *Fig. 45*, the number of 5-star rooms in the Central KL region has risen by about 24% during 2021-2024, as compared to relatively flat growth in 4-star rooms and a 16% growth in overall room capacity. According to the CBRE, about 72% of the rooms added in 2025F in Central KL will be 5-star rooms as compared to 61% of the total rooms added in Klang Valley.

Fig. 45: Central KL – 5-star room capacity to grow about 15% y-y in 2025



Source: CBRE, Nomura research

Fig. 46: KL – Average daily rate and occupancy rate



Source: STR, CBRE, Nomura research

We expect average daily rate to grow in 2025F

After declining sharply in 2021 due to the pandemic, both occupancy rates and average daily room rate in the KL region have grown strongly due to rising demand, surpassing pre-pandemic rates, as shown in *Fig. 46* . In 2025F, we expect the average daily rate to grow by over 2% y-y through the country due to: (1) rising demand due to an increase in business travellers and leisure tourists; and (2) higher operational costs due to rising costs related to staffing and supplies.

Hotel transactions to continue in 2025

In 2024, NAPIC highlighted about 18 major hotel transactions totaling about MYR950mn, as shown in *Fig. 47* . This was up from 9 transactions worth MYR450mn in 2023 and most of these were in the key markets of WP Kuala Lumpur and Pulau Pinang. With the Malaysian economy expected to remain stable and with tourist numbers expected to grow sharply in 2025, we expect hotel transactions to remain resilient in 2025 with new investments from REITs. Among the key transactions expected to be completed in 2025 are the acquisitions of the 55 room Banyan Tree Hotel for MYR140mn (MYR2.5mn/room) and the 325 room Pavilion Hotel for MYR340mn (MYR1mn/room) by Pavilion REIT.

Fig. 47: Major hotel transactions in 2024

Name of Hotel	Location	State	Amount (MYR)
East Mount Hotel	Kukup Laut, Pontian	Johor	2,900,000
Syuen Hotel	Jalan Sultan Abdul Jalil	Perak	55,000,000
W Hotel	Jalan Ampang	WP Kuala Lumpur	270,000,000
Courtyard Hotel	Jalan Macalister	Pulau Pinang	165,000,000
Gem Beach Resort	Jalan Kuala Tereggan - Batu Rakit	Terengganu	10,850,000
Desaru Beach Resort	Desaru, Kota Tinggi	Johor	19,813,000
Hotel Avenue J Central Marke	Jalan Pudu	WP Kuala Lumpur	22,000,000
Metrostar Hotel	Jalan Masjid India	WP Kuala Lumpur	80,000,000
Season View Hotel	Jalan Bukit Bintang	WP Kuala Lumpur	20,000,000
Golden View Hotel	Bandar Baru Nilai	Negeri Sembilan	5,000,000
Royal Spa Hotel	Bandar Lahad Datu	Sabah	2,000,000
Heliconia Hotel	Lorong Kinta, Kawasan Jalan Murmah	Pulau Pinang	11,200,000
Andaman Resort	Jalan Datai	Kedah	123,000,000
Summit Hotel	Bandar Bukit Mertajam	Pulau Pinang	12,440,000
Hotel Jalan Kampung Jawa	Kawasan Jalan Dato Keramat	Pulau Pinang	6,330,000
Marriott Hotel	Persiaran Gurney	Pulau Pinang	67,311,000
Sfera Hotel	Taman Samudera	Perak	36,000,000
MTREE Hotel	Bandar Puchong Jaya	Selangor	40,000,000
		Total	**948,844,000**

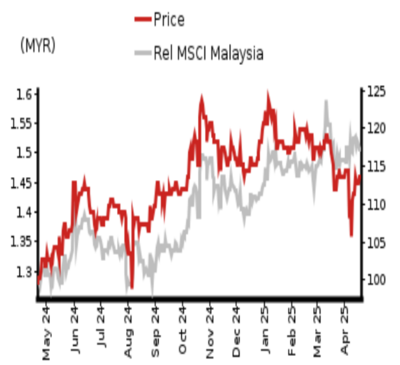
Source: NAPIC, Nomura research

Top pick among Malaysian REITs

Attractive 6.4% DPU yield, start of robust rental renewal cycle, and new hotel assets signal upside

Rating Starts at	**Buy**
Target price Starts at	**MYR 1.70**
Closing price 18 April 2025	**MYR 1.46**
Implied upside	**+16.4%**
Market Cap (USD mn)	1,213.2
ADT (USD mn)	1.2

Relative performance chart



Source: LSEG, Nomura

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6.4% DPU yield provides an attractive entry point

Pavilion REIT (PREIT) owns five retail malls including its flagship Pavilion Kuala Lumpur mall and one office building in Malaysia, with a total appraised asset valuation of MYR8.5bn, as of FY24. PREIT is currently trading at a DPU yield of 6.4%, which we see as an attractive entry point given the company's strong asset base focused on retail and its expansion into the hospitality segment. Going forward, we expect yields to compress, due to: (1) stable occupancy levels at the Pavilion Kuala Lumpur mall ; (2) rising occupancy levels at the Pavilion Bukit Jalil mall; (3) improved prospects for the DA MEN mall following the signing of a master lease agreement with Easyhome International (unlisted) for three years; and (4) revenue recognition from its planned acquisition of hotels from mid-2025.

With its legacy businesses continuing to do well and its expansion into the hotel segment, we expect revenues to record a CAGR of 4% over FY24-27F and NPI to register a CAGR of 6% during FY24-27F due to the strong upcoming lease renewal cycle. With interest payments expected to decline, income available for distribution should rise at a 6% CAGR over FY24-27F.

Catalyst – Expansion into hotels; 70% of gross rentals up for renewal in FY25-26F

We see two near-term catalysts for PREIT: (1) We expect acquisition of the Banyan Tree and Pavilion Hotel for MYR480mn to be completed in mid-2025. PREIT will receive fixed annual rentals of MYR33.5mn (7% yield) and 40% of the hotel net operating income exceeding the fixed rental. (2) Over 70% of gross rentals for PREIT are up for renewal, including 79% in the key Pavilion KL mall. While we expect overall rentals to grow at 2% annually over FY25-27F, there could be upside to our estimates.

Valuation: TP of MYR1.70 is based on dividend discount model (DDM)

We use the DDM to value PREIT, based on our forward-three- year DPU forecast, cost of equity of 8% and long-term DPU growth of 2%. With the hotel acquisition expected by management to be completed in mid-2025, we see dividend distributions rising 6% y-y in FY25F and 8% y-y in FY26F. This gives us a fair value of MYR1.70/unit, which is in between our valuation of MYR1.80 derived from our NAV calculation and MYR1.50 derived using trading yield. Downside risks include weaker-than-expected occupancy and rental reversion, NPI margin pressure, interest rate risk, outbreak of communicable diseases, and asset concentration risk.

Year-end 31 Dec	FY24	FY25F		FY26F		FY27F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	846		887		930		952
Income for distribution (mn)	410		400		427		442
Normalised dist income (mn)	280		320		363		384
Normalised DPU	0.09		0.09		0.10		0.10
Norm. DPU growth (%)	3.7		0.3		2.2		3.4
FD normalised P/E (x)	19.1	–	18.5	–	16.4	–	15.5
BVPU	1.4		1.4		1.4		1.4
Price/book (x)	1.1	–	1.1	–	1.1	–	1.1
DPU yield (%)	6.4	–	6.4	–	6.6	–	6.8
ROE (%)	8.2		7.5		7.6		7.8
Gearing (%)	40.0		36.7		36.5		36.3

Source: Company data, Nomura estimates

Key data on Pavilion REIT

Performance

(%)	1M	3M	12M		
Absolute (MYR)	-2.7	-3.9	13.2	M cap (USDmn)	1,213.2
Absolute (USD)	-2.0	-1.9	22.7	Free float (%)	37.2
Rel to MSCI Malaysia	-0.3	1.5	15.9	3-mth ADT (USDmn)	1.2

Income statement (MYRmn)

Year-end 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
Rental income	698	811	846	889	910
Other Revenue	26	35	41	41	42
Revenue	724	846	887	930	952
Land rent & property tax	-20	-23	-24	-25	-25
Property management fees	-165	-211	-211	-214	-216
Other operating expenses	-80	-89	-89	-91	-91
Management expenses	-38	-43	-46	-49	-51
Trust expenses	-3	-2	-3	-3	-3
Other operating expenses					
EBITDA	418	477	513	548	566
Depreciation					
Amort of intangible assets					
EBIT	418	477	513	548	566
Net property income	459	523	562	600	620
Net interest expense	-156	-197	-193	-185	-182
Associates & JCEs					
Other income					
Earnings before tax	262	280	320	363	384
Income tax					
Net profit after tax	262	280	320	363	384
Minority interests					
Other & non tax deductible items					
Preferred dividends					
Norm income for distn	262	280	320	363	384
Extraordinary items	169	130	80	65	57
Income for distribution	432	410	400	427	442

Valuation and ratios

	FY23	FY24	FY25F	FY26F	FY27F
Reported P/E (x)	12.3	13.0	14.8	13.9	13.5
Normalised P/E (x)	20.3	19.1	18.5	16.4	15.5
FD normalised P/E (x)	20.3	19.1	18.5	16.4	15.5
Dividend yield (%)	6.2	6.4	6.4	6.6	6.8
Price/book (x)	1.1	1.1	1.1	1.1	1.1
EV/EBITDA (x)	19.6	17.1	15.8	14.9	14.4
EV/EBIT (x)	19.6	17.1	15.8	14.9	14.4
EBIT margin (%)	57.8	56.4	57.8	58.9	59.4
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
ROA (pretax %)	5.7	5.6	5.8	6.0	6.2

Growth (%)

	FY23	FY24	FY25F	FY26F	FY27F
Revenue	31.0	16.9	4.8	4.9	2.4
EBITDA	26.0	14.1	7.5	6.8	3.3
EBIT	26.0	14.1	7.5	6.8	3.3
Normalised EPU	8.5	6.6	3.1	12.9	5.6
Normalised FDEPU	8.5	6.6	3.1	12.9	5.6
DPU	7.6	3.7	0.3	2.2	3.4

Source: Company data, Nomura estimates

Cash flow statement (MYRmn)

Year-end 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
EBITDA	418	477	513	548	566
Change in working capital	34	3	-1	0	
Other operating cashflow	57	-5	1	1	1
Cashflow from operations	475	507	516	548	567
Capital expenditure					
Free cashflow	475	507	516	548	567
Acquisition of investment properties	-1,818	0	-480	0	0
Net acquisitions					
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	-29	8	15	7	4
CF after investing acts	-1,371	515	51	555	571
Cash dividends	-307	-342	-361	-390	-404
Equity issue					
Debt issue					
Convertible debt issue					
Others	1,893	-149	277	-179	-179
CF from financial acts	1,585	-490	-85	-569	-583
Net cashflow	214	24	-34	-14	-13
Beginning cash	333	546	571	538	524
Ending cash	547	571	538	524	512
Ending net debt	2,845	2,821	2,775	2,789	2,801

Balance sheet (MYRmn)

As at 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
Cash & equivalents	546	571	538	524	512
Accounts receivable	55	62	61	64	65
Other current assets	4	6	6	6	6
Total current assets	606	639	605	594	583
Investment properties	8,390	8,490	9,020	9,070	9,120
Acquisitions					
Capital expenditure					
Net appreciation in value					
Associates					
Other LT assets	3	2	2	2	2
Total assets	8,998	9,131	9,627	9,666	9,705
Short-term debt	100	80	80	80	80
Accounts payable	517	546	546	546	546
Other current liabilities	75	89	91	92	94
Total current liabilities	692	714	717	719	721
Long-term debt	3,291	3,313	3,233	3,233	3,233
Convertible debt					
Other LT liabilities	84	85	85	85	85
Total liabilities	4,067	4,112	4,035	4,037	4,039
Minority interest					
Preferred stock					
Common stock	4,931	5,018	5,592	5,630	5,667
Retained earnings					
Proposed dividends					
Other equity and reserves					
Non convertible prefs					
Total unitholders' funds	4,931	5,018	5,592	5,630	5,667
Units' funds & liabilities	8,998	9,131	9,627	9,666	9,705

Leverage

	FY23	FY24	FY25F	FY26F	FY27F
Interest cover	2.7	2.4	2.7	3.0	3.1
Gross debt/prop assets (%)	40.4	40.0	36.7	36.5	36.3
Net debt/EBITDA (x)	6.8	5.9	5.4	5.1	5.0
Net debt/equity (%)	57.7	56.2	49.6	49.5	49.4

Dupont decomposition

	FY23	FY24	FY25F	FY26F	FY27F
Net margin (%)	59.7	48.5	45.1	46.0	46.4
Asset utilisation (x)	0.09	0.09	0.09	0.10	0.10
ROA (%)	5.6	4.5	4.3	4.4	4.6
Leverage (Assets/Equity x)	1.7	1.8	1.8	1.7	1.7
ROE (%)	9.6	8.2	7.5	7.6	7.8

Per share

	FY23	FY24	FY25F	FY26F	FY27F
Reported EPU (MYR)	11.82c	11.20c	9.85c	10.50c	10.81c
Norm EPU (MYR)	7.19c	7.66c	7.89c	8.91c	9.41c
FD norm EPU (MYR)	7.19c	7.66c	7.89c	8.91c	9.41c
Book value per unit (MYR)	1.35	1.37	1.38	1.38	1.39
DPU (MYR)	0.09	0.09	0.09	0.10	0.10

Source: Company data, Nomura estimates

Company profile

Pavilion Real Estate Investment Trust (Pavilion REIT), listed on the Main Market of Bursa Malaysia since December 7, 2011, stands as one of Malaysia's largest retail-focused REITs with 6 investment properties valued at MYR8.5bn as of FY24. Managed by Pavilion REIT Management Sdn Bhd, the trust's primary assets are strategically positioned in Kuala Lumpur's golden triangle, capitalizing on Malaysia's economic growth. The trust's core investment strategy focuses on income-producing real estate predominantly used for retail purposes, including mixed-use developments with retail components, both in Malaysia and across the Asia-Pacific region.

Valuation Methodology

We use the DDM to value PREIT. We use our forward 3 year DPU forecast, cost of equity of 8% and long-term DPU growth of 2%. This gives us a fair value of MYR1.70/unit. Our benchmark index is the KLCI.

Risks that may impede the achievement of the target price

Key downside risks to our view include weaker than expected occupancy and rental reversion, NPI margin pressure, interest rate risk, outbreak of communicable diseases and asset concentration risk.

ESG

We arrive at an average ESG rating (out of 5) of 3.7 for PREIT as we assign an environmental score of 4.0, social score of 3.5 and governance score of 3.5. (1) Environmental - PREIT is committed to a 20% reduction in Scope 2 emissions by 2030 (baseline FY2019), 50% renewable energy usage by 2040, and net zero carbon emissions (Scope 1 & 2) by 2050. It is also targeting a 10% reduction in water usage by 2030 (baseline 2019), expansion of rainwater harvesting systems to all properties by 2026, increase water recycling capacity by 15% by 2027. (2) Social - PREIT works with a number of charities including the Charity at Heart program, Flood Relief response, Youth & Education support and has conducted 28 hours of training per employee with programs focused on ESG, carbon management, and emergency response. (3) Governance - Robust governance structure led by Sustainability Committee and Sustainability Working Committee overseeing ESG strategy and implementation. 2027 target is to advance ESG infrastructure by aligning with IFRS S1/S2 standards, implementing automated data systems, formalizing supply chain audits, and maintaining zero non-compliance.

Premium assets trading at 6.4% DPU yield

Pavilion Real Estate Investment Trust (Pavilion REIT) owns five retail malls and one office building in Malaysia. These assets are valued at a combined of MYR8.5bn (based on the latest independent valuation provided by the company). Out of this, Pavilion Kuala Lumpur Mall accounts for 62% of the total portfolio value and is the primary driver of the REIT's valuation. Since its 2007 opening, the mall has successfully drawn crowds with its unique concept catering to the premium and mass markets. This has helped to establish it as the one of the iconic malls in Kuala Lumpur, second only to Suria KLCC, in our view.

In December 2024, the REIT announced that it was planning to acquire two hotels –Banyan Tree and Pavilion Kuala Lumpur – for a total cost of MYR480mn. We expect this acquisition to be completed in mid-2025. With PREIT's focus being primarily on the retail segment, we believe these acquisitions will help the company expand to the hospitality industry, which should benefit from the strong growth in inbound tourism into Malaysia. While we expect the office segment to remain under pressure in the near term, we do not see it being a significant drag, given that it accounts for only 1% of the company's revenue.

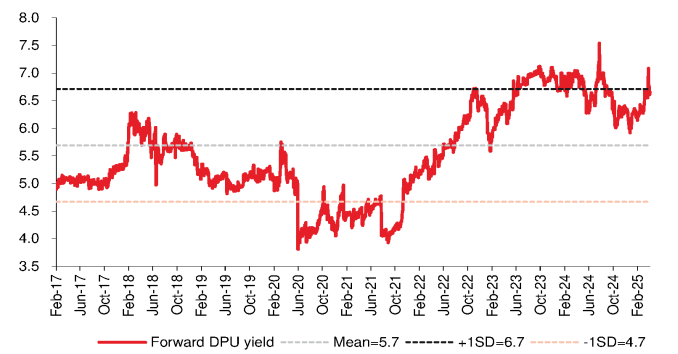
With the retail segment in Malaysia expected to grow 4% y-y in FY25F and with the hospitality industry also expected to see strong growth, we initiate coverage with a Buy rating for a few key reasons:

6.4% DPU yield provides an attractive entry point

In 2024, PREIT was the best-performing large REIT company in Malaysia, with its unit price rising 28% during the year compared to an 11% increase in the MREIT index. However, in YTD25, PREIT is down about 6% compared to a 1% decline in the MREIT Index. We believe this underperformance is due to the company's weaker-than-expected 4Q24 results, which were impacted by slightly-lower-than-expected occupancy levels at Pavilion Bukit Jalil and the continued losses at the DA MEN mall. This has resulted in PREIT's DPU yield rising to 6.4% currently, which is ~1SD above its long-term mean.

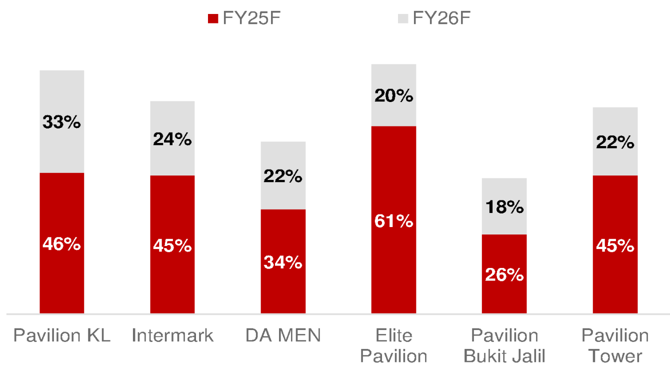
We see this as an attractive entry point given the company's strong asset base focused on retail and its expansion into the hospitality segment. Going forward, we see yields compressing closer to its long-term average of 5.7% due to (1) stable occupancy levels at the Pavilion Kuala Lumpur mall even as rentals rise, with 79% of gross rental up for renewal in FY25-26F; (2) occupancy levels at the Pavilion Bukit Jalil mall rising steadily to ~91% in FY25F and ~93% in FY27F; (3) improved prospects for the DA MEN mall following the signing of a master lease agreement with Easyhome International for three years; and (4) revenue recognition from its planned acquisition of hotels from mid-2025.

Fig. 48: PREIT MK: DPU yield is +1SD above average



Source: Bloomberg Finance L.P., Nomura research

Fig. 49: Over 70% of overall gross rentals up for renewal in FY25-26F



Note: Figures show the % of gross rental that is up for renewal in each year
Source: Company data, Nomura research

Over 70% of overall gross rental up for renewal in FY25-26F

As shown in *Fig. 49*, over 70% of the gross rentals across PREIT's five malls and one office tower are up for renewal over the next two years. This includes 79% in the key Pavilion Kuala Lumpur mall, 81% in the adjoining Elite Pavilion mall and 79% at the Intermark mall. We expect that the anchor tenants will renew their contracts given that the Pavilion Kuala Lumpur mall is a landmark mall for both locals and tourists. For Intermark, we think the low rental compared with other malls including Suria KLCC and Pavilion Kuala Lumpur would be an attractive proposition for prospective tenants. Additionally, we expect the occupancy in the Pavilion Bukit Jalil mall to also increase steadily from ~90% in FY24 to ~93% in FY27F.

While the Malaysian economy remains on a stable footing amid healthy economic growth and rising tourists, we believe that consumer confidence could be impacted by the ongoing geopolitical issues. As a result, we see overall rentals growing by about 2% annually in FY25F-27F resulting in NPI growth of 5% y-y in FY25F and 4% y-y in FY26-27F after excluding the impact of the new hotel acquisitions.

6% distribution CAGR over FY24 – 27F

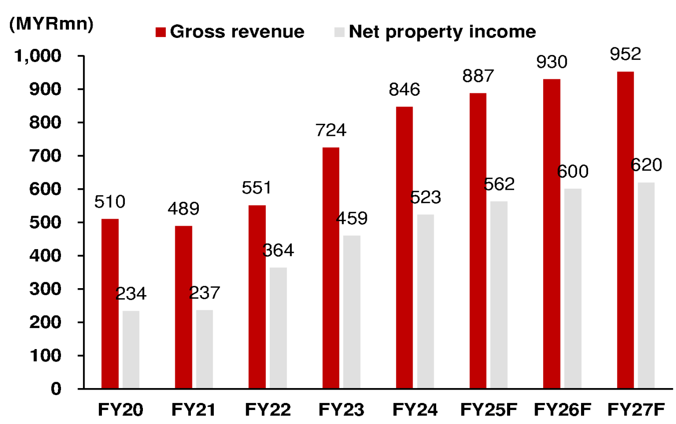
PREIT announced the acquisition of the Banyan Tree and Pavilion Hotels for a combined MYR480mn in December 2024. We expect the deal to be completed in mid-2025 and expect it to be funded by a proposed placement of new PREIT units worth about MYR552mn. With the hotels being revenue accretive from 2H25F and with rising contribution from Pavilion Bukit Jalil mall, we see revenues rising by 5% y-y in FY25F and recording a CAGR of 4% over FY24-27F.

We expect NPI to rise about 7% y-y in FY25F due to the half year contribution from the new hotels and the strong lease renewal cycle of about 70% across the company's assets in FY25-26F. We expect an overall NPI CAGR of 6% during FY24-27F with NPI margin expanding from 61.8% in FY24 to 65.1% in FY27F.

We expect interest expenses to decline slightly by about 2.4% in FY25F, as we expect PREIT to pay down about MYR80mn in debt following the issuance of new units. We see the company's total borrowings declining to MYR3.3bn in FY25F from MYR3.4bn in FY24.

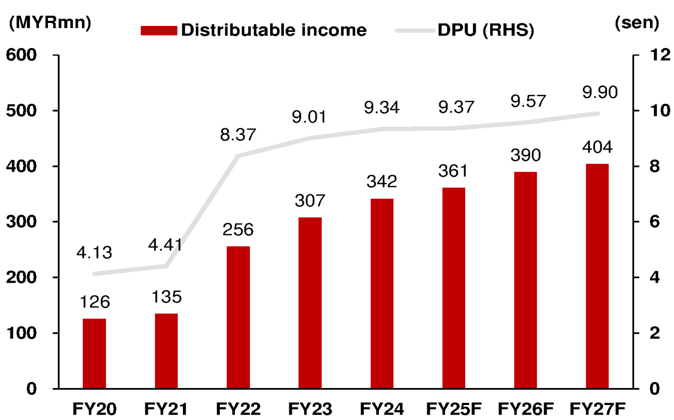
As a result, income available for distribution is expected to rise about 6% y-y in FY25F and at a CAGR of 6% during FY24-27F and we expect all of it to be paid out. However, due to an increase in the number of units, we see DPU rising marginally in FY25F but rising by 2% y-y in FY26F and 3% y-y in FY27F.

Fig. 50: Revenue / NPI to register a CAGR of 4% / 6% in FY24-27F



Source: Company data, Nomura estimate

Fig. 51: Distribution income to register a CAGR of 6% during FY24-27F



Source: Company data, Nomura estimate

Initiate coverage at Buy, with TP of MYR1.70

We estimate Pavilion REIT's NAV at MYR1.80/unit, as shown in *Fig. 52* . This is based on a capitalization rate of 6.50% for the company's current assets – Pavilion Kuala Lumpur, Intermark Mall, DA MEN mall, Elite Pavilion Mall, Pavilion Bukit Jalil and Pavilion Tower, in line with company expectations. We also incorporate the proposed acquisition of Banyan Tree and Pavilion Hotel at a cap rate of 7.0% and see this being funded by MYR552mn worth of new units being issued. As a result we incorporate a higher number of units of 4.06bn and a FY25F net debt of MYR2.8bn to calculate our NAV.

This is about 31% higher than the company's current NAV due to higher valuations for Pavilion Kuala Lumpur Mall (MYR6.1bn vs MYR5.3bn appraised value), Intermark Mall (MYR223mn vs. MYR190mn appraised value), Elite Pavilion (MYR757mn vs MYR550mn appraised value), and Pavilion Bukit Jalil (MYR2.3bn vs MYR2.2bn appraised value). We also use higher valuation for the new proposed acquisitions – Banyan Tree Hotel (MYR155mn vs appraised value of MYR140mn) and Pavilion Hotel (MYR368mn vs appraised value of MYR340mn). On the other hand, we use lower valuations for Pavilion Tower (MYR45mn vs. MYR130mn appraised value) and DA MEN mall (negative MYR5mn vs MYR160mn appraised value).

Fig. 52: PREIT Intrinsic NAV of MYR1.80

Properties	NLA	NLA	Capitalisation rate	Discount rate	NPI @ 100%				Cap value	Appraised value	Implied yield
	(sqft)	(mn sqft)	(%)	(%)	FY25F	FY26F	FY27F	Terminal	(MYRmn)	(MYRmn)	(%)
Pavilion Kuala Lumpur Mall	1,367,983	1.368	6.50%	6.70%	380	388	396	6,088	6,104	5,250	6.5%
Intermark Mall	222,731	0.223	6.50%	6.70%	13	14	15	224	223	190	6.5%
DA MEN Mall	421,524	0.422	6.50%	6.70%	(5)	-	-	-	(5)	160	0.0%
Elite Pavilion Mall	227,761	0.228	6.25%	6.70%	46	47	48	760	757	550	6.3%
Pavilion Bukit Jalil	1,815,920	1.816	6.50%	6.70%	133	142	152	2,333	2,320	2,210	6.5%
Pavilion Tower	162,992	0.163	6.50%	6.70%	3	3	3	45	45	130	6.5%
Banyan Tree Hotel			7.00%	7.00%	6	11	11	158	155	140	7.2%
Pavilion Hotel			7.00%	7.00%	13	26	26	377	368	340	7.2%
TOTAL	**4,218,911**	**4.219**			**588**	**631**	**650**	**9,986**	**9,967**	**8,970**	**6.5%**
Gross asset value (MYRmn)									9,967		
Less, adjusted net debt (MYRmn)									(2,775)		
Intrinsic NAV (MYRmn)									**7,192**		
Intrinsic NAV/unit (MYR)									**1.80**		

Source: Company data, Nomura estimate

Implied fair value of MYR1.50 derived from trading yield

PREIT's one-year DPU yield has generally been at a 3.3% spread versus the 10-year Malaysian government securities (MGS). However, since the pandemic, this has tightened significantly to about 2.5%, in line with the 2.2% spread seen for the MREIT index. Based on the current 10-year MGS yield of 3.7%, a yield spread of 2.5% and our expectation of FY25F DPU of 9.37sen, we get an implied fair value of MYR1.50/unit, as shown in *Fig. 53* .

Fig. 53: Implied fair value of MYR1.50 derived from trading yield

FY25F DPU forecast (sen)	9.37
10-year MGS (%)	3.71
Average yield spread (%)	2.5
Implied fair trading yield (%)	6.21
Implied fair value on yield (MYR)	**1.50**

Source: Bloomberg, Nomura estimate

Target unit price of MYR1.70 based on dividend discount model (DDM)

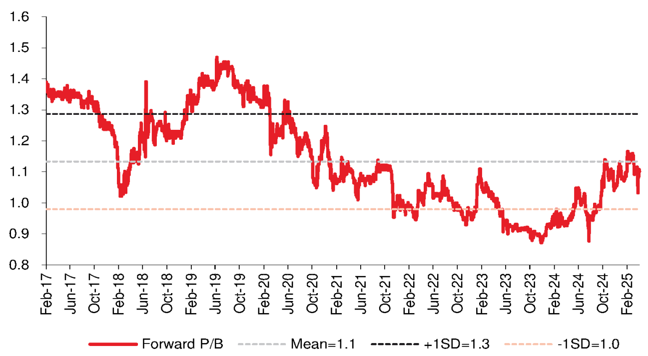
We use the dividend discount model (DDM) to value Pavilion REIT, as shown in *Fig. 54* . We use our forward-three-year DPU forecast, cost of equity of 8% based on Malaysia market return of 9.8% and the company's adjusted beta of 0.7, and long-term DPU growth of 2%. With the hotel acquisition expected to be completed in mid-2025, we see dividend distributions rising 6% y-y in FY25F and 8% y-y in FY26F. This gives us a fair value target unit price of MYR1.70/unit, which is in between our valuations of MYR1.80 derived from the NAV calculation and the MYR1.50 derived using trading yield.

Fig. 54: DDM valuation of MYR1.70

Dividend Discount Model	FY24	FY25F	FY26F	FY27F
Distributions (MYRmn)	342	361	390	404
Terminal distribution (MYRmn)				6,891
TOTAL (MYRmn)		361	390	7,295
Discounted distributions (MYRmn)		361	361	6,256
Equity value		**6,978**		
Fair value/unit		**1.70**		

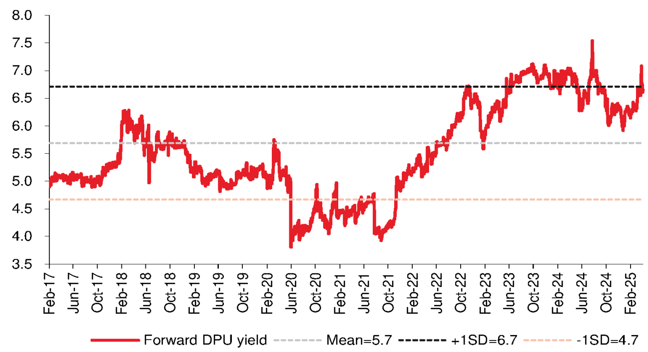
Source: Company data, Nomura estimate

Fig. 55: PREIT MK P/B ratio is currently below average levels



Source: Bloomberg Finance L.P., Nomura research

Fig. 56: PREIT MK: DPU yield is +1SD above average



Source: Bloomberg Finance L.P., Nomura research

Key downside risks to our view

- **Weaker-than-expected occupancy and rental reversion:** About 70% of tenancies across PREIT's assets are to undergo their lease renewal cycle over FY25-26F. A weaker-than-expected occupancy/take-up rate and rental reversion could negatively impact DPU.
- **NPI margin pressure:** Although we factor in a 4.5% increase in property operating expense (utility and maintenance expenses) in FY25F, NPI margins for PREIT could be impacted if cost escalation is higher than expected.
- **Interest rate risk:** The BNM has highlighted that Malaysia's economy could be impacted by supply shocks. If the OPR is raised to deal with this, it could impact PREIT's valuation.
- **Outbreak of communicable diseases:** An outbreak of a communicable disease such as Severe Acute Respiratory Syndrome (SARS) in 2003, the flu pandemic in 2009, and the recent COVID-19 pandemic in 2020-2023 could negatively impact the retail market and lower occupancy levels for the company's malls.
- **Asset concentration risk:** Despite PREIT diversifying in asset portfolio, the Pavilion Kuala Lumpur Mall still accounts for ~60% of the total portfolio value, which suggests significant concentration risk.

Current asset portfolio

Pavilion REIT currently has six assets under its portfolio, consisting of five retail malls and an office tower – Pavilion KL, Elite Pavilion, Pavilion Bukit Jalil, Intermark, DA MEN Mall and Pavilion Tower. Three of the malls and the office tower are located within the commercial center of Kuala Lumpur. The remaining malls are situated in the Bukit Jalil and Subang Jaya neighborhoods. These assets sprawl across 4,218,911 sq ft and are valued at a combined MYR8.49bn based on the latest independent valuations of Knight Frank Malaysia Sdn Bhd.

Pavilion REIT has a total combined tenancies list from the retail and office of 1,319 leases. Its ten largest tenants contributed 14.7% of gross rental income for FY24, as shown in *Fig. 58*. The majority of these tenancies are for a term of three years each, with an option to extend for another term of three years each. Anchor and specialty anchor tenants generally have an option for renewal of up to five terms of three years each. Despite major tenancies amounting to over 70% of the gross rental up for renewal in FY25-26F, we expect that the anchor tenants will renew their contracts given that the Pavilion Kuala Lumpur mall is a landmark mall for both locals and tourists. We also believe that this lease renewal cycle comes at an optimum time, with the Malaysian economy on a stable footing amid strong consumer confidence, healthy economic growth, rising tourists and strong growth in the retail segment.

The weighted average lease expiry (WALE) as of FY24 increased to 1.43 years vs 2023 of 1.30 years, with WALE for retail and office being 1.44 and 1.03 years, respectively. Food & beverages as well as fashion remain the two largest trade categories by net lettable area for its retail sector, with real estate and property occupying the most spaces in the office sector, as shown in *Fig. 59* and *Fig. 60*.

Fig. 57: Pavilion REIT's asset portfolio

Total valuation of MYR8.49bn

Properties	Pavilion Kuala Lumpur Mall	Intermark Mall	DA MEN Mall	Elite Pavilion Mall	Pavilion Bukit Jalil	Pavilion Tower
Property type	Retail	Retail	Retail	Retail	Retail	Office
Location	KL	KL	Subang Jaya	KL	KL	KL
Year of completion	2007	2012	2016	2015	2021	2007
Date of acquisition	2011	2016	2016	2018	2023	2016
Net Lettable area (NLA) (sq ft)	1,367,983	222,731	421,524	227,761	1,815,920	162,992
Number of floors	7	6	5	10	5	20
Occupancy rate (%)	97.1%	92.9%	72.9%	97.8%	89.7%	72.5%
Latest Appraised value (MYR mn)	5250	190	160	550	2210	130

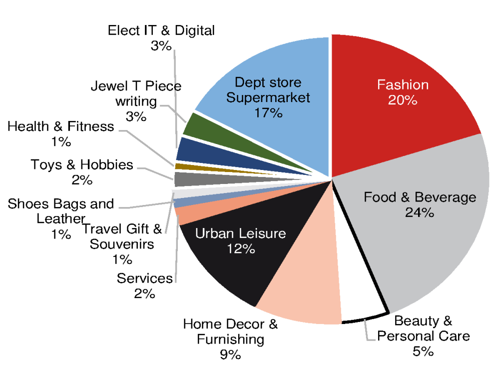
Source: Company data, Nomura research

Fig. 58: Pavilion REIT: Top 10 tenants

Tenant's name	Trade sector	Lease expiry
Apex Excellent Sdn Bhd	Food and Beverage	2025, 2027
Gagan (Malaysia) Sdn Bhd	Fashion	2025
H & M Retail Sdn Bhd	Fashion	2025, 2027
Louis Vuitton (M) Sdn Bhd	Fashion	2026
Padini Dot Com Sdn Bhd	Fashion	2025, 2027
Parkson Corporation Sdn Bhd	Fashion	2025, 2027
Richard Mille (Malaysia) Sdn Bhd	Jewellery, Timepiece & Writing Instrument	2026
Richemont Luxury (Malaysia) Sdn Bhd	Jewellery, Timepiece & Writing Instrument	2025 – 2026
TGV Cinemas Sdn Bhd	Urban Leisure	2025
Premier Style Trading Sdn Bhd	Urban Leisure	2027

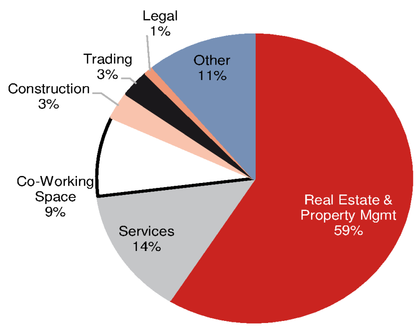
Source: Company data, Nomura research

Fig. 59: Retail: trade category by NLA



Source: Company data, Nomura research

Fig. 60: Office: trade category by NLA



Source: Company data, Nomura research

Fig. 61: Pavilion Kuala Lumpur Mall

1,367,983 sq ft of retail space across 7 storeys

Source: Company data, Nomura research

Fig. 62: Intermark Mall

222,731 sq ft of retail space across 6 storeys

Source: Company data, Nomura research

Fig. 63: DA MEN Mall

421,524 sq ft of retail space across 5 storeys

Source: Company data, Nomura research

Fig. 64: Elite Pavilion Mall

227,761 sq ft of retail space across 10 storeys

Source: Company data, Nomura research

Fig. 65: Pavilion Bukit Jalil

1,815,290 sq ft of retail space across 5 storeys

Source: Company data, Nomura research

Fig. 66: Pavilion Tower

20 storey office building with 162,992 sq ft

Source: Company data, Nomura research

Pavilion Kuala Lumpur Mall

A landmark asset in Pavilion REIT's portfolio, Pavilion Kuala Lumpur Mall was acquired in 2011 and is strategically located in Bukit Bintang, the city's premier shopping and entertainment district. The mall comprises a 7-storey shopping complex (inclusive of entertainment blocks and car parks) with a NLA of 1.37mn sq ft. It maintains a high occupancy rate of 97.1%, underlining its tenant appeal and footfall resilience. As a high-traffic retail destination, it boasts a vast tenant mix that includes global luxury brands, flagship outlets, and a wide array of dining and entertainment options (Louis Vuitton, Hermes, Cartier, Richard Mille, Dadi Cinema, Food Republic, Parkson Elite, Padini, etc). The mall benefits from superior accessibility via road and public transportation networks and draws both local and international visitors. Pavilion REIT continuously invests in asset enhancement initiatives (AEIs) here, including energy-efficient upgrades and tenant mix optimization to maintain its premium status.

Fig. 67: Asset details

Pavilion KL Mall : Asset details	
Year of completion	2007
Date of acquisition	December 7, 2011
Tenure	99-year lease expiring on 26 October 2109
Net Lettable area (sq ft)	1,367,983

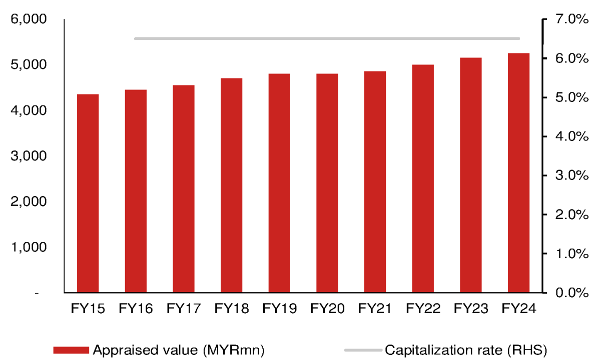
Source: Company data, Nomura research

Fig. 68: Tenancy expiry profile

Tenancy Expiry Profile		
Period	**% of Occuplied NLA**	**% of Gross Rental**
Monthly	7%	7%
FY2025	52%	46%
FY2026	28%	33%
FY2027 and thereafter	13%	14%
Total	**100%**	**100%**

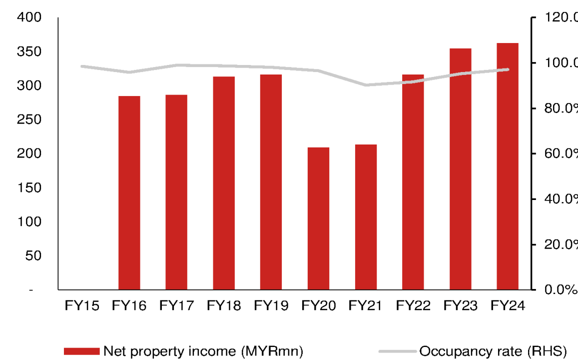
Source: Company data, Nomura research

Fig. 69: Appraised value and capitalization rate



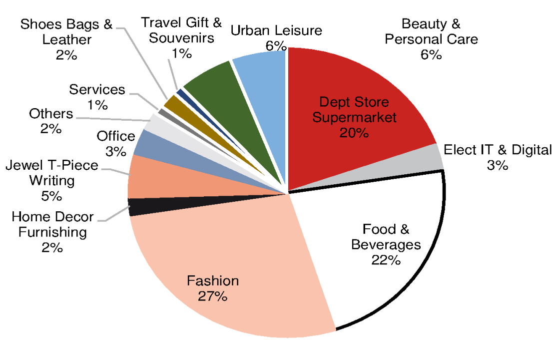
Source: Company data, Nomura research

Fig. 70: NPI and occupancy rate



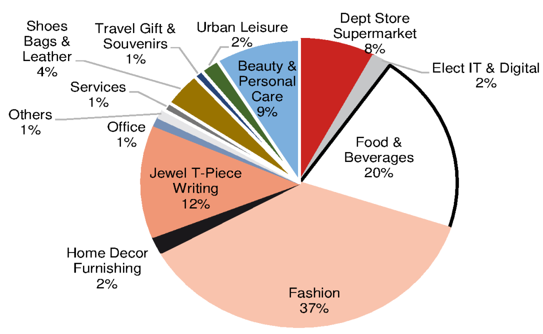
Source: Company data, Nomura research

Fig. 71: Trade sector analysis based on NLA



Source: Company data, Nomura research

Fig. 72: Trade sector analysis based on Gross Rental



Source: Company data, Nomura research

Intermark Mall

Situated within the Intermark integrated development in Kuala Lumpur's Golden Triangle, Intermark Mall is a 6-storey retail podium that was acquired on 25 March 2016 and caters to an urban professional and expatriate demographic. It benefits from its proximity to Grade A offices, international hotels, and embassies, ensuring a steady stream of affluent footfall. The tenant mix emphasizes premium lifestyle brands, niche dining, and wellness services such as Jaya Grocer, SportsDirect, Hanare, Hua Wei, MST Golf, In Colonial, and Grand Imperial. Intermark Mall is noted for its participation in green initiatives, including GET and EV infrastructure deployment. Regular AEIs and proactive tenant engagement ensure sustainable rental growth and high occupancy, in our view.

Fig. 73: Asset details

Intermark Mall : Asset details	
Year of completion	Refurbished in 2012
Date of acquisition	March 25, 2016
Tenure	Interest in perpetuity
Net Lettable area (sq ft)	222,731

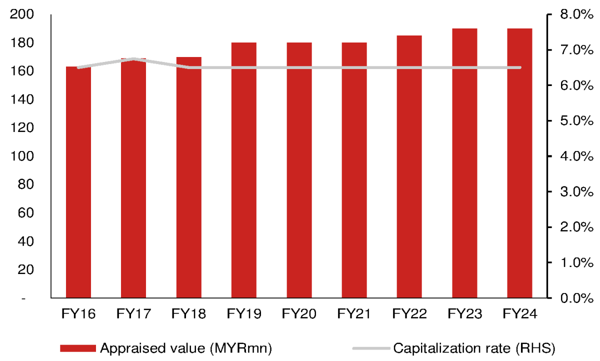
Source: Company data, Nomura research

Fig. 74: Tenancy expiry profile

Tenancy Expiry Profile		
Period	**% of Occupied NLA**	**% of Gross Rental**
Monthly	3%	4%
FY2025	49%	45%
FY2026	20%	24%
FY2027 and thereafter	28%	27%
Total	**100%**	**100%**

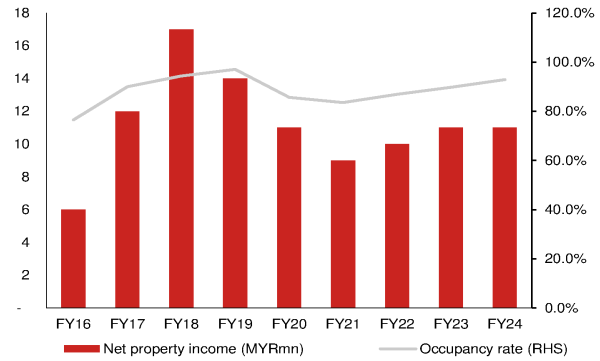
Source: Company data, Nomura research

Fig. 75: Appraised value and capitalization rate



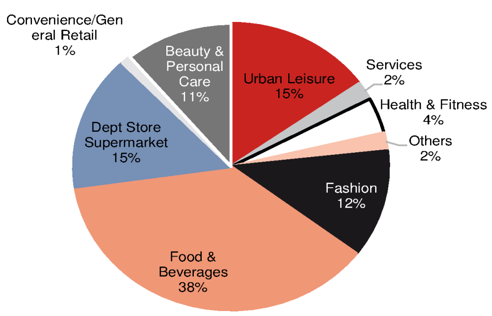
Source: Company data, Nomura research

Fig. 76: NPI and occupancy rate



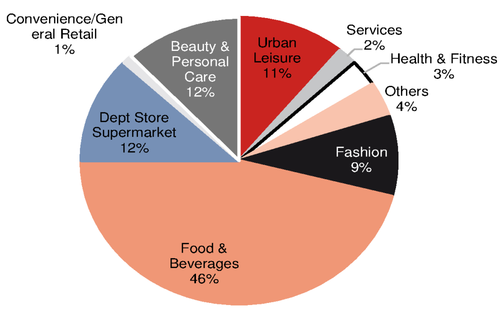
Source: Company data, Nomura research

Fig. 77: Trade sector analysis based on NLA



Source: Company data, Nomura research

Fig. 78: Trade sector analysis based on Gross Rental



Source: Company data, Nomura research

DA MEN Mall

Located in USJ Subang Jaya, and acquired alongside Intermark Mall on 25 March 2016, DA MEN Mall targets suburban families and the middle-income demographic, focusing on mid-market retail and services. Unlike the central assets, DA MEN Mall adopts a community-centric approach, hosting local events and community engagement programs. It includes retail, F&B, and entertainment offerings tailored to the local market such as Jaya Grocer, Mr DIY, Big Pharmacy, BookXcess, Roooar Karaoke, Swensen's, and TNT Fitness Pro. It is Pavilion REIT's lowest-performing asset, with an occupancy rate of 72.9% in FY24, having recorded a net property loss of MYR6mn in FY24.

Fig. 79: Asset details

DA MEN Mall : Asset details	
Year of completion	2015
Date of acquisition	March 25, 2016
Tenure	Interest in perpetuity
Net Lettable area (sq ft)	421,524

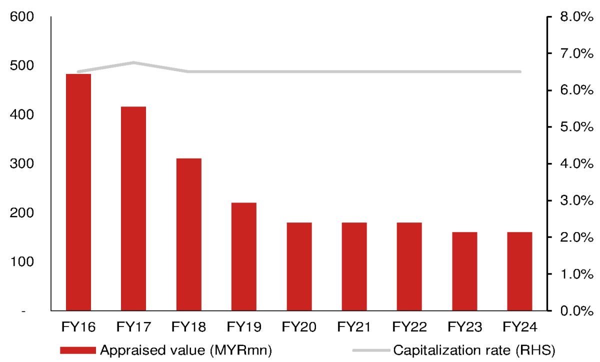
Source: Company data, Nomura research

Fig. 80: Tenancy expiry profile

Tenancy Expiry Profile		
Period	**% of Occupied NLA**	**% of Gross Rental**
Monthly	38%	37%
FY2025	29%	34%
FY2026	29%	22%
FY2027 and thereafter	4%	7%
Total	**100%**	**100%**

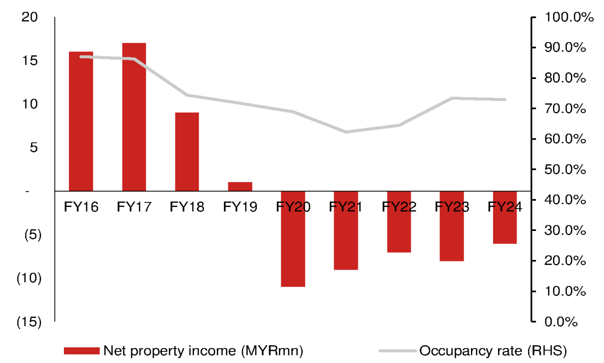
Source: Company data, Nomura research

Fig. 81: Appraised value and capitalization rate



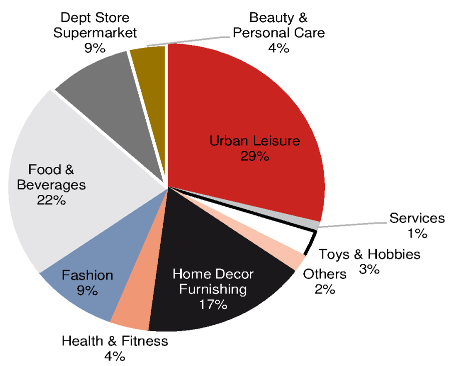
Source: Company data, Nomura research

Fig. 82: NPI and occupancy rate



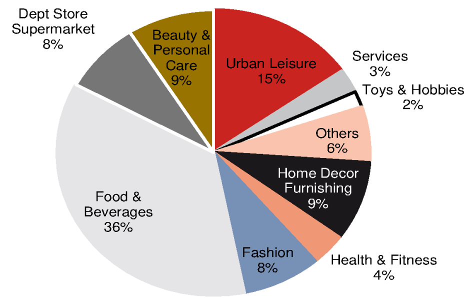
Source: Company data, Nomura research

Fig. 83: Trade sector analysis based on NLA



Source: Company data, Nomura research

Fig. 84: Trade sector analysis based on Gross Rental



Source: Company data, Nomura research

Elite Pavilion Mall

Elite Pavilion Mall complements Pavilion Kuala Lumpur, offering a high-end retail experience tailored to affluent shoppers. Acquired for MYR580mn in 2018, it boasts an NLA of 227,761 sq ft, consisting of 10 levels of retail mall, connecting seamlessly via pedestrian links and an underground subway linkage (valid until 2037). Positioned adjacently within the Bukit Bintang enclave, it features luxury brands, boutique outlets, and personalized services such as Coach, COS, JD Sports, Haidilao Hot Pot, Lululemon, Muji & Café, Cotton On, and Red Box Plus. Despite its niche positioning, Elite Pavilion maintained strong occupancy of 97.8% in FY24 due to its brand synergy with Pavilion Kuala Lumpur and targeted marketing initiatives, indicative of robust market demand. The asset is a key contributor to Pavilion REIT's revenue stability and brand prestige, benefiting from focused AEIs, such as LED lighting upgrades and tenant engagement programs to enhance the customer experience.

Fig. 85: Asset details

Elite Pavilion : Asset details	
Year of completion	2016
Date of acquisition	April 27, 2018
Tenure	Interest in perpetuity, 90 year lease expiring on 26 October 2109
Net Lettable area (sq ft)	227,761

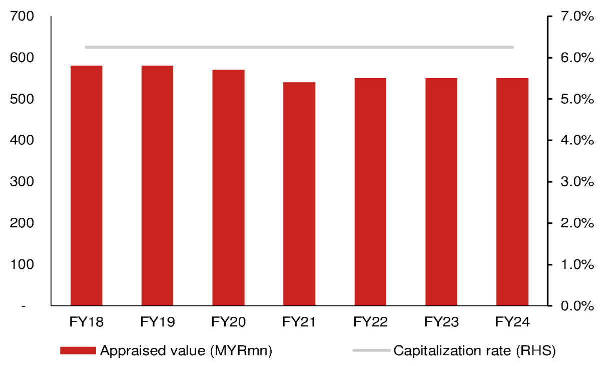
Source: Company data, Nomura research

Fig. 86: Tenancy expiry profile

Tenancy Expiry Profile		
Period	**% of Occupied NLA**	**% of Gross Rental**
Monthly	9%	5%
FY2025	54%	61%
FY2026	22%	20%
FY2027 and thereafter	15%	14%
Total	**100%**	**100%**

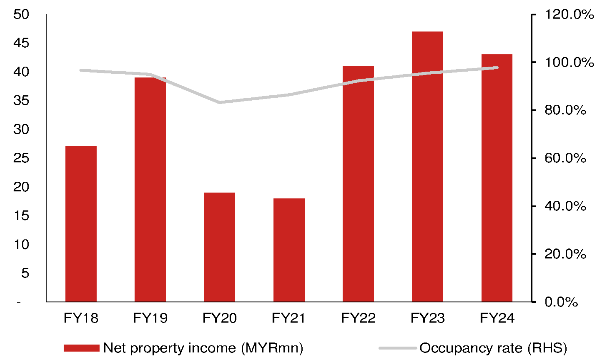
Source: Company data, Nomura research

Fig. 87: Appraised value and capitalization rate



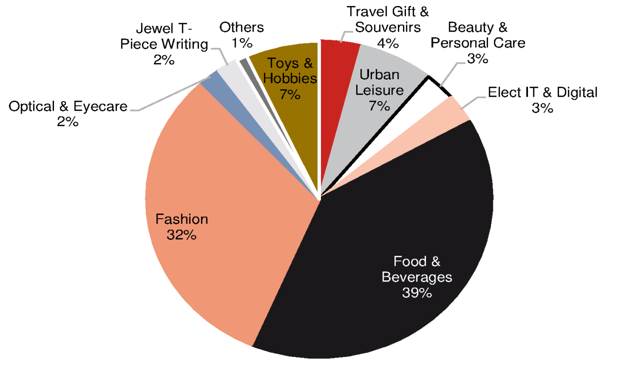
Source: Company data, Nomura research

Fig. 88: NPI and occupancy rate



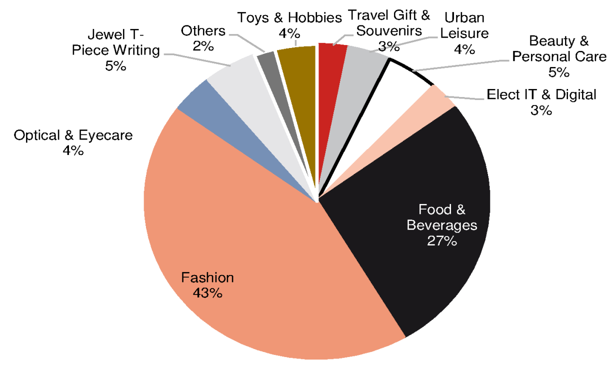
Source: Company data, Nomura research

Fig. 89: Trade sector analysis based on NLA



Source: Company data, Nomura research

Fig. 90: Trade sector analysis based on Gross Rental



Source: Company data, Nomura research

Pavilion Bukit Jalil

Acquired in 2023 for MYR2.2bn, Pavilion Bukit Jalil is a landmark acquisition that expands Pavilion REIT's footprint into a fast-developing residential and commercial area. As a sizeable, modern retail destination sprawling across 1.82mn sq ft and 5 storeys, it offers a diverse tenant base across fashion, F&B, and entertainment (Parkson, TGV Cinemas, Muji, Harvey Norman, Food Republic, Forever 21, Game On Theme Park OMG Home), with strong appeal to the surrounding growing population. Being Pavilion REIT's largest property after Pavilion KL, Pavilion Bukit Jalil signifies the REIT's strategic expansion, future-proofing the portfolio with an asset poised for long-term growth, in our view.

Fig. 91: Asset details

Pavilion Bukit Jalil : Asset details	
Year of completion	2021
Date of acquisition	June 1, 2023
Tenure	Interest in perpetuity for both titles
Net Lettable area (sq ft)	1,815,920

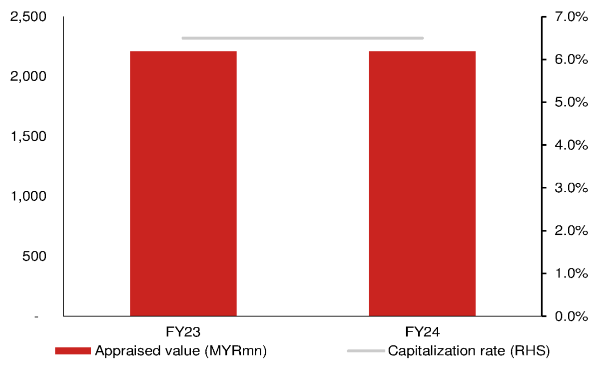
Source: Company data, Nomura research

Fig. 92: Tenancy expiry profile

Tenancy Expiry Profile		
Period	**% of Occuplied NLA**	**% of Gross Rental**
Monthly	6%	6%
FY2025	25%	26%
FY2026	16%	18%
FY2027 and thereafter	53%	50%
Total	**100%**	**100%**

Source: Company data, Nomura research

Fig. 93: Appraised value and capitalization rate

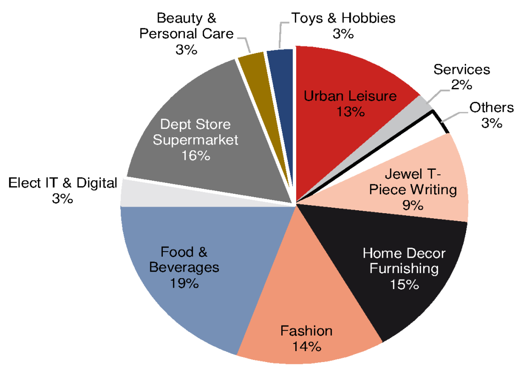


Source: Company data, Nomura research

Fig. 94: NPI and occupancy rate

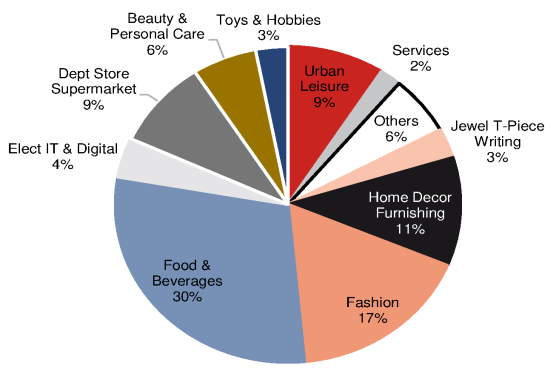
Source: Company data, Nomura research

Fig. 95: Trade sector analysis based on NLA



Source: Company data, Nomura research

Fig. 96: Trade sector analysis based on Gross Rental



Source: Company data, Nomura research

Pavilion Tower

Pavilion Tower is a 20-storey Grade A office tower in Bukit BIntang, adjacent to Pavilion Kuala Lumpur Mall. Catering to corporate tenants, the asset is strategically located in the heart of Kuala Lumpur's commercial hub. It offers modern facilities and ample parking, and is well served by public transport. Pavilion Tower's office spaces are maintained at high standards, ensuring competitiveness in the office leasing market. With an occupancy rate of 72.5% in 2024, its key tenants include ARCC Offices Pavilion Tower, Coach Malaysia, Malton Berhad, Gapadu Development, KL Pavilion Design Studio, New Balance and Pan-Asia Property Management. Notably, the tower achieved LEED Gold Certification in 2024, reinforcing its value and attractiveness to ESG-conscious tenants.

Fig. 97: Asset details

Pavilion Tower : Asset details	
Year of completion	2007
Date of acquisition	December 7, 2011
Tenure	90 year lease expiring on 26 October 2109
Net Lettable area (sq ft)	162,992

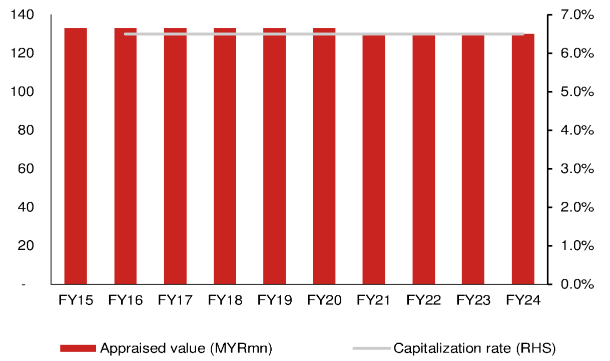
Source: Company data, Nomura research

Fig. 98: Tenancy expiry profile

Tenancy Expiry Profile		
Period	**% of Occupied NLA**	**% of Gross Rental**
Monthly	23%	23%
FY2025	44%	45%
FY2026	22%	22%
FY2027 and thereafter	11%	10%
Total	**100%**	**100%**

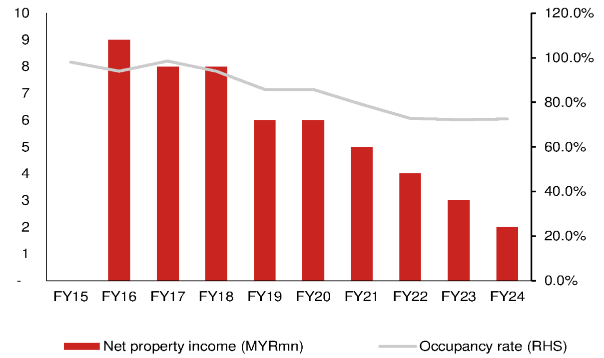
Source: Company data, Nomura research

Fig. 99: Appraised value and capitalization rate



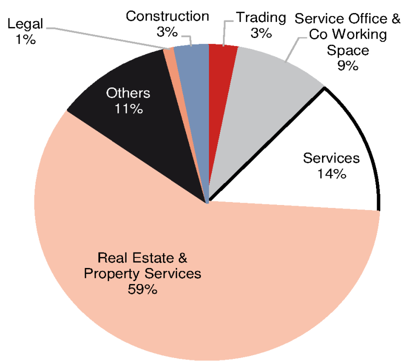
Source: Company data, Nomura research

Fig. 100: NPI and occupancy rate



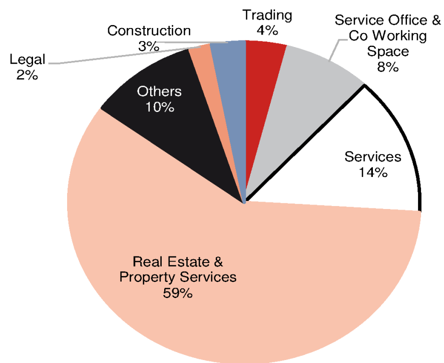
Source: Company data, Nomura research

Fig. 101: Trade sector analysis based on NLA



Source: Company data, Nomura research

Fig. 102: Trade sector analysis based on Gross Rental



Source: Company data, Nomura research

Expansion into the hotel space

Pavilion REIT announced two hotel acquisitions on 5 December 2024, collectively valued at MYR480mn. This represents 5.5% of Pavilion REIT's enlarged total assets post-completion, effectively reducing Pavilion Kuala Lumpur Mall's asset contribution from 61.4% to 58.0%. The integrated positioning of the hotels within the Bukit Bintang retail-tourism ecosystem, especially their connectivity to Pavilion KL, creates compelling synergistic marketing and operational benefits, in our view. Management expects the acquisitions to be accretive to distributable income and DPU, while providing long-term stability and portfolio diversification via exposure to Malaysia's recovering hospitality sector, where tourist arrivals are forecast to reach >30mn in FY25-26F, in line with Tourism Malaysia's VM2026.

These acquisitions should further consolidate Pavilion REIT's position as a dominant player in Malaysia's REIT industry, with a well-balanced and strategically located asset portfolio across retail, office, and now, premium hospitality segments.

Banyan Tree Kuala Lumpur (BTKL)

Pavilion REIT has entered into a conditional agreement to acquire Banyan Tree Kuala Lumpur (BTKL) from Lumayan Indah Sdn Bhd (LISB) for MYR140mn. BTKL, a prestigious five-star luxury hotel, is located within a 59-storey integrated commercial building at Jalan Conlay, within the heart of Kuala Lumpur's Golden Triangle. The acquisition includes 55 premium suites, high-end facilities, and 81 parking bays across three levels. The strata floor area totals 10,212 sqm, and the hotel is situated on freehold land, a notable value enhancer in the Kuala Lumpur property market.

Since its opening in July 2018, BTKL has garnered significant acclaim, through its award-winning Banyan Tree Spa, Vertigo TOO rooftop bar, and Horizon Grill, offering panoramic views of the city skyline. The hotel is operated by a subsidiary of Singapore-listed Banyan Tree Holdings Limited, renowned globally for luxury hospitality. As of 30 September 2024, BTKL recorded a strong occupancy rate of 83.0%, reflecting robust demand from both domestic and international travellers, in our view. Its net book value (NBV) stood at MYR158.05mn as of FY23.

Upon acquisition, BTKL will be leased back to the existing operator under a 10-year lease agreement, renewable for up to 20 additional years. The initial fixed annual rental for the first five years is MYR33.5mn (shared with PHKL), representing a gross yield of approximately 7.0%, with periodic increases every five years. Pavilion REIT will also receive a 40% share of any variable rental income derived from hotel net operating income exceeding the fixed rental, ensuring both stable cash flows and potential upside.

Pavilion Hotel Kuala Lumpur (PHKL)

Pavilion REIT is also simultaneously acquiring the Pavilion Hotel Kuala Lumpur (PHKL) from Harmoni Perkasa Sdn Bhd (HPSB) for MYR340mn, representing a 2.9% discount to its appraised market value of MYR350mn. PHKL is strategically located above Pavilion Kuala Lumpur Mall, Malaysia's premier retail destination, and is seamlessly integrated within the Pavilion mixed-use development.

PHKL comprises 325 well-appointed rooms with an average room size of 32 sq m, along with 147 basement parking bays across two levels. The hotel spans a strata floor area of 31,811 sq m on leasehold land with a tenure of 99 years expiring in 2109. Operations commenced in December 2018, and the property boasts luxury facilities such as a rooftop infinity pool, sky gym, club lounge, and banquet spaces for up to 1,180 guests. Renowned dining venues include The Courtyard, Jade Pavilion, and The Cove.

PHKL has sustained a healthy occupancy rate of 82.2% as at 30 September 2024, with an NBV of MYR328.08mn as of FY23. The acquisition structure includes the retention of MYR33.5mn from the purchase price as advance rental payment for the first year under a lease-back arrangement. Similar to BTKL, PHKL will also be leased for 10 years, with an options to renew for two additional 10-year terms, and will deliver escalating fixed annual rentals – starting at MYR33.5mn (combined with BTKL) and increasing to approximately MYR35.18mn in the latter five years.

Gearing – limited space to grow

Pavilion REIT's gearing ratio has more than doubled from 15.9% in FY15 to 41.5% in FY24, driven by asset acquisitions and expansion strategies. This level remains only slightly below the 50% regulatory cap for Malaysian REITs, and we believe the company has limited space to grow debt. While historically the REIT relied primarily on debt financing for acquisitions, as evidenced in transactions prior to the Bukit Jalil purchase, the COVID-19 pandemic prompted a strategic shift towards variable-rate debt structures. Looking ahead, management has guided its target of a debt ceiling of 35% of its total asset base, highlighting a more risk-conscious strategy, particularly given its commitment to a 100% distribution policy to unitholders.

The average interest cost has similarly crept up – from 4.4% in FY15 to 4.8% in FY24. Although relatively stable in the early years, costs began rising notably from FY22 onward, coinciding with a global tightening monetary policy cycle. The uptick in FY23 and FY24 reflects refinancing at higher market rates and increasing reliance on floating-rate instruments.

Management had planned to gradually reduce interest rate exposure by converting variable-rate debt back to fixed-rate instruments. This transition aligns with its broader risk management approach and suggests a measured response to the evolving interest rate environment. However, the 100% distribution policy does raise concerns about future funding sources beyond debt, particularly for potential acquisitions or capex needs.

80% of the debt currently comes from medium-term notes (MTN)

The composition of Pavilion REIT's funding sources has undergone a dramatic transformation. In FY15, 94% of debt was term loans; by FY24, this had reversed with 80% sourced from medium-term notes (MTNs) in *Fig. 105* . The pivot suggests a strategic preference for capital market instruments, potentially to secure longer tenures, tap wider investor bases, and lock in favorable rates during windows of opportunity. MTNs, by nature, generally offer greater flexibility in structuring and timing of issuances, making them an attractive choice for a maturing REIT.

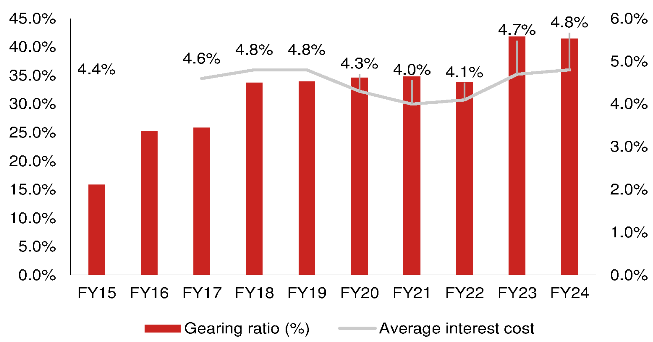
From fixed to floating interest rate dominance

One of the most significant changes is Pavilion REIT's increasing exposure to floating-rate debt – from just 7% in FY15 to a substantial 88% in FY24, as shown in *Fig. 106* . This shift coincides with the adoption of MTNs, which are often priced on a floating basis, particularly in recent years. While floating rates may have been attractive during low-rate environments, the sharp interest rate hikes in 2023-24 now mean Pavilion REIT is highly sensitive to further monetary policy movements. This exposes the REIT to earnings volatility, especially if interest rates remain elevated or increase further. The decline in fixed-rate debt from 94% to just 12% is a result of market conditions that made fixed-rate funding less competitive.

Heavily back-loaded debt maturity with peaks in FY28-30F

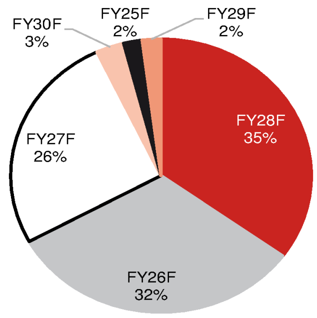
Looking at the maturity profile in *Fig. 104* , Pavilion REIT faces a highly back-loaded debt expiry schedule. The bulk of debt is due in FY28F (35%) and FY26F (32%), with additional sizeable maturities in FY27F (26%). This clustering raises potential refinancing risks if market conditions are unfavorable at that time, especially considering the REIT's floating-rate exposure.

Fig. 103: Gearing ratio and interest cost



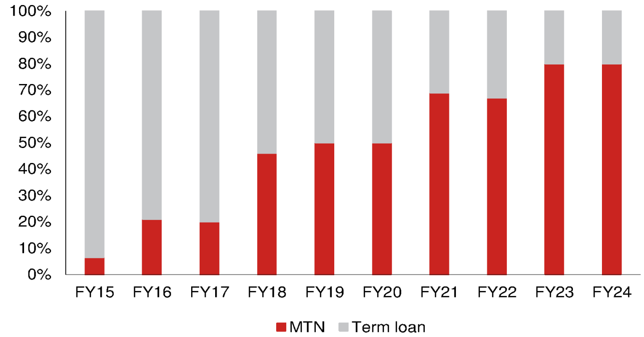
Source: Company data, Nomura research

Fig. 104: Debt expiry profile



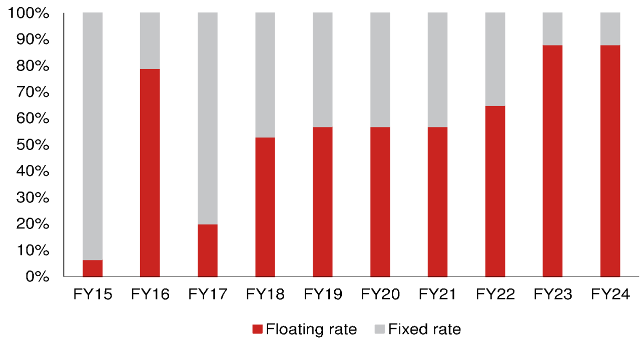
Source: Company data, Nomura research

Fig. 105: Types of funding



Source: Company data, Nomura research

Fig. 106: Coupon/interest rate profile



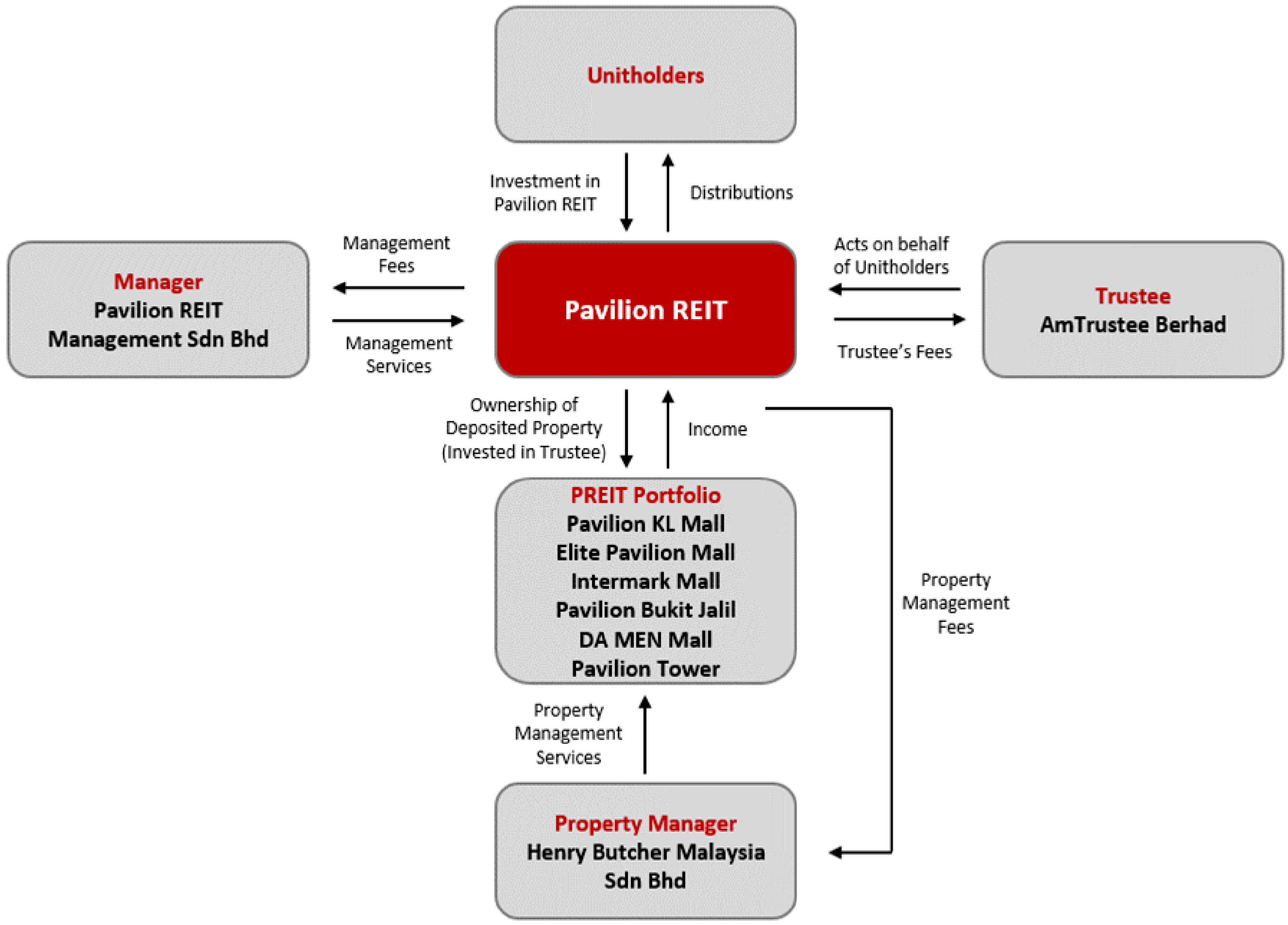
Source: Company data, Nomura research

Pavilion REIT's capital structure reflects an aggressive growth stance but has increased its vulnerability to interest rate and refinancing risks. The key focus areas ahead include the REIT's approach to fixed-rate refinancing when rates shift, potential implementation of hedging instruments such as interest rate swaps, and whether rental income growth can offset rising borrowing costs. While the REIT has effectively used leverage for expansion, its current debt exposure does introduce an element of higher risk. Management's next moves – particularly around interest rate and maturity risk management – will be crucial in preserving distribution stability and investor confidence in a more volatile rate environment, in our view.

Pavilion REIT overview

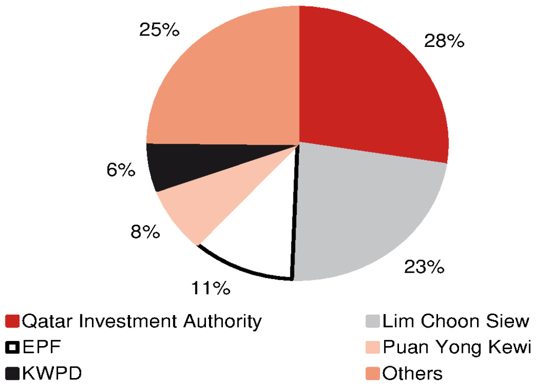
Pavilion Real Estate Investment Trust (Pavilion REIT), listed on the Main Market of Bursa Malaysia since 7 December 2011, stands as one of Malaysia's largest retail-focused REITs with investment properties valued at MYR8.5bn as of FY24. Managed by Pavilion REIT Management Sdn Bhd, the trust's primary assets are strategically positioned in Kuala Lumpur's golden triangle, capitalizing on Malaysia's economic growth. The trust's core investment strategy focuses on income-producing real estate predominantly used for retail purposes, including mixed-use developments with retail components, both in Malaysia and across the Asia-Pacific region. This investment approach serves a dual purpose: providing unit holders with regular and stable distributions while pursuing long-term growth in net asset value through an optimized capital structure.

Fig. 107: Pavilion REIT structure



Source: Company data, Nomura research

Fig. 108: PREIT shareholding structure



Source: Company data, Nomura research

ESG

We arrive at an average ESG rating (out of 5) of 3.7 for Pavilion REIT, as we assign an environmental score of 4 (out of 5.0), a social score of 3.5 (out of 5.0) and a governance score of 3.5 (out of 5.0).

1. Environmental

- The REIT manager has established a climate-transition strategy underpinned by three pillars: (a) Emission management (e.g., energy-efficient lighting, chiller upgrades, GET scheme participation); (b) Investment in Green Tech (e.g., smart building systems, EV charging stations, green building certifications); and (c) Partnerships (e.g., tenant engagement and industry collaboration).
- Pavilion REIT has committed to a 20% reduction in Scope 2 emissions by 2030 (baseline FY2019), 50% renewable energy usage by 2040, and net zero carbon emissions (Scope 1 & 2) by 2050.
- Pavilion Bukit Jalil has invested MYR165,000 in constructing an innovative solar-generating bus stop, featuring solar panels that power lighting and basic amenities, while serving as a functional transit point with RapidKL bus services, operating since 1 December 1, 2024.
- Pavilion Bukit Jalil operates a complimentary daily shuttle service between LRT Awan Besar and the mall's Park Entrance, serving as a vital transportation link for shoppers and employees. This sustainable initiative not only provides convenient transportation for those without direct public transit access or personal vehicles but also supports environmental goals by reducing commuting-related emissions and local traffic congestion.
- Installation of 26 EV charging stations (including Tesla Superchargers) across three malls, supporting 17,505 charging sessions in FY24.
- **Energy management**
    - Participation in TNB’s Green Energy Tariff at Pavilion KL, Pavilion Tower, and Intermark Mall, leading to 35,744 tonnes of CO_2 emission avoidance in FY24.
    - Upgraded lighting and chiller systems across key malls to enhance energy efficiency and transitioning to energy-efficient lighting to reduce electricity usage across properties.
    - Increasing reliance on renewable energy sources, supported by the GET program.
    - The REIT manager also aims to reduce landlord electricity consumption by 3% by 2030 (versus FY19) and achieve 50% renewable electricity usage across operational assets by 2040, through the implementation of innovative energy-saving solutions, expansion of renewable energy programs, and investment in energy-efficient technologies.
- **Waste management**
    - Pavilion KL and Pavilion Bukit Jalil has convertover 14 tonnes annually of food waste into compost through dedicated composting machines. The resulting compost was distributed free to the public, promoting sustainable community practices.
    - 62% of tenants signed Green Lease Agreements, committing to responsible waste disposal and recycling practices. Regular waste segregation audits conducted to assess compliance and improve recycling rates.
    - Deployed e-waste recycling bins at all malls. Collected 1.8 tonnes of e-waste (2024), including used electronics and batteries.
    - Targets to achieve 50% diversion rate of total waste from landfills by 2030 through recycling and composting, and expand food composting to Intermark Mall and DA MEN Mall by 2025.
- **Water management**
    - Rainwater harvesting and condensate recycling systems in place to reduce water consumption. Across all malls, condensate from air-conditioning systems was

recycled for non-potable use, saving approximately 8% of total water consumption.

- Adoption of flood management SOPs to mitigate risks of flash floods through floodgate activation, water removal systems, and evacuation protocols.
- Total water consumption of 1.5 million cubic metres, reduced by 6% y-y due to water-efficiency initiatives
- Target of 10% reduction in total water usage by 2030 (baseline FY19), expansion of rainwater harvesting systems to all properties by 2026, increase water recycling capacity by 15% by 2027.

2. Social

- 'Pavilion Loves Sustainability' Week engaged 3,500+ participants in eco-workshops, recycling drives, and sustainability education across Pavilion KL, Bukit Jalil, and Intermark Mall with 2 tonnes of recyclables collected through public drives
- Charity at Heart Program raised RM150,000, benefiting 800+ individuals from underserved groups with food, medical aid, and supplies
- Flood Relief Response distributed 5,000 emergency kits in flood-hit areas; staff contributed 350 volunteer hours alongside NGOs
- COVID-19 Community Support included donation of 1 million face masks and 2,000 hygiene kits; hosted vaccination outreach for 1,200 people
- Youth & Education Support supplied school kits to 500 underprivileged students; facilitated youth leadership forums on sustainability
- Learning & Development conducted 720 training hours, averaging 28 hours per employee with programs focused on ESG, carbon management, and emergency response
- Health & Safety delivered wellness programs, first aid/CPR training, and mental health webinars with zero workplace incidents or fatalities reported
- Employee Engagement achieved 85% satisfaction score via annual survey; regular town hall meetings, recognition initiatives, and team-building events conducted
- Diversity & Inclusion maintained workforce that is 52% female; strong policies in place to uphold equity and prevent discrimination
- 2025 target: Enhance employee development through increased training (35 hours/employee annually), ESG Leadership Program implementation, and comprehensive mental wellness workshops
- 2027 target: Focus on talent retention through zero turnover targets for key management, 90% employee engagement score target, and expanded diversity initiatives including mentoring programs

3. Governance

- Robust governance structure led by Sustainability Committee (five independent directors) and Sustainability Working Committee (chaired by CEO) overseeing ESG strategy and implementation
- Comprehensive policy framework updated in 2024 covering sustainability, environmental stewardship, climate transition, whistleblowing, and vendor conduct
- Enhanced risk management through integrated climate risk assessment, flood mitigation protocols, and TCFD-aligned scenario planning
- Strong ethical conduct maintained with zero incidents of corruption or non-compliance, 100% employee Anti-Bribery and Corruption (ABC) training completion, and comprehensive vendor due diligence
- Independent assurance by KPMG PLT on key ESG metrics, with complete vendor adherence to Code of Conduct and established whistleblowing mechanisms
- Pavilion REIT is part of the FTSE4Good Bursa Malaysia Index for its strong ESG practices. Pavilion Tower achieved LEED Gold Certification in 2024.
- 2025 target: Enhance ESG governance through annual policy reviews, expanded assurance scope, strengthened climate risk analysis, and complete board ESG training
- 2027 target: Advance ESG infrastructure by aligning with IFRS S1/S2 standards, implementing automated data systems, formalizing supply chain audits, and maintaining zero non-compliance

NOMURA

Global Markets Research

22 April 2025

Sunway REIT SUNW.KL SREIT MK

EQUITY: PROPERTY

Diversified asset base primed for growth

6% DPU yield, diversified asset base and NPI accretion from new acquisitions, retail refurbishment

Rating Starts at	Buy
Target price Starts at	MYR 2.20
Closing price 18 April 2025	MYR 1.91
Implied upside	+15.2%
Market Cap (USD mn)	1,483.3
ADT (USD mn)	1.0

6% DPU yield for a strong well-diversified asset base

Sunway REIT (SREIT) owns twelve retail malls, six hotel assets, five office towers, a university and college campus and three industrial projects, with a total appraised valuation of MYR10.4bn, as of FY24. SREIT is currently trading at a DPU yield of 6%, which we see as an attractive entry point given the company's strong and diversified asset base. Going forward, we see yields compressing due to: (1) stable occupancy levels at its retail malls following the refurbishment of Sunway Pyramid and Sunway Carnival mall; (2) rising occupancy levels of its hotels business; (3) rising rentals at its retail malls and offices, which have a WALE of 2.02 years and 1.70 years respectively; and (4) revenue recognition from the recent acquisitions since 2024.

With its new acquisitions generating full-year revenues and incremental revenue increases from its retail refurbishments, we expect a revenue CAGR of 6% over FY24-27F and an NPI CAGR of 7% during FY24-27F due to the strong upcoming lease renewal cycle. Overall, we see a 6% distribution CAGR in FY24-27F.

Catalysts – Further acquisitions, AEIs to fuel asset growth

(1) In 2024, SREIT completed MYR1bn in acquisitions, including the Sunway 163 Mall, Sunway Kluang Mall, Sunway REIT Industrial in Prai, as well as a portfolio of six hypermarkets. It is also in the process of acquiring the Sunway AEON Mall in 2H25F. It has a first right of refusal (FROR) on the asset sales of its sponsor – Sunway (SWB MK, Not Rated)– and we think there is a steady pipeline available for the company to invest over the medium term. (2) SREIT has also embarked on three key AEIs for its retail business since end-2023: (a) Sunway Pyramid mall Oasis wing; (b) Sunway Carnival Mall Phase 2; and (c) Sunway Pier redevelopment.

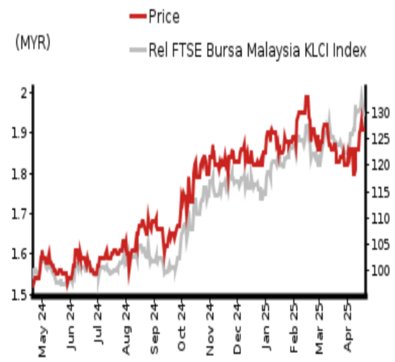
Valuation: TP of MYR2.20 is based on dividend discount model (DDM)

We use DDM to value SREIT. We use our forward-three-year DPU forecast, cost of equity of 7.6% and long-term DPU growth of 2%. We expect the new mall acquisition to be completed in 2H25F and see dividend distributions rising 12% y-y in FY25F and 3% y-y in FY26F. This gives us a target price of MYR2.20, which is higher than our fair value of MYR1.90 derived from our NAV calculation and the MYR1.80 derived using trading yield. Downside risks include weaker-than-expected occupancy and rental reversion, NPI margin pressure, interest rate risk and an outbreak of communicable diseases.

Year-end 31 Dec	FY24	FY25F		FY26F		FY27F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	767		858		885		912
Income for distribution (mn)	525		400		409		423
Normalised dist income (mn)	362		410		420		433
Normalised DPU	0.10		0.11		0.11		0.12
Norm. DPU growth (%)	7.5		12.0		2.5		3.4
FD normalised P/E (x)	18.1	–	16.0	–	15.6	–	15.1
BVPU	1.7		1.7		1.7		1.7
Price/book (x)	1.1	–	1.1	–	1.1	–	1.1
DPU yield (%)	5.2	–	5.9	–	6.0	–	6.2
ROE (%)	9.9		7.4		7.6		7.8
Gearing (%)	42.7		43.5		44.9		46.3

Source: Company data, Nomura estimates

Relative performance chart



Source: LSEG, Nomura

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Key data on Sunway REIT

Performance

(%)	1M	3M	12M		
Absolute (MYR)	2.1	3.2	26.5	M cap (USDmn)	1,483.3
Absolute (USD)	2.9	5.4	37.1	Free float (%)	50.2
Rel to FTSE Bursa Malaysia KLCI Index	4.0	7.5	29.4	3-mth ADT (USDmn)	1.0

Income statement (MYRmn)

Year-end 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
Rental income	716	767	858	885	912
Other Revenue					
Revenue	716	767	858	885	912
Land rent & property tax		-17	-19	-20	-20
Property management fees	-189	-180	-196	-198	-201
Other operating expenses					
Management expenses	-45	-48	-54	-56	-58
Trust expenses	-3	-4	-5	-5	-5
Other operating expenses					
EBITDA	479	518	584	607	628
Depreciation					
Amort of intangible assets					
EBIT	479	518	584	607	628
Net property income	527	570	643	668	691
Net interest expense	-129	-153	-170	-183	-191
Associates & JCEs					
Other income					
Earnings before tax	350	365	414	424	437
Income tax	-1	-3	-4	-4	-4
Net profit after tax	349	362	410	420	433
Minority interests					
Other & non tax deductible items					
Preferred dividends					
Norm income for distn	349	362	410	420	433
Extraordinary items	-11	163	-10	-10	-10
Income for distribution	338	525	400	409	423

Valuation and ratios

	FY23	FY24	FY25F	FY26F	FY27F
Reported P/E (x)	19.3	12.5	16.4	16.0	15.5
Normalised P/E (x)	18.8	18.1	16.0	15.6	15.1
FD normalised P/E (x)	18.8	18.1	16.0	15.6	15.1
Dividend yield (%)	4.9	5.2	5.9	6.0	6.2
Price/book (x)	1.2	1.1	1.1	1.1	1.1
EV/EBITDA (x)	20.4	20.7	19.0	18.4	17.9
EV/EBIT (x)	20.4	20.7	19.0	18.4	17.9
EBIT margin (%)	66.9	67.5	68.1	68.6	68.9
Effective tax rate (%)	0.4	0.8	1.0	1.0	1.0
ROA (pretax %)	5.2	5.3	5.5	5.5	5.7
Growth (%)					
Revenue	9.9	7.2	11.9	3.1	3.0
EBITDA	11.0	8.1	12.9	3.9	3.5
EBIT	11.0	8.1	12.9	3.9	3.5
Normalised EPU	1.2	3.7	13.4	2.3	3.2
Normalised FDEPU	1.2	3.7	13.4	2.3	3.2
DPU	0.9	7.5	12.0	2.5	3.4

Source: Company data, Nomura estimates

Cash flow statement (MYRmn)

Year-end 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
EBITDA	479	518	584	607	628
Change in working capital	154	6	16	17	
Other operating cashflow	-33	-128	4	-3	-1
Cashflow from operations	446	544	595	620	643
Capital expenditure					
Free cashflow	446	544	595	620	643
Acquisition of investment properties	125	-1,224	-368	-103	-103
Net acquisitions					
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	11	14	-13	-9	-10
CF after investing acts	581	-666	214	508	531
Cash dividends	-319	-342	-384	-393	-407
Equity issue					
Debt issue	100	730	250	200	200
Convertible debt issue					
Others	-188	143	-184	-193	-201
CF from financial acts	-407	530	-317	-386	-407
Net cashflow	174	-136	-103	122	123
Beginning cash	251	425	290	187	308
Ending cash	425	290	187	308	432
Ending net debt	3,212	4,177	4,530	4,608	4,685

Balance sheet (MYRmn)

As at 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
Cash & equivalents	425	290	187	308	432
Accounts receivable	108	41	36	37	38
Other current assets	15	0	0	0	0
Total current assets	549	331	223	346	470
Investment properties	8,972	10,455	10,836	10,947	11,060
Acquisitions					
Capital expenditure					
Net appreciation in value					
Associates					
Other LT assets	18	17	17	17	17
Total assets	9,539	10,803	11,076	11,310	11,547
Short-term debt	1,637	1,737	1,737	1,737	1,737
Accounts payable	270	327	344	361	378
Other current liabilities	0	14	0	0	0
Total current liabilities	1,907	2,078	2,080	2,097	2,115
Long-term debt	2,000	2,730	2,980	3,180	3,380
Convertible debt					
Other LT liabilities	115	122	122	122	122
Total liabilities	4,023	4,931	5,182	5,399	5,617
Minority interest					
Preferred stock					
Common stock	5,176	5,372	5,393	5,411	5,430
Retained earnings					
Proposed dividends					
Other equity and reserves	340	500	500	500	500
Non convertible prefs					
Total unitholders' funds	5,516	5,872	5,893	5,911	5,930
Units' funds & liabilities	9,539	10,803	11,076	11,310	11,547

Leverage

	FY23	FY24	FY25F	FY26F	FY27F
Interest cover	3.7	3.4	3.4	3.3	3.3
Gross debt/prop assets (%)	40.5	42.7	43.5	44.9	46.3
Net debt/EBITDA (x)	6.7	8.1	7.8	7.6	7.5
Net debt/equity (%)	58.2	71.1	76.9	78.0	79.0
Dupont decomposition					
Net margin (%)	47.3	68.4	46.6	46.2	46.3
Asset utilisation (x)	0.08	0.08	0.08	0.08	0.08
ROA (%)	3.6	5.2	3.7	3.7	3.7
Leverage (Assets/Equity x)	1.8	1.9	2.0	2.1	2.1
ROE (%)	6.5	9.9	7.4	7.6	7.8
Per share					
Reported EPU (MYR)	9.87c	15.32c	11.67c	11.95c	12.34c
Norm EPU (MYR)	10.19c	10.56c	11.97c	12.25c	12.64c
FD norm EPU (MYR)	10.19c	10.56c	11.97c	12.25c	12.64c
Book value per unit (MYR)	1.61	1.71	1.72	1.73	1.73
DPU (MYR)	0.09	0.10	0.11	0.11	0.12

Source: Company data, Nomura estimates

Company profile

Sunway REIT, listed on Bursa Malaysia's Main Market since July 2010, ranks among Malaysia's largest diversified REITs. With a property value of MYR10.4bn as of December 2024, its portfolio encompasses 28 strategically located assets across Greater Kuala Lumpur, Penang, and Perak. The Trust's diverse portfolio spans retail (14), hospitality (6), office (5), industrial (3), and education (1) sectors, positioned within award-winning integrated townships.

Valuation Methodology

We use the dividend discount model (DDM) to value SREIT, using our forward 3 year DPU forecast, cost of equity of 7.6% and long-term DPU growth of 2%. This gives us a fair value of MYR2.20/unit, which is slightly above the intrinsic NAV derived for the company. The benchmark index is the KLCI Index.

Risks that may impede the achievement of the target price

Key downside risks to our view include weaker than expected occupancy and rental reversion, NPI margin pressure, interest rate risk and outbreak of communicable diseases.

ESG

We arrive at an average ESG rating (out of 5) of 3.5 for SREIT as we assign an environmental score of 3.5, social score of 3.5 and governance score of 3.5. (1) Environmental - Generated 4,307 MWh of solar energy in 2023 through strategic installation of solar PV systems across multiple properties. Implemented innovative water management system sourcing 51% of water requirements from sustainable treatment plant. (2) Social - Maintained 43% female board representation, exceeding national requirements and industry standards. Invested over MYR3.8mn in targeted community initiatives benefiting 92,087 individuals, with focused programs in healthcare, education, and community enrichment, supported by 3,108 employee volunteer hours. (3) Governance - Integrated ESG metrics into executive compensation by linking 25% of senior management remuneration to sustainability performance indicators. Implemented comprehensive ESG due diligence process for new acquisitions while maintaining zero corruption cases through robust whistleblowing mechanisms and compliance programs.

Diversified asset base primed for growth

Sunway Real Estate Investment Trust (Sunway REIT) owns twelve retail malls, six hotel assets, five office towers, a university and college campus and three industrial projects. These assets are valued at a combined of MYR10.4bn (based on the latest independent valuation provided by the company). Out of this, the company's retail assets account for 65% of the total portfolio value and are the primary driver of the REIT's valuation. These retail assets are also well diversified, in our view, and include one super-regional mall (Sunway Pyramid in Subang Jaya, which makes up 40% of the total portfolio value), one regional mall (Sunway Carnival in Penang), three neighborhood malls and seven big-box retail outlets. The company's hotel assets make up 18% of the total portfolio value, with office space accounting for 9%.

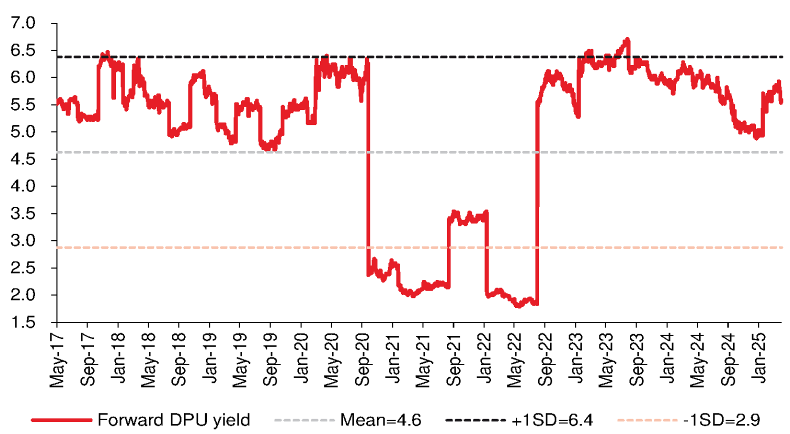
In 2024, the REIT completed a number of acquisitions, including: (1) six hypermarkets / retail complexes for MYR520mn in April 2024; (2) an industrial property in Prai, Penang for MYR66.8mn in October 2024; (3) 163 Retail Park in Mont Kiara, Kuala Lumpur for MYR215mn in October 2024; and (4) Kluang Mall in Kluang, Johor for MYR158mn. Additionally, in January 2025, the REIT announced the acquisition of the Aeon mall in Perak for MYR138mn, which we expect to be completed in 2H25F. We see these acquisitions resulting in strong revenue and NPI growth of 10% y-y and 12% y-y in FY25F, respectively.

SREIT's retail segment accounts for ~70% of its revenue, and we see it benefiting from the continued growth in retail sales in Malaysia, to the tune of 4% y-y in FY25F as forecast by Retail Group Malaysia. Additionally, we think the hospitality industry should benefit from the strong growth in inbound tourism into Malaysia and the industrial segment should benefit from the government's strong focus on increasing domestic manufacturing. While we expect the office segment to remain under pressure in the near term, we do not see it being a significant drag, given that it accounts for only 10% of the company's revenue. We initiate coverage with a Buy rating for a few key reasons:

6% DPU yield for a strong, well-diversified asset base

SREIT was one of the best-performing large REIT companies in Malaysia in 2024, with its unit price rising 20% during the year compared to an 11% increase in the KLREI Index. Moreover, in YTD25, the REIT is up 3% , compared to a 1% decline in the KLREI Index. We believe this outperformance is due to the company's diversified asset base that spans its retail malls, hotels, offices and industrial assets. SREIT currently trades at a DPU yield of 6%, which is slightly above its 5-year average.

Fig. 109: SREIT MK: DPU yield is below average levels



Source: Bloomberg Finance L.P., Nomura research

We view this as an attractive entry point given the company's strong and diversified asset base. We expect yields to compress due to: (1) stable occupancy levels at its retail malls coupled with the refurbishment of the Oasis wing in Sunway Pyramid mall and the Phase 2 of the Sunway Carnival mall; (2) rising occupancy levels of its hotels business, which should benefit from an increase in foreign tourists and the refurbishment of the Sunway

Resort hotel; (3) rising rentals at its retail malls and offices, which have weighted average lease expectancies (WALE) of 2.02 years and 1.70 years, respectively; and (4) revenue recognition from the acquisition of the Sunway 163 Mall, Sunway Kluang Mall and the six new hypermarkets in 2024 and the proposed acquisition of the Sunway AEON Mall in 2H25F.

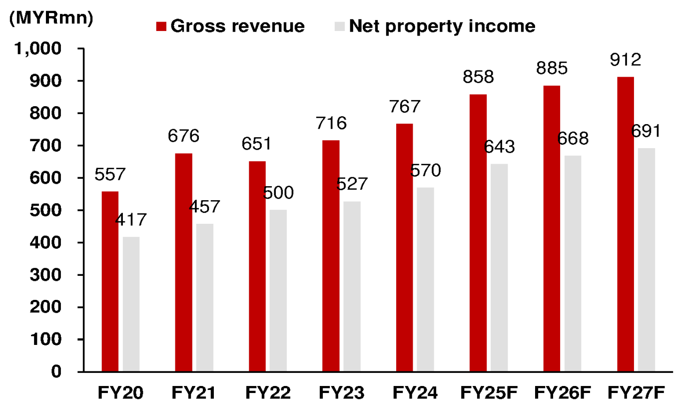
Further acquisitions, AEIs to fuel asset growth

As part of its Transcend 2027 targets, SREIT plans to increase its property value from MYR10.4bn as of FY24F to about MYR14-15bn by 2027F. The company expects this growth to come from both yield-accretive acquisitions and value-enhancing Asset Enhancement Initiatives (AEIs).

Since its IPO in 2010, the company has acquired 21 assets for a total investment of MYR3.5bn. Of this, MYR1bn in acquisitions was completed in 2024, including the Sunway 163 Mall, Sunway Kluang Mall, Sunway REIT Industrial in Prai and a portfolio of six hypermarkets. SREIT has a first right of refusal (FROR) on the asset sales of its sponsor – Sunway, and we think there is a steady pipeline available for the company to invest over the medium term. This includes the possible acquisition of the (1) Sunway Velocity mall in Cheras, which opened in 2016 and has a total floor area of about 1mn sq feet; (2) Sunway Square, an integrated development that includes retail, office and educational facilities; and (3) Sunway Medical Centre healthcare assets in Kuala Lumpur and Penang.

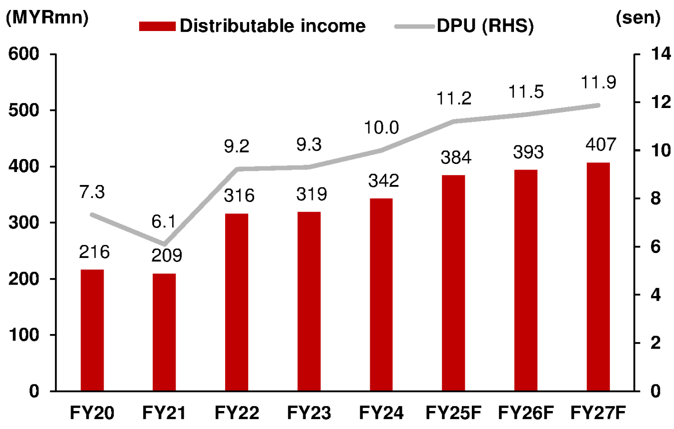
Following the completion of the refurbishment of the Sunway Resort Hotel during the pandemic, REIT embarked on three key AEI projects for its retail business since end-2023 with a total capital expenditure of MYR1bn: (1) Sunway Pyramid Mall – Oasis wing, which was completed in 4Q24. This refurbishment has allowed the mall to increase its average rental rate for this section to over MYR16 psf from ~MYR6 psf earlier, with a strong mix of tenants replacing the previous Anchor tenant. (2) Sunway Carnival Phase 2 is expected by management to be completed in 2H25. This is expected to result in the NLA rising from 455,000 sqf to 770,000 sqf, with the company expecting a five-year ARR increase of ~30% and a sales psf increase of about 50%. (3) Management expects the redevelopment of Sunway Pierto be completed by end-2027. The site currently has a terminal complex building with a jetty and approach bridge for ferries with the refurbishment expected to create seafront tourist destination with F&B, retail and leisure offerings.

Fig. 110: Revenue / NPI to report a CAGR of 6%/7% over FY24-27F



Source: Company data, Nomura estimate

Fig. 111: Distribution income to record a CAGR of 6% during FY24-27F



Source: Company data, Nomura estimate

6% distribution CAGR over FY24-27F

In 2024, SREIT made a number of acquisitions including the Sunway163 Mall in October 2024, the Sunway Kluang Mall in December 2024 and six hypermarkets in Kinrara, Putra Heights, USJ, Klang, Ulu Kelang and Plentong in April 2024 on triple net lease arrangements. With full-year contribution from these assets along with an expected six-month contribution from Sunway AEON Mall Seri Manjung, we expect revenue to grow by 11% y-y in FY25F, with a revenue CAGR of 6% during FY24-27F.

We expect NPI to rise about 13% y-y in FY25F due to the hypermarkets mentioned above being acquired on a triple net lease along with a strong lease renewal cycle for the company's retail and office businesses. We see an overall NPI CAGR of 7% during FY24-27F with the NPI margin expanding from 74.3% in FY24 to 75.7% in FY27F.

SREIT's gearing (debt / total assets) rose by 3pp y- y in FY24 to 41%, and we see this rising by a further 1pp annually through FY27F resulting in a gearing of 44% and a net gearing of 41% by FY27F, still below the company's targeted gearing of <50%. As a result, interest expenses are expected to rise by about 10% y-y in FY25F and a further 5%/4% in FY26/27F.

As a result, we expect realized profit available for unitholders to rise about 11% y-y in FY25F and to record a CAGR of 6% during FY24-27F, and we expect nearly all of it to be paid out. With the number of units expected to remain steady, we see DPU rising strongly by about 12% y-y in FY25F before rising further by 3% y-y in FY26F and FY27F.

Fig. 112: SREIT Intrinsic NAV of MYR1.90

Properties	Type	Capitalisation rate	Discount rate	NPI @ 100%				Cap value	Appraised value
		(%)	(%)	FY25F	FY26F	FY27F	Terminal	(MYRmn)	(MYRmn)
RETAIL									
Sunway Pyramid Mall	99 years	6.85%	8.00%	282	292	303	**4,425**	4,325	4,200
Sunway Carnival Mall	99 years	6.25%	8.00%	67	69	71	**1,129**	1,087	980
Sunway Putra Mall	Freehold	6.50%	8.00%	28	29	29	**453**	439	528
Sunway 163 Mall	Freehold	6.50%	8.00%	15	15	15	**225**	219	225
Sunway Kluang Mall		6.25%	8.00%	12	12	12	**187**	181	165
SunCity Ipoh Hypermarket	99 years	7.00%	8.00%	4	4	4	**54**	53	55
Sunway REIT Hypermarket- Kinrara		6.75%	8.00%	11	11	11	**169**	166	143
Sunway REIT Hypermarket- Putra Heights		7.00%	8.00%	6	6	6	**89**	88	71
Sunway REIT Hypermarket- USJ		7.00%	8.00%	10	10	10	**148**	146	101
Sunway REIT Hypermarket- Klang		7.00%	8.00%	5	5	5	**75**	74	74
Sunway REIT Hypermarket- Ulu Kelang		7.00%	8.00%	4	4	4	**63**	62	53
Sunway REIT Hypermarket- Plentong		7.00%	8.00%	12	12	12	**169**	167	159
Sunway AEON Mall Seri Manjung		7.00%	8.00%	4	10	10	**138**	131	138
Total				**460**	**479**	**492**	**7,324**	**7,139**	**6,892**
HOTEL									
Sunway Resort Hotel	99 years	6.75%	9.00%	66	68	69	**1,024**	977	740
Sunway Pyramid Hotel	99 years	7.00%	9.00%	34	35	35	**506**	486	345
Sunway Lagoon Hotel	99 years	7.00%	9.00%	16	17	17	**244**	235	310
Sunway Putra Hotel	Freehold	6.50%	8.50%	20	21	21	**327**	313	334
Sunway Hotel Seberang Jaya	99 years	7.00%	9.00%	4	4	5	**65**	62	55
Sunway Hotel Georgetown	Freehold	6.50%	8.50%	9	8	8	**126**	121	86
Total				**150**	**152**	**156**	**2,291**	**2,195**	**1,870**
OFFICE									
Menara Sunway	99 years	6.50%	6.70%	12	12	12	**190**	191	178
Sunway Tower	Freehold	7.00%	6.70%	1	1	1	**12**	12	115
Sunway Putra Tower	Freehold	6.50%	6.70%	8	8	8	**130**	131	135
Wisma Sunway	99 years	6.75%	6.70%	4	4	4	**55**	56	60
Sunway Pinnacle	99 years	6.50%	6.70%	31	31	31	**480**	483	471
Total				**56**	**56**	**57**	**868**	**873**	**959**
SERVICES									
Sunway Medical Centre (Tower A & B)			6.70%						
Sunway university & college campus	99 years	6.50%	6.70%	39	40	41	**632**	634	586
Total				**39**	**40**	**41**	**632**	**634**	**586**
INDUSTRIAL & OTHERS									
Sunway REIT Industrial-Shah Alam 1	99 years	6.25%	6.70%	7	7	7	**114**	114	106
Sunway REIT Industrial-Petaling Jaya 1	Freehold	6.50%	6.70%	1	1	1	**16**	16	71
Sunway REIT Industrial - Prai		6.50%	6.70%	5	5	5	**80**	81	68
Total				**13**	**13**	**13**	**210**	**211**	**245**
TOTAL				**719**	**741**	**759**	**11,325**	**11,051**	**10,552**
Gross asset value (MYRmn)								11,051	
Less, adjusted net debt (MYRmn)								(4,530)	
Intrinsic NAV (MYRmn)								**6,521**	
Intrinsic NAV/unit (MYR)								**1.90**	

Source: Company data, Nomura estimate

Initiate coverage at Buy, with TP of MYR2.20

We estimate Sunway REIT's NAV at MYR1.90/unit, as shown in *Fig. 4* . This is based on a cap rate of 6-7% for the company's current retail, hotel, office and other assets. We also incorporate the proposed acquisition of Sunway AEON Mall Seri Manjung from 2H25F for a value of MYR138mn. As a result, we incorporate a higher FY25F net debt of MYR4.5bn in FY25F to calculate our NAV.

This is about 30% higher than the company's current NAV due to higher valuations for Sunway Pyramid Mall (MYR4.3bn vs MYR4.2bn appraised value), Sunway Resort Hotel (MYR977mn vs MYR740mn appraised value), Sunway Pyramid Hotel (MYR486mn vs MYR345mn appraised value), Sunway Carnival Mall (MYR1,087mn vs MYR980mn appraised value) and Sunway Pinnacle (MYR483mn vs MYR471mn appraised value). On the other hand, we use lower valuations for Sunway Putra mall (MYR439mn vs MYR528mn appraised value) and Sunway Tower (MYR12mn vs MYR115mn appraised value).

Implied fair value of MYR1.80 derived from trading yield

SREIT's one-year DPU yield has generally been at a 2.5% spread versus 10-year Malaysian government securities (MGS). Based on the current 10-year MGS yield of 3.7%, a yield spread of 2.5% and our expected FY25F DPU of 11sen, we get an implied fair value of MYR1.80/unit, as shown in *Fig. 113* .

Fig. 113: Implied fair value of MYR1.80 derived from trading yield

FY25F DPU forecast (sen)	11.20
10-year MGS (%)	3.71
Average yield spread (%)	2.5
Implied fair trading yield (%)	6.21
Implied fair value on yield (MYR)	**1.80**

Source: Bloomberg, Nomura estimate

Target unit price of MYR2.20 based on DDM

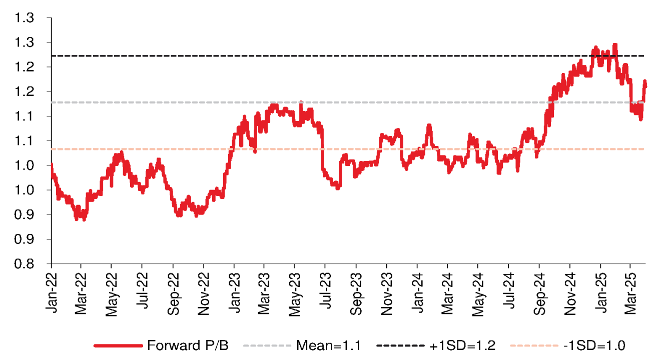
We use the DDM to value Sunway REIT as shown in *Fig. 114* . We use our forward-three-year DPU forecast, cost of equity of 7.6% based on Malaysia's market return of 9.8% and the company's adjusted beta of 0.6 and long-term DPU growth of 2%. With contribution from the new acquisitions to increase from 2025, we see dividend distributions rising 12% y-y in FY25F and 3% y-y in FY26F and FY27F. This gives us a fair value of MYR2.20/unit, which is slightly above the intrinsic NAV derived for the company.

Fig. 114: DDM valuation of MYR2.20

Dividend Discount Model	FY24	FY25F	FY26F	FY27F
Distributions (MYRmn)	342	384	393	407
Terminal distribution (MYRmn)				7,379
TOTAL (MYRmn)		384	393	7,786
Discounted distributions (MYRmn)		384	365	6,722
Equity value		**7,471**		
Fair value/unit		**2.20**		

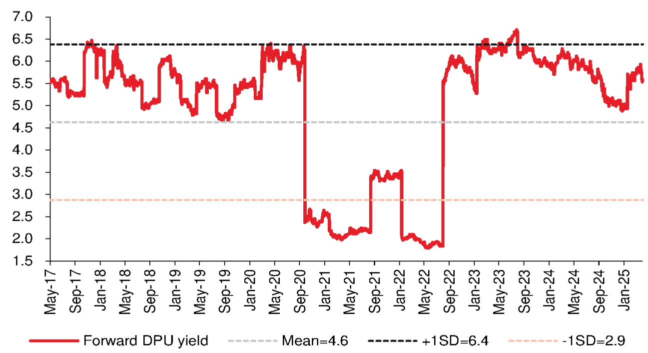
Source: Company data, Nomura estimate

Fig. 115: SREIT MK P/B ratio is in line with average levels



Source: Bloomberg, Nomura research

Fig. 116: SREIT MK: Dividend yield is above average levels



Source: Bloomberg, Nomura research

Key downside risks to our view

- **Weaker-than-expected occupancy and rental reversion:** SREIT's weighted average lease expiry for its retail business is 1.35 years and for its office business is about 1.38 years. Slower-than-expected consumer spending resulting in a weaker-than-expected occupancy/take-up rate and rental reversion could negatively impact DPU.
- **NPI margin pressure:** Although we factor in a 6% increase in property operating expense (utility and maintenance expenses) in FY25F, NPI margins for SREIT could be impacted if cost escalation is higher than expected.
- **Interest rate risk:** The BNM has highlighted that Malaysia's economy could be impacted by supply shocks. If the OPR is raised to deal with this, it could impact PREIT's valuation.
- **Outbreak of communicable diseases:** Outbreak of communicable diseases like Severe Acute Respiratory Syndrome (SARS) in 2003, the flu pandemic in 2009 and the recent COVID-19 pandemic in 2020-2023 could negatively impact the retail market and lower occupancy levels for the company's malls.

Asset portfolio & recent acquisitions

Sunway REIT, one of Malaysia's largest diversified REITs has a current portfolio encompassing 28 strategically located assets across Greater Kuala Lumpur, Penang, and Perak. The REIT's diverse portfolio spans retail (13), hospitality (6), office (5), industrial (3), and education (1) sectors, with a total appraised value of MYR10.4bn as of FY24.

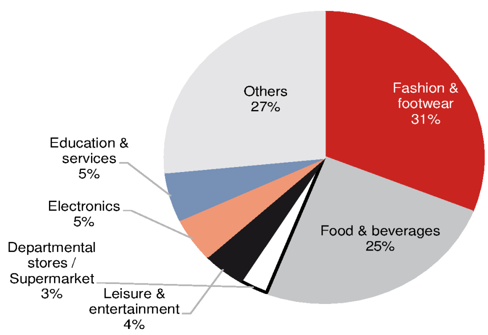
Sunway REIT has a diverse tenant mix of approximately 1,344 tenancies, five hotel master leases, an industrial master lease and an education master lease. The portfolio of Sunway REIT consists of 16.4%, 12.8% and 65.5% of tenanted NLA expiring in FY24, FY25 and FY26 and beyond, respectively. The majority of the tenancies are three-year tenancies, with renewal options at market rate for another three-year term. The top 10 tenants in *Fig. 117* contributed approximately 11.2% of total gross rental income in December 2023, maintaining a low exposure to tenant concentration risk.

Fig. 117: Top 10 tenants by gross rental income

Tenant	Trade Sector	Tenancy Expiry Year	% of Total Gross Rental Income
Uniqlo	Fashion	23 Jun 2025, 14 Jul 2026, 31 Jul 2026	1.70%
Parkson	Department store	29 Feb 2024, 30 Sep 2026	1.60%
Padini	Fashion	27 May 2024, 23 Jun 2025, 6 Sep 2025	1.50%
TGV Cinemas	Cinema	22 Jul 2024, 14 Sep 2024	1.40%
Jabatan Kerja Raya	Government agency	28-Feb-26	0.90%
Roche	Pharmaceutical	31 May 2024, 31 Jan 2025, 30 Sep 2025	0.90%
Maxis	Telecommunications	14-Dec-24	0.80%
Zara	Fashion	29-Feb-24	0.80%
Adidas	Fashion	30-Sep-25	0.80%
Cotton On	Fashion	19-Mar-26	0.80%
			11.20%

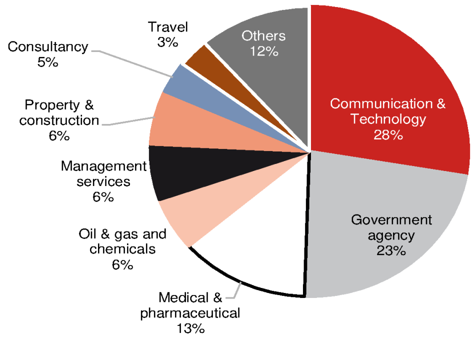
Source: Company data, Nomura research

Fig. 118: Retail segment: Top trade sectors



Source: Company data, Nomura research

Fig. 119: Office segment: Top trade sectors

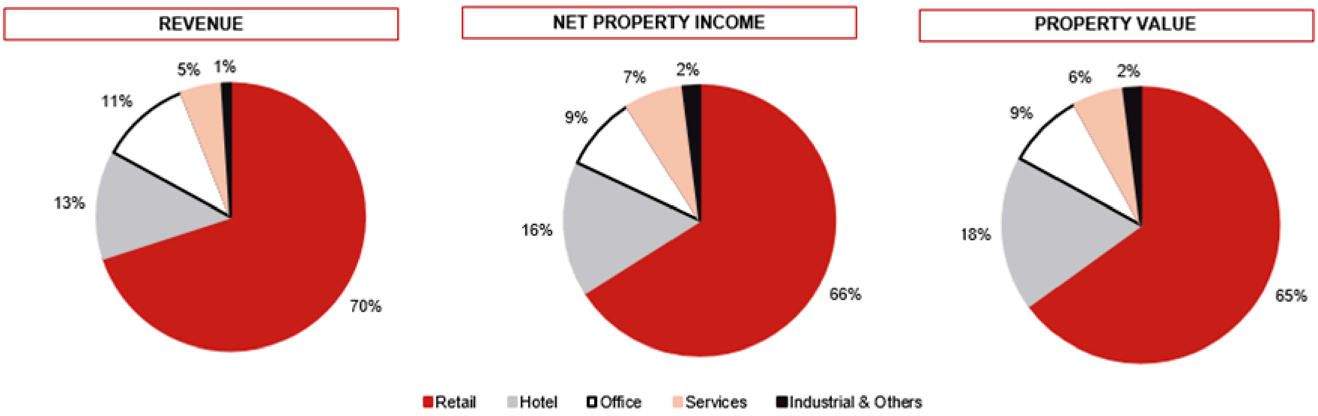


Source: Company data, Nomura research

Sunway REIT's portfolio tells a compelling story of strategic focus and diversification, in our view, with retail assets forming the backbone of its operations. The retail segment has demonstrated remarkable consistency, contributing approximately 65-70% across all key metrics – revenue, NPI, and property value. This alignment suggests a well-managed and efficiently operated retail portfolio that delivers stable returns. The hotel segment has emerged as an interesting value driver within the portfolio. While contributing a modest 13% of revenue, hotels account for a more substantial 16% of NPI and 18% of property value. This relatively disproportionate contributions to NPI and property value indicate to us strong operational efficiency and potential for future value appreciation, having been positioned in prime locations.The office segment presents a more balanced profile, contributing around 9-11% across all metrics. However, the slightly lower NPI compared to revenue hints at higher operating costs, typical of office properties that generally require more intensive management and maintenance.

Overall, Sunway has crafted a portfolio that leverages the stability of retail assets while maintaining strategic diversification through hotel and office properties. The higher margins in the hotel segment particularly stand out, suggesting these properties serve as valuable profit centers complementing the REIT's dominant retail focus.

Fig. 120: Asset portfolio



Source: Company data, Nomura research

Fig. 121: Sunway REIT's retail assets

Source: Company data, Nomura research

Fig. 122: Sunway REIT's hotel assets

Source: Company data, Nomura research

Fig. 123: Sunway REIT's office assets

Source: Company data, Nomura research

Fig. 124: Sunway REIT's services & industrial assets

Source: Company data, Nomura research

Retail segment – makes up bulk of the assets

We value the retail segment, with 13 assets (+1 acquisition in January 2025), at MYR6.5bn (~65% of the total portfolio) and consider it to be the company's core growth engine. Anchored by the flagship Sunway Pyramid Mall, these retail properties are located across Selangor, Kuala Lumpur, Penang, and Perak, and have consistently generated strong footfall, high occupancy, and resilient tenant demand.

Fig. 125: Diversified retail portfolio with enhanced income resilience

Category	Super-Regional Malls	Regional Malls	Neighbourhood Malls	Big-Box Retail
Target market & net lettable area	Local & international tourists; NLA > 1 million sq.ft.	Population within 50km; NLA > 500,000 sq.ft.	Population within 20km; NLA > 250,000 sq.ft.	Population within 10km; NLA c. 250,000 sq.ft.
Strategic retail asset portfolio	Sunway Pyramid Mall	Sunway Carnival Mall	Sunway Putra Mall, Sunway PJ Mall, Sunway 163 Mall, Sunway Kluang Mall	Hypermarkets: SunCity Ipoh, USJ, Putra Heights, Ulu Kelang, Klang, Menteng
Geographic footprint	Sunway City Kuala Lumpur	Penang	Kuala Lumpur, Klang, Johor	Ipoh, Selangor, Kuala Lumpur, Johor
Sunway's unique strengths	Unique, iconic location; Strong management & leasing team	Focus on identifying underserved markets	Resilience from convenience and tenant profile (F&B, Services)	Serving everyday needs of everyday people
Segment's WALE	1-3 years	1-3 years	1-3 years	5-10 years

Source: Company data, Nomura research

1. **Sunway Pyramid Mall, Selangor –** Sunway REIT's crown jewel, this mega lifestyle mall is integrated into the award-winning Sunway City Kuala Lumpur, benefiting from captive traffic from the adjacent theme park, university, and hotels. With a net lettable area (NLA) of over 1.8mn sqf, the mall enjoys consistently high occupancy (near 100%) and robust tenant sales. An ongoing MYR190mn AEI is reconfiguring the former AEON space into specialty stores, designed to uplift rental rates and retail experience.

2. **Sunway Carnival Mall, Penang** – Strategically located in Seberang Jaya, this mall capitalizes on underserved demand from Mainland Penang. The new wing, launched in June 2022, contributed to a full-year uplift in FY23, with revenue rising 34% y-y. The ongoing MYR360mn refurbishment of the existing wing aims to seamlessly integrate both wings and enhance shopper engagement.

3. **Sunway Putra Mall, Kuala Lumpur** – Located directly opposite the World Trade Centre KL and above the PWTC LRT station amid KL's Diamond Triangle, this urban mall benefits from high visibility and accessibility. Continuous tenant remixing has ensured sustained footfall despite stiff competition. Certified GreenRE Gold, it demonstrates Sunway REIT's sustainability agenda, in our view.

4. **SunCity Ipoh Hypermarket, Perak** – A single-tenanted property leased to TF Value-Mart, en established retail chain with a 40-outlet strong nationwide network. Located in a mature neighbourhood, this asset offers stable, predictable rental income under a long-term lease.

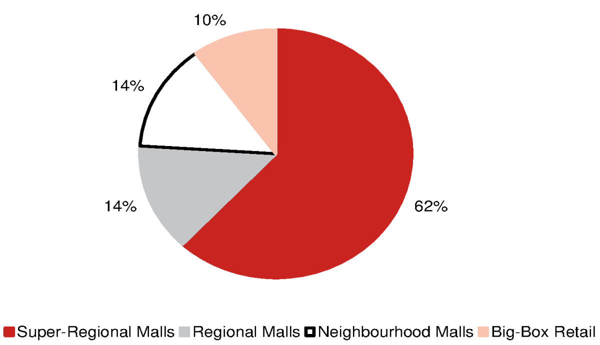
5. **Sunway Pier, Selangor –** A strategic 18 acre brownfield development earmarked for a MYR370mn transformation into a waterfront tourism and retail hub. With ferry and KTM connectivity, this future seaside landmark is envisioned by management to house F&B, leisure, and experiential retail offerings targeting both locals and tourists.

Redevelopment is slated to begin in 2024, with completion by 2027.

New acquisitions in FY24-25F

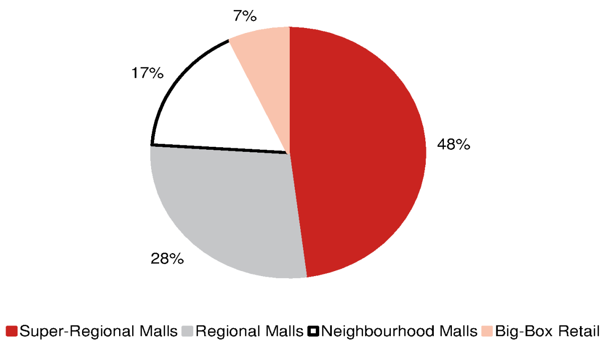
6. **Sunway 163 Mall** – On 26 January 2024, Sunway REIT acquired "163 Retail Park" in Mont Kiara, Kuala Lumpur for MYR215mn. This seven-storey retail mall, offering a 6.5% NPI yield, serves as the center piece of a mixed integrated development within D'Kiara 163. The property's value proposition is enhanced by its location amid an affluent catchment area of locals and expatriates, with potential for further value enhancement through tenant mix optimization and AEIs.
7. **Sunway Kluang Mall** – Sunway REIT has acquired Sunway Kluang Mall for MYR158mn, marking a strategic expansion into central Johor's retail landscape. The acquisition, completed on 30 December 2024 at MYR200 psf, represents a slight discount to its appraised value of MYR165mn. The four-storey retail complex, completed in 2015, offers 360,882 sqf of NLA, featuring 919 parking bays and over 130 tenancies. Anchored by Pacific Hypermarket & Department Store, the mall hosts a diverse mix of retail, F&B, entertainment outlets and various lifestyle brands. Strategically located in Kluang town, the mall serves as a convenient regional shopping destination for surrounding areas as well.
8. **Sunway REIT Hypermarkets** – Sunway REIT entered into a MYR520mn acquisition agreement with Kwasa Properties (unlisted) on 16 March 2023 for six freehold hypermarkets/retail complexes in Klang Valley and Johor. The properties, yielding an 8.0% NPI, are strategically positioned in densely populated residential areas and are fully leased to a reputable hypermarket operator under triple-net master lease arrangements. This acquisition aligns with Sunway REIT's expansion strategy into Johor while providing stable income streams resilient to economic downturns.
9. **Sunway AEON Mall Seri Manjung** – Sunway REIT entered into a conditional agreement on 20 January 2025 to acquire AEON Mall Seri Manjung from YNH Property Berhad's (YNHB MK, Not rated) subsidiaries (Kar Sin Berhad (unlisted) and YNH Hospitality Sdn. Bhd (unlisted)) for MYR138mn. Located in Manjung, Perak, this retail asset acquisition is targeted for completion by 2Q25, subject to customary closing conditions.

Fig. 126: Current retail portfolio in FY24



Source: Company data, Nomura research

Fig. 127: Target retail portfolio by FY27F



Source: Company data, Nomura research

Hotel segment – on track to benefit from tourism growth

The hotel segment consists of six properties worth MYR1.9bn (18% of the portfolio), with a total of 2,527 rooms. Located in key urban centers including Selangor, Kuala Lumpur, and Penang, this segment benefits from the post-pandemic tourism recovery and stable income from long-term master leases. Notably, the refurbished Sunway Resort Hotel is now Malaysia's first GreenRE Platinum-certified hotel.

1. **Sunway Resort Hotel, Selangor** – The flagship hospitality asset reopened in July 2023 after a MYR300mn transformation into Malaysia's first GreenRE Platinum-certified hotel. Now featuring global dining names such as Gordon Ramsay Bar & Grill

and Black Tap, the hotel commands a 67% higher ADR vs pre-pandemic. It also serves as a halo for adjacent hotel assets.

2. **Sunway Pyramid Hotel, Selangor** – A part of the cluster of hotels in Sunway City, it is directly connected to the mall and resort hotel, this 564-room hotel caters to families and business travelers. It recorded strong occupancy above 70% in FY23, boosted by cross-visitation from mall shoppers and tourists.
3. **Sunway Lagoon Hotel, Selangor** – A 401-room hotel positioned for family and leisure segments. The property saw strong ADR and occupancy (above 70%) thanks to its proximity to Sunway Lagoon theme park and Meetings, Incentives, Conferences & Events (MICE) events.
4. **Sunway Putra Hotel, Kuala Lumpur** – This 650-room hotel is integrated within the Sunway Putra mixed-use development and is positioned to serve the MICE and corporate segment from nearby government offices and the PWTC.
5. **Sunway Hotel Seberang Jaya, Penang** – A 143-room corporate-focused hotel located near industrial hubs and healthcare centers. Room rates have improved as business travel in Penang mainland rebounded.
6. **Sunway Hotel Georgetown, Penang** – Located in the heritage core of George Town, this 250-room hotel benefits from tourism flow and medical tourism demand. While occupancy softened slightly in FY23, it remains a stable contributor to NPI, according to management.

Office segment – stable rental income

The office segment, comprising five assets valued at MYR959mn (9% of the portfolio), includes landmark towers in Bandar Sunway and central Kuala Lumpur. Despite oversupply in the Klang Valley, this segment has delivered rental reversion and maintained healthy occupancy levels and stable rental income thanks to quality locations and tenant stickiness.

1. **Menara Sunway, Selangor** – A landmark 19-storey tower in Sunway City KL, housing Sunway Group's corporate HQ. It enjoys full occupancy, long leases, and reliable anchor tenants, making it a defensive income-generating asset.
2. **Sunway Tower, Kuala Lumpur** – Strategically positioned near KLCC and LRT access, Sunway Tower is a 33-storey prime office building. Rental recovery has been encouraging, with 30% y-y revenue growth in FY23. Asset repositioning potential remains under consideration, according to management.
3. **Sunway Putra Tower, Kuala Lumpur** – Part of an integrated development with the mall and hotel. Government-related agencies form a key tenant base coupled with financial institutions and professional firms, with occupancy and NPI having remained resilient despite market oversupply.
4. **Wisma Sunway, Selangor** – A mature commercial asset with stable occupancy and long-standing tenants, predominantly comprising government agencies. Located in Shah Alam, it has continued to deliver steady rental income.
5. **Sunway Pinnacle, Selangor** – An MSC-status 24-storey Grade-A office tower with strong green credentials and a direct link to Sunway Pyramid Mall and BRT. Tenanted by MNCs and large local corporates.

Services – triple net lease with Sunway Education Group

The services segment includes a single asset – the Sunway University & College Campus in Selangor – valued at MYR586mn (6% of the portfolio). Leased on a long-term triple-net basis to Sunway Education Group, it delivers reliable institutional-grade income with built-in rental escalations.

1. **Sunway University & College Campus, Selangor** – Fully leased to Sunway Education Group on a long-term triple-net master lease, this education asset provides predictable cash flow and contractual rental escalations (incremental lease rental of 2.3% pa). It anchors the REIT's services segment and aligns with Sunway's "EDU-Health-Wellness" ecosystem.

Additionally, the Sunway Medical Centre across Tower A & B, was disposed off on 30

August 2023.

Industrial & Others – further expansion through acquisition

Lastly, the industrial and others segment, currently made up of two operating assets and one proposed acquisition, represents MYR245mn, or 2%, of the portfolio value. Located in Selangor and Penang, these properties offer strong yields through long leases with CPI-linked escalation clauses and form a key pillar of Sunway REIT's growth strategy under its Transcend 2027 roadmap.

1. **Sunway REIT Industrial, Shah Alam 1** – A 6.5-acre single-tenant warehouse cum manufacturing facility leased to DCH Contract Manufacturing. The lease includes CPI-linked rental escalations and renewals every three years. This asset is core to Sunway REIT's shift toward industrial diversification.
2. **Sunway REIT Industrial, Petaling Jaya 1** – A recently acquired freehold asset in a mature industrial zone. The asset has secured ABB (ABB SS, Not rated) as an anchor tenant, leasing 27% of its NLA. Leasing interest remains strong, with management expecting further uptake in FY25E coupled with potential upside as occupancy ramps up.

New acquisitions in FY24-25F

3. **Sunway REIT Industrial (Prai)** – A 100%-leased, income-generating logistics/industrial facility in one of Malaysia's key manufacturing corridors. At a purchase consideration of MYR66.8mn and an estimated yield of ~7%, management expects it will strengthen Sunway REIT's foothold in the industrial segment.

In our view, Sunway REIT's asset portfolio, spanning over 18 million sq.ft. of space and spread across high-growth regions in Malaysia, is a blueprint for a well-balanced REIT strategy: retail drives growth, hotels ride the tourism wave, offices anchor stability, and industrial assets lift yields. Underpinned by proactive AEIs, ESG-led upgrades, and strategic acquisitions, we believe the portfolio is positioned to thrive in a structurally evolving Malaysian real estate market.

Transcend 2027 roadmap

Sunway REIT has unveiled its strategic vision, 'Transcend 2027', a comprehensive roadmap designed to elevate its position in Malaysia's competitive REIT landscape.

Fig. 128: SREIT's Transcend 2027 roadmap

Source: Company data, Nomura research

A leading M-REIT – At the heart of this transformation lies the ambitious goal of establishing itself as one of the top two M-REITs, focusing on substantial market capitalization growth and enhanced property value metrics. This positioning reflects a deliberate shift from being merely a market participant to emerging as a definitive market leader.

Growing portfolio size – The strategy's cornerstone involves expanding its portfolio size with targeted property value growth from ~MYR10bn to MYR14-15bn. The company plans to achieve this expansion through a dual approach of yield-accretive acquisitions and value-enhancing AEIs. This approach is designed to ensure immediate value creation while optimizing the performance of existing assets within the portfolio.

Focused growth – In terms of growth strategy, Sunway REIT has adopted a balanced approach combining core sector focus with opportunistic expansion. The REIT plans to reinforce its position in traditional strong sectors, particularly leveraging its established expertise in retail properties. Simultaneously, the strategy encompasses an opportunistic approach to emerging sectors, specifically targeting logistics facilities, service-based assets, and data center opportunities. This dual approach is designed to result in portfolio diversification while maintaining strategic focus on proven revenue generators.

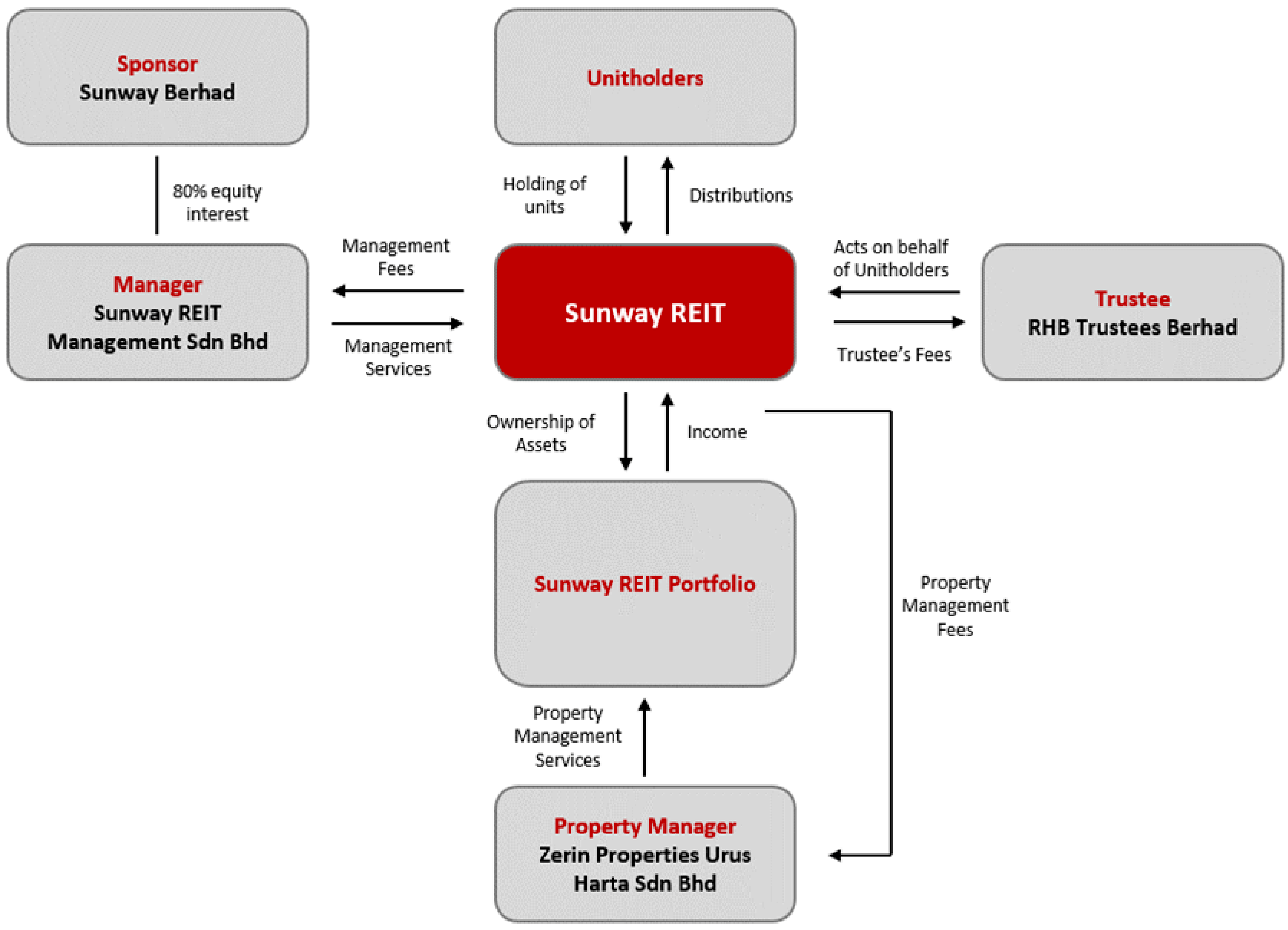
Defining targets – The success of Transcend 2027 will be measured through a sophisticated performance matrix that incorporates both primary and secondary targets. The primary objectives center on optimizing annual total returns and enhancing premium-to-NAV metrics, while secondary targets focus on five-year average total returns and DPU CAGR. To ensure accountability and maintain a competitive edge, these performance metrics will be regularly benchmarked against peer M-REITs' performance.

This comprehensive strategic framework demonstrates Sunway REIT's commitment to sustainable growth and value creation. By balancing traditional strength areas with emerging opportunities, while maintaining a clear focus on measurable outcomes, the REIT has positioned itself strongly for achieving its 2027 objectives, according to management. Management expects this approach to not only result in continued growth but also continued strong risk-adjusted returns for unitholders.

Sunway REIT overview

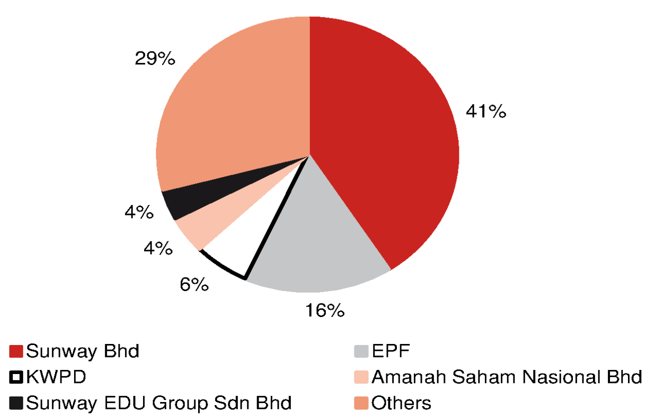
Sunway REIT, listed on Bursa Malaysia's Main Market since July 2010, ranks among Malaysia's largest diversified REITs. With a property value of MYR10.4bn as of December 2024, its portfolio encompasses 28 strategically located assets across Greater Kuala Lumpur, Penang, and Perak. The Trust's diverse portfolio spans retail (14), hospitality (6), office (5), industrial (3), and education (1) sectors, positioned within award-winning integrated townships.

Fig. 129: SREIT structure



Source: Company data, Nomura research

Fig. 130: SREIT: Shareholding structure



Source: Company data, Nomura research

ESG

We arrive at an average ESG rating (out of 5) of 3.5 for Sunway REIT, as we assign an environmental score of 3.5 (out of 5.0), a social score of 3.5 (out of 5.0) and a governance score of 3.5 (out of 5.0).

1. Environmental

- **Renewable energy leadership**: Generated 4,307 MWh of solar energy in 2023 through strategic installation of solar PV systems across multiple properties, demonstrating commitment to clean energy transition and reducing carbon footprint.
- **Green lease innovation**: Pioneered a comprehensive Green Lease Partnership program achieving 82% tenant participation, incorporating sustainability requirements into lease agreements and providing support mechanisms for tenant sustainability initiatives.
- **Water sustainability achievement**: Implemented innovative water management system sourcing 51% of water requirements from sustainable treatment plant, while achieving significant reductions in water intensity across portfolio (Retail: 17.8%, Hotel: 15.5% from 2019 baseline).
- **Waste reduction excellence**: Successfully implemented a comprehensive waste management strategy resulting in 8% waste diversion from landfills and elimination of 862,408 pieces of single-use plastics through systematic reduction programs and tenant engagement.
- **Sustainable building certification**: Achieved green certification for 35% of gross floor area through systematic implementation of sustainable building practices, energy-efficient technologies, and green building management systems.

2. Social

- Maintained 43% female board representation, exceeding national requirements and industry standards, while implementing comprehensive policies ensuring gender equality across all organizational levels.
- Delivered a structured training program averaging 35 hours per employee annually, incorporating sustainability awareness, technical skills, and leadership development modules.
- Maintained 100% local senior management hiring while implementing comprehensive succession planning and talent development programs to ensure continued local leadership pipeline.
- Invested over MYR3.8mn in targeted community initiatives benefiting 92,087 individuals, with focused programs in healthcare, education, and community enrichment, supported by 3,108 employee volunteer hours.
- Implemented comprehensive OHSE management systems achieving zero fatalities and maintaining industry-leading safety standards through regular training, audits, and systematic risk management.

3. Governance

- Secured MYR4.7bn total sustainable finance commitment and launched Malaysia's first green Cross Currency Swap worth MYR200mn, demonstrating leadership in sustainable financial innovation.
- Achieved a significant upgrade from 'BB' to 'A' in MSCI ESG Rating through systematic implementation of ESG best practices and transparent reporting frameworks.
- Integrated ESG metrics into executive compensation by linking 25% of senior management remuneration to sustainability performance indicators.
- Established dedicated sustainability committee with clear oversight structure and reporting mechanisms, ensuring effective implementation of sustainability initiatives across the organization.
- Implemented comprehensive ESG due diligence process for new acquisitions while maintaining zero corruption cases through robust whistleblowing mechanisms and compliance programs.

NOMURA

KLCCP Stapled Group KLCC.KL KLCCSS MK

EQUITY: PROPERTY

Awaiting a better entry point; initiating at Neutral

Quality assets reasonably priced, given 5.2% DPU yield and 4% distribution CAGR over FY24-27F

5.2% DPU yield leaves limited room for upside; initiating at Neutral/MYR9.40 TP

KLCCP Stapled Group (KLCCSS) is Malaysia's largest REIT by market cap, and the only stapled security. It comprises KLCC Property Holdings and KLCC REIT and owns five offices including the iconic Petronas Twin Towers, one of the most premier retail malls in KL (Suria KLCC) and a luxury hotel (Mandarin Oriental), with a total appraised asset valuation of MYR16.9bn (by CBRE). KLCCSS is currently trading at a DPU yield of 5.2%, in line with its 5-year average. While there is scope for further yield compression, we do not see significant upside given: (1) the long-term leases for its office buildings have been recently renewed with Petronas (unlisted), and we do not expect significant revenue impact going forward. (2) Suria KLCC has occupancy levels of 99%, and we see upside coming only from rental increases; and (3) operating costs for the Services Management business should rise further due to the minimum wage hike and increase in utility costs.

With three of its office complexes locked into long-term leases with Petronas, we estimate a revenue CAGR of 4% over FY24-27F. With operating expenses likely to rise due to a rise in the minimum wage, and higher utility and maintenance expenses, we estimate an operating profit CAGR of 3% over FY24-27F and see total income distribution to record a CAGR of 4%.

Catalyst – An increase in appraised value for Petronas Twin Towers/Suria KLCC

An increase in the appraised value for the company's key assets – Petronas Twin Towers, valued at MYR7.0bn and Suria KLCC mall, valued at MYR5.8bn – would be a positive for the company.

Valuation: TP of MYR9.40 (8.8% potential upside) is based on DDM

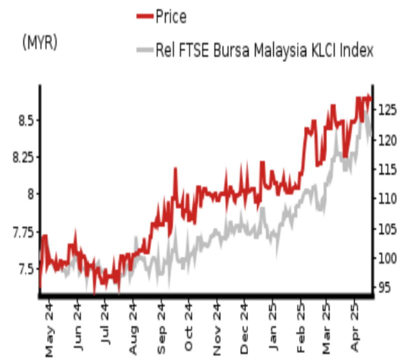
We use dividend discount model (DDM) to value KLCCSS, using our forward three-year DPU forecast, cost of equity of 7.4% and long-term DPU growth of 2%. Given the likely weak growth in revenue and operating profit going forward, we see dividend distributions rising 2% y-y in FY25F and 5% y-y in FY26F, giving us a fair value of MYR9.40/unit. We prefer Pavilion REIT (PREIT MK, Buy) in the Malaysia REIT sector. Upside risks include higher-than-expected rental increase and interest rate hike while downside risks include weaker-than-expected occupancy and rental reversion, margin pressure, interest rate risk and outbreak of communicable diseases.

Year-end 31 Dec	FY24	FY25F		FY26F		FY27F	
Currency (MYR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	1,711		1,775		1,845		1,919
Income for distribution (mn)	1,017		859		902		948
Normalised dist income (mn)	782		859		902		948
Normalised DPU	0.45		0.45		0.47		0.50
Norm. DPU growth (%)	9.9		1.6		5.0		5.1
FD normalised P/E (x)	20.0	–	18.2	–	17.3	–	16.5
BVPU	7.6		7.6		7.7		7.8
Price/book (x)	1.1	–	1.1	–	1.1	–	1.1
DPU yield (%)	5.2	–	5.2	–	5.5	–	5.8
ROE (%)	7.0		6.2		6.5		6.8
Gearing (%)	26.7		25.4		24.2		22.9

Source: Company data, Nomura estimates

Rating Starts at	**Neutral**
Target price Starts at	**MYR 9.40**
Closing price 18 April 2025	**MYR 8.64**
Implied upside	**+8.8%**
Market Cap (USD mn)	3,537.0
ADT (USD mn)	0.6

Relative performance chart



Source: LSEG, Nomura

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Key data on KLCCP Stapled Group

Performance

(%)	1M	3M	12M		
Absolute (MYR)	1.8	7.9	16.1	M cap (USDmn)	3,537.0
Absolute (USD)	2.5	10.2	25.9	Free float (%)	24.0
Rel to FTSE Bursa Malaysia KLCI Index	3.6	12.2	19.1	3-mth ADT (USDmn)	0.6

Income statement (MYRmn)

Year-end 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
Rental income	1,619	1,711	1,775	1,845	1,919
Other Revenue					
Revenue	1,619	1,711	1,775	1,845	1,919
Land rent & property tax					
Property management fees					
Other operating expenses	-599	-644	-678	-714	-751
Management expenses					
Trust expenses					
Other operating expenses					
EBITDA	1,020	1,067	1,098	1,131	1,168
Depreciation					
Amort of intangible assets					
EBIT	1,020	1,067	1,098	1,131	1,168
Net property income	1,020	1,067	1,098	1,131	1,168
Net interest expense	-69	-115	-154	-139	-124
Associates & JCEs	14	14	15	15	15
Other income					
Earnings before tax	966	967	959	1,007	1,059
Income tax	-121	-144	-96	-101	-106
Net profit after tax	844	822	863	907	953
Minority interests	-135	-41	-4	-4	-5
Other & non tax deductible items					
Preferred dividends					
Norm income for distn	709	782	859	902	948
Extraordinary items	222	235	0	0	0
Income for distribution	931	1,017	859	902	948

Valuation and ratios

Reported P/E (x)	16.7	15.3	18.2	17.3	16.5
Normalised P/E (x)	22.0	20.0	18.2	17.3	16.5
FD normalised P/E (x)	22.0	20.0	18.2	17.3	16.5
Dividend yield (%)	4.7	5.2	5.2	5.5	5.8
Price/book (x)	1.0	1.1	1.1	1.1	1.1
EV/EBITDA (x)	16.2	17.2	16.6	16.0	15.4
EV/EBIT (x)	16.2	17.2	16.6	16.0	15.4
EBIT margin (%)	63.0	62.4	61.8	61.3	60.9
Effective tax rate (%)	12.5	14.9	10.0	10.0	10.0
ROA (pretax %)	6.1	6.3	6.4	6.6	6.8
Growth (%)					
Revenue	11.0	5.7	3.8	3.9	4.0
EBITDA	6.4	4.6	2.9	3.1	3.3
EBIT	6.4	4.6	2.9	3.1	3.3
Normalised EPU	17.0	10.2	9.9	5.0	5.1
Normalised FDEPU	17.0	10.2	9.9	5.0	5.1
DPU	6.6	9.9	1.6	5.0	5.1

Source: Company data, Nomura estimates

Cash flow statement (MYRmn)

Year-end 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
EBITDA	1,020	1,067	1,098	1,131	1,168
Change in working capital	33	-8	6	6	
Other operating cashflow	33	36	50	49	48
Cashflow from operations	1,053	1,136	1,139	1,186	1,222
Capital expenditure					
Free cashflow	1,053	1,136	1,139	1,186	1,222
Acquisition of investment properties					
Net acquisitions	-15	-30	-28	-28	-28
Dec in other LT assets					
Inc in other LT liabilities					
Adjustments	-53	-1,971	13	13	13
CF after investing acts	986	-865	1,124	1,170	1,206
Cash dividends	-731	-803	-816	-857	-900
Equity issue					
Debt issue	-1,066	2,616	-200	-200	-200
Convertible debt issue					
Others	834	-778	-215	-206	-197
CF from financial acts	-964	1,034	-1,231	-1,263	-1,297
Net cashflow	22	169	-107	-92	-91
Beginning cash	1,170	1,192	1,361	1,254	1,161
Ending cash	1,192	1,361	1,254	1,161	1,071
Ending net debt	1,172	2,957	2,864	2,756	2,647

Balance sheet (MYRmn)

As at 31 Dec	FY23	FY24	FY25F	FY26F	FY27F
Cash & equivalents	1,192	1,361	1,254	1,161	1,071
Accounts receivable	94	87	95	104	113
Other current assets	5	5	5	5	5
Total current assets	1,291	1,453	1,353	1,270	1,189
Investment properties	15,953	16,201	16,201	16,201	16,201
Acquisitions					
Capital expenditure					
Net appreciation in value					
Associates					
Other LT assets	1,089	1,010	1,007	999	993
Total assets	18,334	18,663	18,561	18,470	18,382
Short-term debt	1,075	412	412	412	412
Accounts payable	261	279	279	293	309
Other current liabilities	22	31	31	31	31
Total current liabilities	1,358	722	722	737	752
Long-term debt	1,290	3,905	3,705	3,505	3,305
Convertible debt					
Other LT liabilities	296	332	332	332	332
Total liabilities	2,944	4,959	4,759	4,573	4,389
Minority interest					
Preferred stock					
Common stock	15,389	13,705	13,802	13,897	13,993
Retained earnings					
Proposed dividends					
Other equity and reserves					
Non convertible prefs					
Total unitholders' funds	15,389	13,705	13,802	13,897	13,993
Units' funds & liabilities	18,334	18,663	18,561	18,470	18,382

Leverage

Interest cover	14.8	9.3	7.1	8.1	9.4
Gross debt/prop assets (%)	14.8	26.7	25.4	24.2	22.9
Net debt/EBITDA (x)	1.1	2.8	2.6	2.4	2.3
Net debt/equity (%)	7.6	21.6	20.7	19.8	18.9
Dupont decomposition					
Net margin (%)	57.5	59.4	48.4	48.9	49.4
Asset utilisation (x)	0.09	0.09	0.10	0.10	0.10
ROA (%)	5.1	5.5	4.6	4.9	5.1
Leverage (Assets/Equity x)	1.2	1.3	1.4	1.3	1.3
ROE (%)	6.1	7.0	6.2	6.5	6.8
Per share					
Reported EPU (MYR)	51.59c	56.31c	47.60c	49.97c	52.50c
Norm EPU (MYR)	39.29c	43.31c	47.60c	49.97c	52.50c
FD norm EPU (MYR)	39.29c	43.31c	47.60c	49.97c	52.50c
Book value per unit (MYR)	8.52	7.59	7.65	7.70	7.75
DPU (MYR)	0.41	0.45	0.45	0.47	0.50

Source: Company data, Nomura estimates

Company profile

KLCCP Stapled Group stands as Malaysia's largest REIT and unique Stapled Security, comprising KLCC REIT and KLCC Property Holdings Berhad (KLCCP). As a cornerstone of Malaysia's real estate sector, constituting over 30% of Bursa Malaysia's REIT Index, the Group leverages its distinctive structure to maximize stakeholder value through active asset management and strategic acquisition growth. With a proven portfolio strength delivering consistent stable earnings and sustainable value, the Group is backed by MYR18.7bn in total assets, ensuring robust financial flexibility and market position. The Group owns, manages, develops, and invests in a premium portfolio of iconic office, retail, and hotel properties centered in the heart of Kuala Lumpur.

Valuation Methodology

We use the dividend discount model (DDM) to value KLCCSS, using our forward 3 year DPU forecast, cost of equity of 7.4% and long-term DPU growth of 2%. This gives us a fair value of MYR9.40/unit, which is 24% above the intrinsic NAV derived for the company. The benchmark index is the KLCI Index.

Risks that may impede the achievement of the target price

Key upside risk to our view include higher than expected rental reversion, interest rate cut. Key downside risks to our view include weaker than expected occupancy and rental reversion, margin pressure, interest rate risk and outbreak of communicable diseases.

ESG

We arrive at an average ESG rating (out of 5) of 3.8 for KLCCSS as we assign an environmental score of 3.5, social score of 4.0 and governance score of 4.0. (1) Environmental - Showed significant progress in climate action through 11% reduction in both energy consumption and GHG emissions from 2019 baseline. Implemented strategic roadmap targeting 40% waste diversion from landfills by 2030. Established clear decarbonization pathway targeting 10% reduction in Scope 1 & 2 operational emissions by 2030. (2) Social - Achieved and maintained 50% women directors on board, significantly exceeding industry standards and national requirement. Successfully reached 443,104 beneficiaries through structured community programs from 2021-2023, focusing on education, healthcare, and community enrichment initiatives with measurable social impact metrics. (3) Governance - Embedded sustainability into corporate strategy by linking 25% of senior management KPIs directly to ESG performance metrics, ensuring accountability and alignment with sustainability goals. Structured over 97.5% of borrowings (approximately MYR4.7bn) with sustainable finance mechanisms, demonstrating innovative approach to integrating sustainability into capital management. Maintained strong performance across major ESG indices through systematic implementation of best practices and transparent reporting frameworks.

Quality assets, but await a better entry point

KLCCP Stapled Group (KLCCSS) is Malaysia's largest Real Estate Investment Trust by market capitalization and the only stapled security. It comprises KLCC Property Holdings and KLCC REIT and owns five offices – Petronas Twin Towers, Menara 3 Petronas, Menara Exxonmobil, Kompleks Dayabumi and a 33% stake in Menara Maxis; one of the premier retail malls in KL (Suria KLCC) and a luxury hotel (Mandarin Oriental). These assets are valued at a combined MYR16.9bn ((based on the latest independent valuation provided by the company). Of this, the company's office assets account for 58% of the total portfolio value and is the primary driver of the REIT's valuation. Within this, the Petronas Twin Towers itself account for about 41% of the total value. The retail segment accounts for about 37% of the total value, with the Suria KLCC Mall itself accounting for the majority, at about 34%. The company's hotel assets make up the remaining 5%.

KLCCSS's office segment currently accounts for 34% of its total revenue. Revenues for this segment have been relatively flat over the past three years due to the long-term leases with Petronas – (1) Petronas Twin Tower has been leased to Petronas for an additional 15 years from September 2027 to September 2042; (2) Menara 3 Petronas has also been leased to Petronas for an additional 15 years from December 2026 to December 2041; and (3) Kompleks Dayabumi has also been leased to Petronas for an additional six years from January 2026 to December 2031. While these triple net leases (TNL) provide long-term earnings visibility for this segment, they also have limited revenue upside.

The retail segment accounts for 32% of its revenue, and we see it benefiting from the continued retail growth in Malaysia of 4% y-y. We see Suria KLCC maintaining its position as one of the most premium malls in the country. Additionally, the hospitality industry should benefit from the strong growth in inbound tourism into Malaysia, which should benefit the company's hotel business, whose revenue contribution stands at 14%.

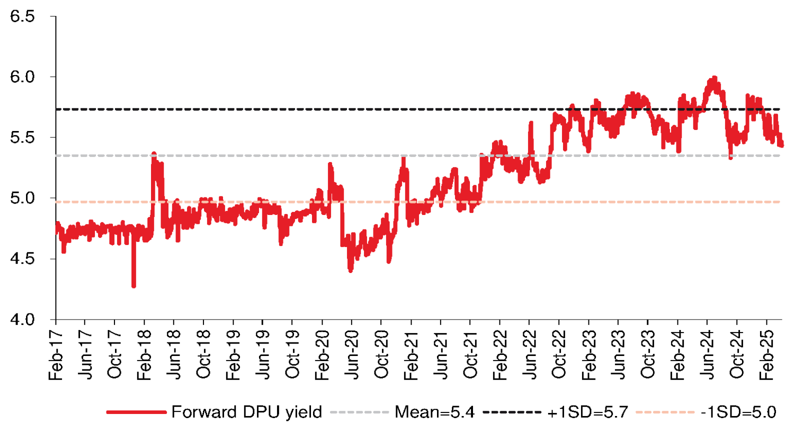
KLCCSS also has a Management Services segment that accounts for about 18% of total revenue. This segment ensures seamless operation, efficiency and sustainability across KLCCSS' property portfolio. It manages more than 25 diverse assets within KLCC development along with the 50-acre KLCC park, various facilities under Petronas and KLCC Holdings and car park management services.

Despite the company's strong and stable property portfolio, we initiate coverage with a Neutral rating for two key reasons:

5.2% DPU yield leaves limited room for upside

In 2024, KLCCSS recorded a 15% rise in its unit price, and while this was slightly better than the KLREI index, it underperformed its peers including IGB REIT, SREIT and PREIT. However, given the current volatility in the market, KLCCSS is the best performing REIT YTD-25 with a growth of 6% vs a 1% decline in the KLREI Index. We believe this outperformance is due to the company's diversified quality asset base that spans its retail malls, hotels, offices and industrial assets.

Fig. 131: KLCCSS MK: DPU yield is in line with average levels



Source: Bloomberg Finance L.P., Nomura research

Currently, KLCCSS trades at a DPU yield of 5.2%, which is close to its average level as shown in *Fig. 131* . Going forward, while there is scope for further yield compression, we do not see significant upside given: (1) the long-term leases for its office buildings have recently renewed with Petronas, and we do not expect significant rental revision going forward. (2) Suria KLCC already has occupancy levels of 99%, and we see further upside coming solely from rental increases; and (3) operating costs for the Services Management business could rise further due to the minimum wage hike and increase in utility costs.

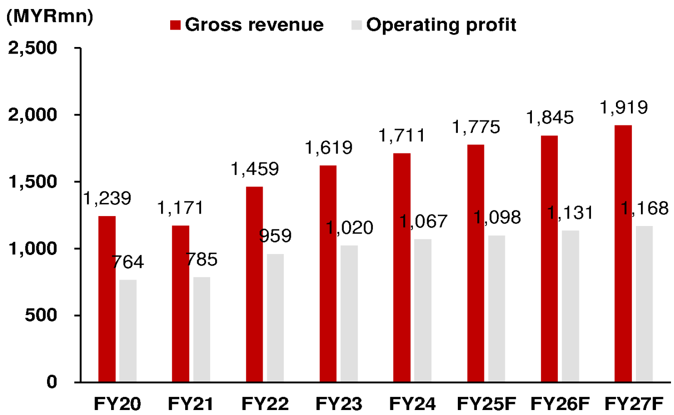
4% distribution CAGR over FY24-27F

KLCCSS' office buildings have seen stable revenues due to their long-term leases with major companies like Petronas lasting through 2031. As a result, we see only minor revenue increase from this segment of the company going forward. For the retail business, we see revenues for Suria KLCC continuing to rise due to its position as one of the most premium malls in Central KL and rising tourist inflows. We also see higher revenues for the hotel business with Mandarin Oriental also expected to benefit from inbound tourist numbers and business travellers, and strong growth for the management services segment. Overall, we see revenues recording a CAGR of 4% over FY24-27F.

We see operating expenses rising due to the recent minimum wage hike in Malaysia from February 2025 and higher utility and maintenance expenses. We also do not factor in any major fair value adjustments for the company's investment properties. With expenses recording a CAGR of 5% during FY24-27F, we see operating profit rising at a CAGR of 3% during FY24-27F.

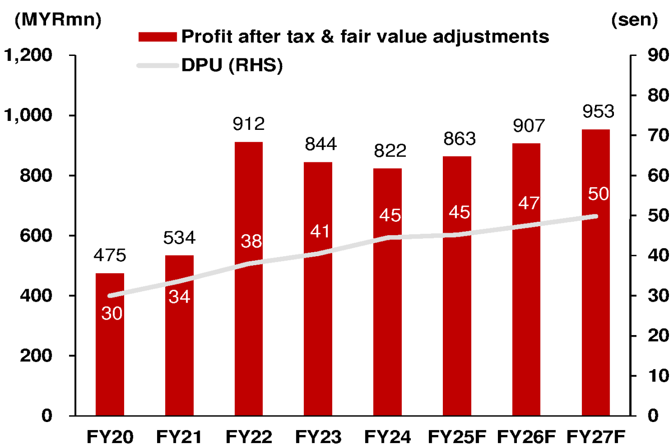
As a result, we expect profit attributable to equity holders excluding fair value gains to rise 9% y-y in FY25F, as the company now has full control of Suria KLCC, and we see it recording a CAGR of 6% during FY24-27F. However, we expect the non-controlling interest related to the REIT to remain relatively stable as its property portfolio comprises the company's office properties. Overall, we expect total income distribution to record a CAGR of 4% during FY24-27F.

Fig. 132: Revenue/operating profit to record a CAGR of 4%/3% in FY24-27F



Source: Company data, Nomura estimates

Fig. 133: Income distribution to record a CAGR of 4% during FY24-27F



Source: Company data, Nomura estimates

Initiate with a Neutral rating and TP of MYR9.40

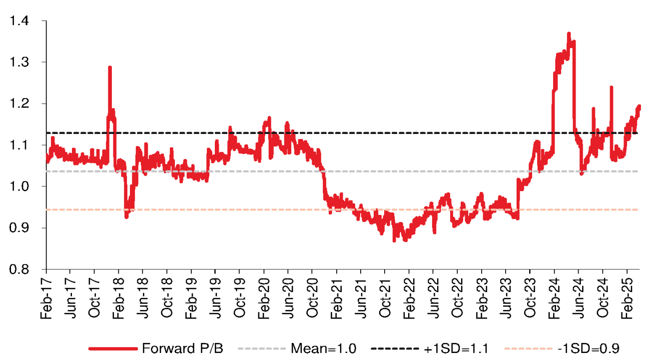
We use the dividend discount model (DDM) to value KLCCSS as shown in *Fig. 134* . We use our forward three-year DPU forecast, cost of equity of 7.4% and long-term DPU growth of 2%. With occupancy levels for the company's key office buildings – Petronas Twin Towers, Menara 3 and Menara Exxonmobil already at 100% and nearly 100% for the Suria KLCC mall, we see dividend distributions rising 2% y-y in FY25F and 5% y-y in FY26F and FY27F. This gives us a fair value of MYR9.40/unit, which is 24% above the intrinsic NAV derived for the company.

Fig. 134: DDM valuation of MYR9.40

Dividend Discount Model	FY24	FY25F	FY26F	FY27F
Distributions (MYRmn)	803	816	857	900
Terminal distribution (MYRmn)				16,891
TOTAL (MYRmn)		816	857	17,791
Discounted distributions (MYRmn)		816	798	15,413
Equity value		**17,027**		
Fair value/unit		**9.40**		

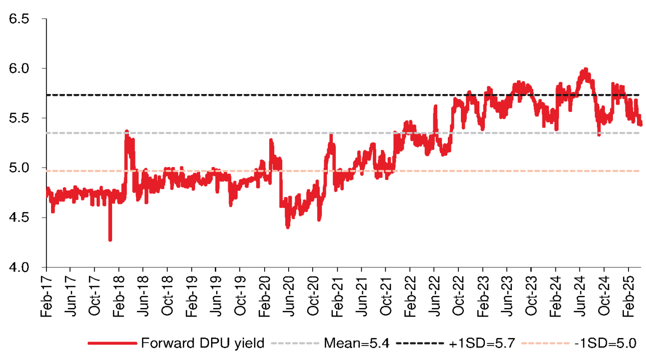
Source: Company data, Nomura estimates

Fig. 135: KLCCSS' P/B ratio is more than 1SD above average levels



Source: Bloomberg Finance L.P., Nomura research

Fig. 136: KLCCSS' DPU yield is in line with average levels



Source: Bloomberg Finance L.P., Nomura research

Key risks to our view

Upside risks

- **Higher than expected rental reversion:** Higher-than-expected consumer spending, a stable economy and stronger-than-expected tourist numbers could result in a stronger-than-expected rental reversion for the company's malls, hotels and office buildings and could positively impact the DPU.
- **Interest rate risk:** With inflation lower than expected, if the OPR is lowered, it could impact KLCCSS's valuations.

Downside risks

- **Weaker-than-expected occupancy and rental reversion:** Slower-than-expected consumer spending, a weaker economy and weaker-than-expected tourist numbers could result in a weaker-than-expected occupancy/take-up rate and rental reversion for the company's malls, hotels and office buildings and could negatively impact the DPU.
- **Margin pressure:** Although we factor in a 5% increase in property operating expense in FY25F, margins for KLCCSS could be impacted if cost escalation is higher than

expected.

- **Interest rate risk:** The BNM has highlighted that Malaysia's economy could be impacted by supply shocks. If the OPR is raised to deal with this, it could impact KLCCSS' valuations.
- **Outbreak of communicable diseases:** Outbreak of communicable diseases like the Severe Acute Respiratory Syndrome (SARS) in 2003, flu pandemic in 2009 and the recent COVID-19 pandemic in 2020-2023 could negatively impact the retail market and lower occupancy levels for the company's malls.

Current asset portfolio

KLCCP REIT owns and manages a portfolio of seven premium assets in Kuala Lumpur's most prestigious business district. These assets – spanning office, retail, and hospitality sectors – are valued at a collective MYR16.9bn as of FY24 and contribute to a well-diversified and resilient income base.

Fig. 137: Details of asset portfolio

Properties	Petronas Twin Towers	Menara 3 Petronas (Office)	Menara 3 Petronas (Retail)	Menara Exxonmobil	Kompleks Dayabumi	Suria KLCC	Mandarin Oriental KL	Menara Maxis
Property type	Retail	Office	Retail	Office	Office	Retail	Hotel	Office
Date of acquisition	2013	2013	2013	2013	2004	2004	2004	2004
Age of asset	27	13	13	28	40	26	26	26
Net Lettable area (NLA) (sq ft)	3,195,544	816,377	133,146	406,932	648,790	947,254	998,705	537,085
Occupancy rate (%)	100%	100%	80%	100%	100%	99%	58%	100%
Latest Appraised value (MYR mn)	6950	2040	2040	540	756	5800	821	

Source: Company data, Nomura research

Fig. 138: Petronas Twin Towers

Source: Company data, Nomura research

Fig. 139: Menara 3 Petronas

Source: Company data, Nomura research

Fig. 140: Menara ExxonMobil

Source: Company data, Nomura research

Fig. 141: Kompleks Dayabumi

Source: Company data, Nomura research

Fig. 142: Suria KLCC

Source: Company data, Nomura research

Fig. 143: Mandarin Oriental, Kuala Lumpur

Source: Company data, Nomura research

Fig. 144: Menara Maxis

Source: Company data, Nomura research

Petronas Twin Towers

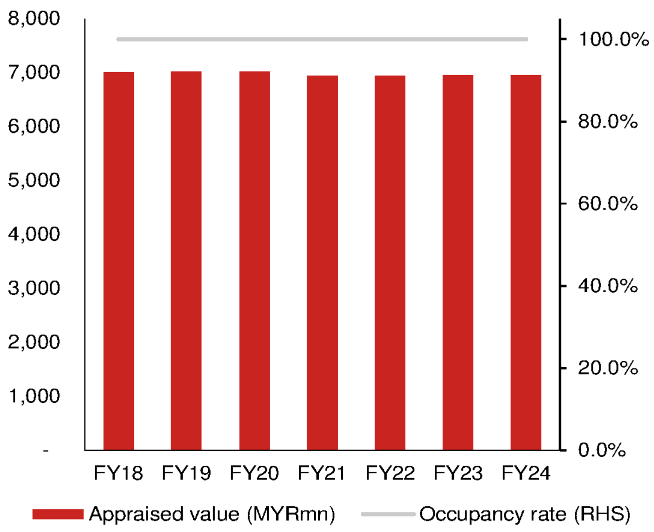
The Petronas Twin Towers are the crown jewel of KLCCP REIT's portfolio, standing as the world's tallest twin towers at 88 storeys. Located in the Kuala Lumpur City Centre, this building houses PETRONAS, the national oil and gas giant, under a long-term triple net lease agreement. The asset spans an impressive NLA of 3,195,544 sq. ft., ensuring a significant revenue base. With a 100% occupancy rate, the towers maintain stable rental income streams. The 2024 appraised value of the property stands at MYR6.95bn, reaffirming its status as one of the most valuable office assets in Malaysia.

Fig. 145: Asset details

Asset details	
Age of building	27 years
Date of acquisition	April 10, 2013
Tenure	Freehold
Net Lettable area (sq ft)	3,195,544
Acquisition cost (MYRmn)	6,500

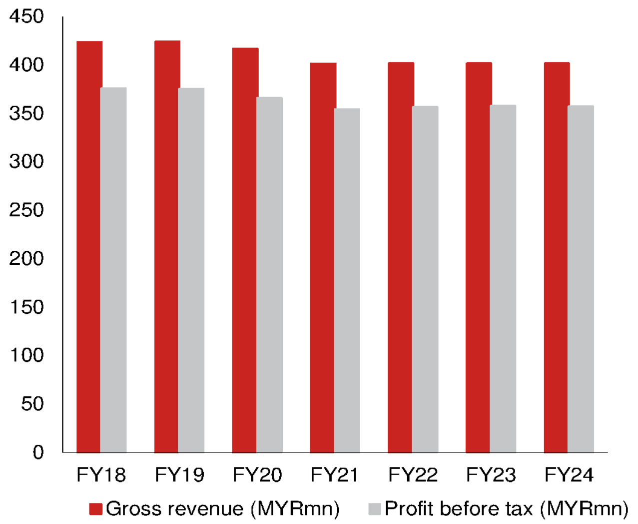
Source: Company data, Nomura research

Fig. 146: Appraised value and occupancy rate



Source: Company data, Nomura research

Fig. 147: Gross revenue and PBT



Source: Company data, Nomura research

Menara 3 Petronas

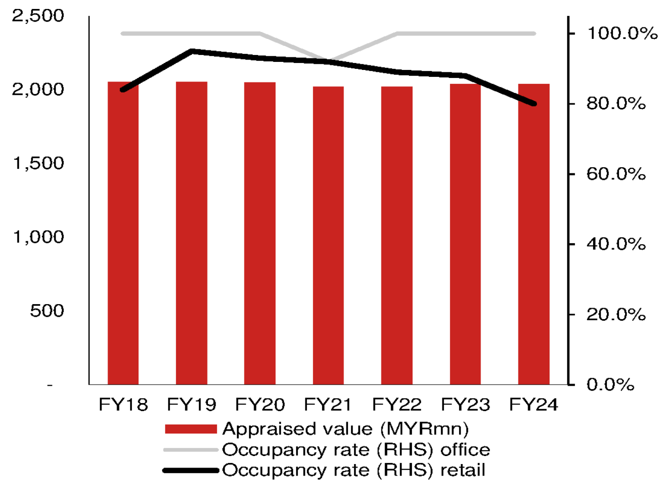
Adjacent to the Petronas Twin Towers, Menara 3 Petronas is a 58-storied Grade A office building located in Kuala Lumpur City Centre. The tower features a mix of corporate office spaces and a retail podium, catering to leading multinational corporations and high-end retailers. The property has a gross floor area of 1,500,814 sq. ft., with 133,146 sq. ft. dedicated to retail. It enjoys a 100% occupancy rate for office spaces and 80% for retail areas. The asset holds a 2024 appraised value of MYR2.04bn, reflecting its prime positioning and high tenant demand.

Fig. 148: Asset details

Asset details	
Age of building	13 years
Date of acquisition	April 10, 2013
Tenure	Freehold
Net Lettable area (sq ft)	949,523
Acquisition cost (MYRmn)	1,790

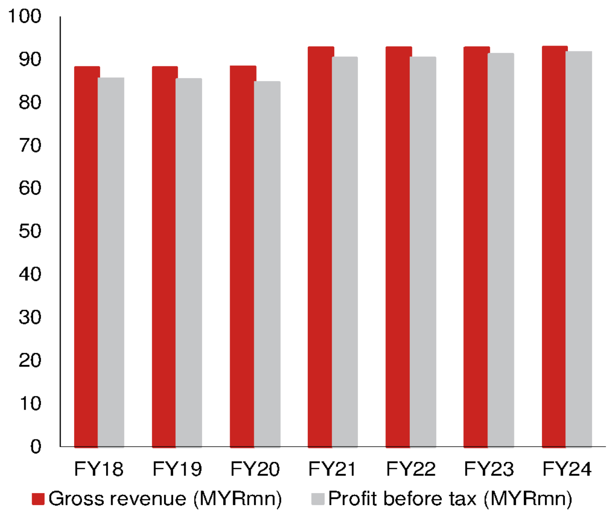
Source: Company data, Nomura research

Fig. 149: Appraised value and occupancy rate



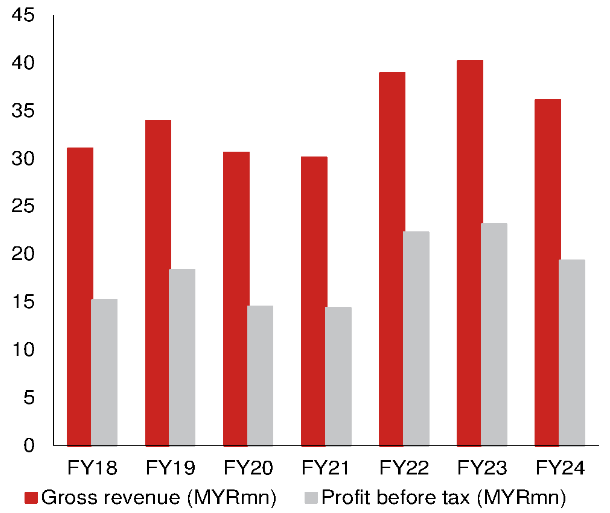
Source: Company data, Nomura research

Fig. 150: Office: Gross revenue and PBT



Source: Company data, Nomura research

Fig. 151: Retail: Gross revenue and PBT



Source: Company data, Nomura research

Menara ExxonMobil

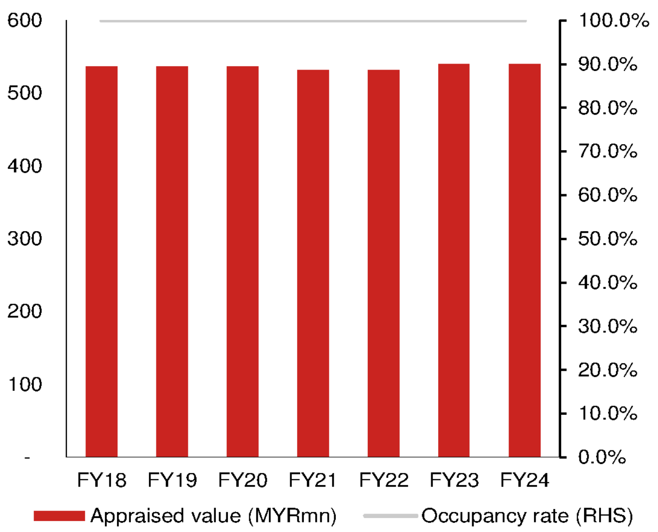
Situated within the KLCC precinct, Menara ExxonMobil is a 29-storied office tower that serves as the regional headquarters for major energy companies. With a NLA of 406,932 sq. ft., this freehold office building remains a key contributor to KLCCP REIT's office segment. The property maintains a 100% occupancy rate, underscoring its strong tenant appeal. With a 2024 appraised value of MYR540mn, Menara ExxonMobil continues to be a high-performing office asset in KL's prime commercial hub.

Fig. 152: Asset details

Asset details	
Age of building	28 years
Date of acquisition	April 10, 2013
Tenure	Freehold
Net Lettable area (sq ft)	406,932
Acquisition cost (MYRmn)	450

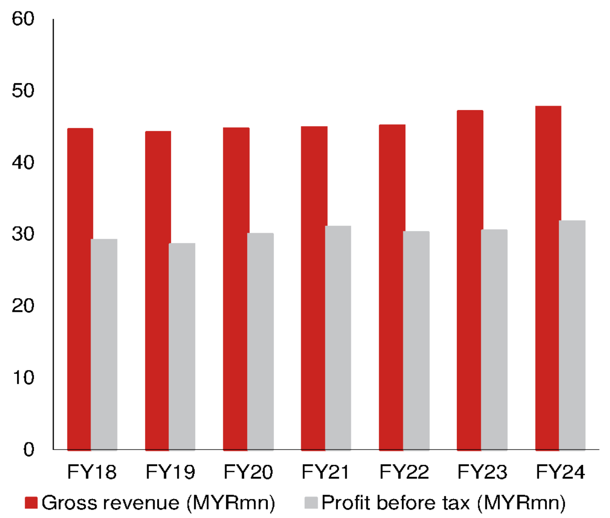
Source: Company data, Nomura research

Fig. 153: Appraised value and occupancy rate



Source: Company data, Nomura research

Fig. 154: Gross revenue and PBT



Source: Company data, Nomura research

Kompleks Dayabumi

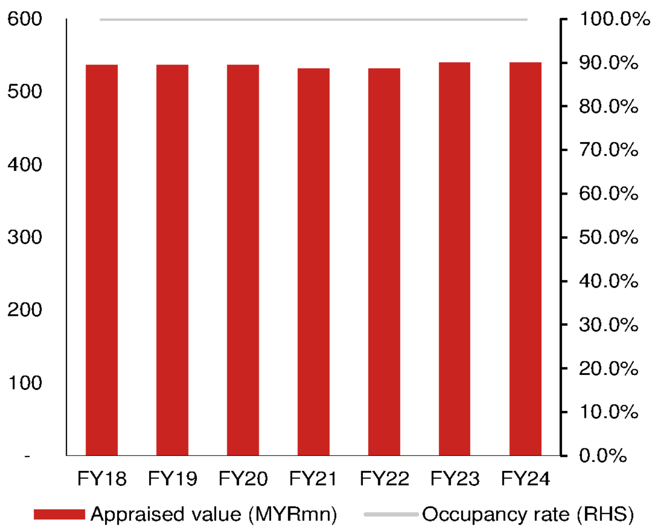
One of Kuala Lumpur's most historic office towers, Kompleks Dayabumi is a 34-storied mixed-use property located within Kuala Lumpur City Centre. This landmark building, developed under a 99-year leasehold tenure, has a NLA of 648,790 sq. ft. Kompleks Dayabumi remains fully occupied, housing key government-linked entities and corporate tenants. The asset's 2024 appraised value of MYR755.89mn highlights its enduring relevance in the city's commercial landscape.

Fig. 155: Asset details

Asset details	
Age of building	40 years
Date of acquisition	May 31, 2004
Tenure	99 years
Net Lettable area (sq ft)	648,790

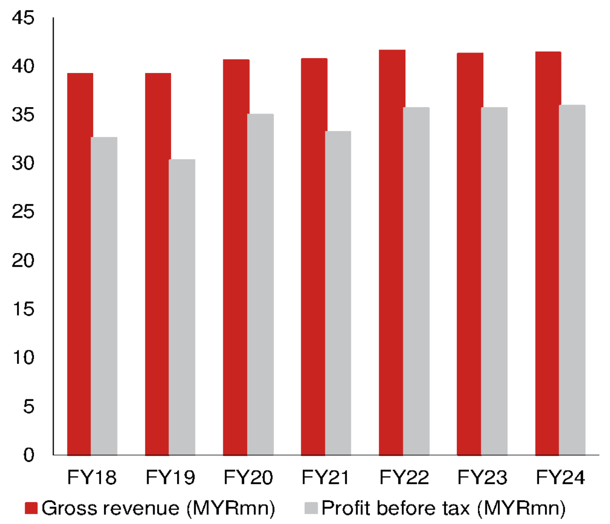
Source: Company data, Nomura research

Fig. 156: Appraised value and occupancy rate



Source: Company data, Nomura research

Fig. 157: Gross revenue and PBT



Source: Company data, Nomura research

Suria KLCC

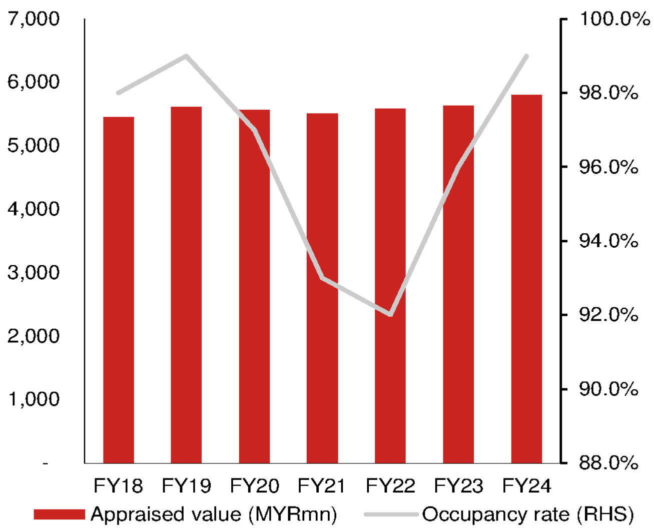
As one of Malaysia's most prestigious retail destinations, Suria KLCC is a freehold shopping mall integrated into the Petronas Twin Towers complex. It has an NLA of 947,254 sq. ft., making it one of the largest retail hubs in Kuala Lumpur. Home to international luxury brands, fine dining establishments, and entertainment venues, Suria KLCC enjoys a 99% occupancy rate. The property's 2024 appraised value of MYR5.8bn cements its position as a top-tier retail asset in Southeast Asia. The center maintains its appeal through continuous innovation and its "Always Something New" approach to customer experience.

Fig. 158: Asset details

Asset details	
Age of building	26 years
Date of acquisition	May 31, 2004
Tenure	Freehold
Net Lettable area (sq ft)	947,254

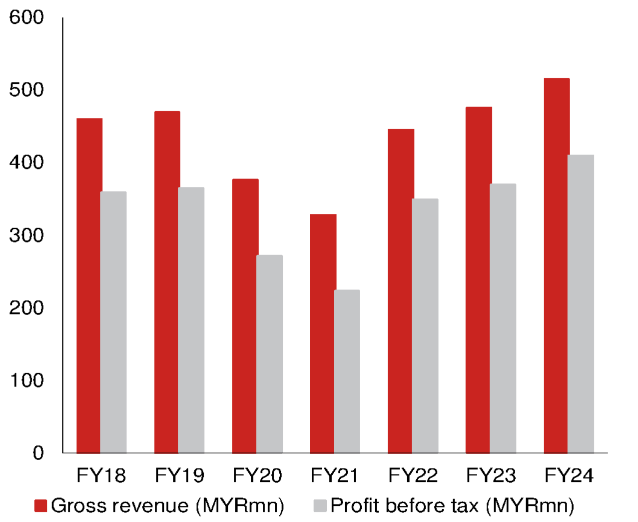
Source: Company data, Nomura research

Fig. 159: Appraised value and occupancy rate



Source: Company data, Nomura research

Fig. 160: Gross revenue and PBT



Source: Company data, Nomura research

Mandarin Oriental, Kuala Lumpur

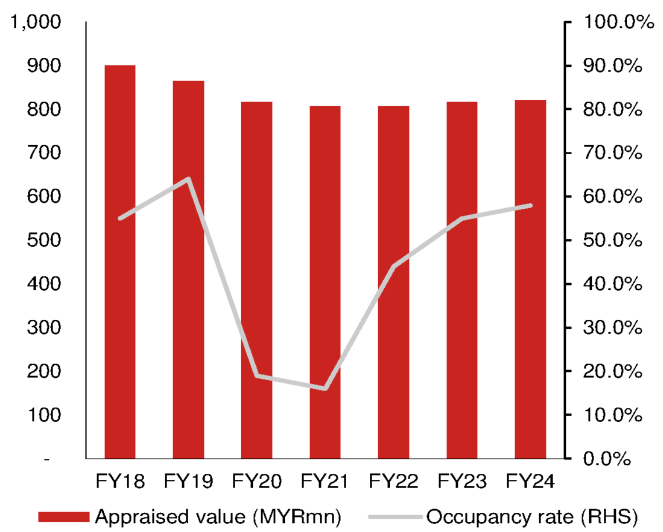
The Mandarin Oriental, Kuala Lumpur, is a luxury five-star hotel situated within the KLCC precinct. This freehold hospitality asset features 629 rooms, complemented by world-class amenities such as fine-dining restaurants, wellness spas, and event spaces. The hotel spans a gross floor area of 998,705 sq. ft. and maintains an occupancy rate of 58%, catering to a mix of corporate travelers and leisure tourists. Distinguished by its MO Club, premium dining, comprehensive event facilities, and luxury amenities including an infinity pool and spa, MOKUL Hotel exemplifies high-end hospitality within the portfolio. With a 2024 appraised value of MYR821mn, the hotel remains a key asset in KLCCP REIT's portfolio, benefiting from the high visitor traffic in the city's business district.

Fig. 161: Asset details

Asset details	
Age of building	26 years
Date of acquisition	May 31, 2004
Tenure	Freehold
Net Lettable area (sq ft)	998,705

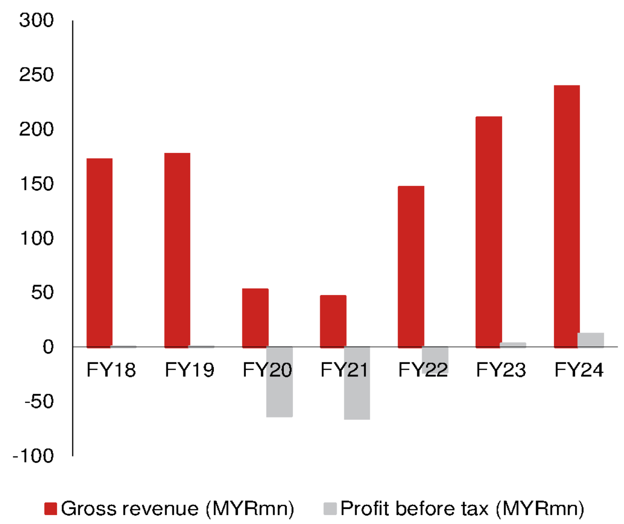
Source: Company data, Nomura research

Fig. 162: Appraised value and occupancy rate



Source: Company data, Nomura research

Fig. 163: Gross revenue and PBT



Source: Company data, Nomura research

Menara Maxis

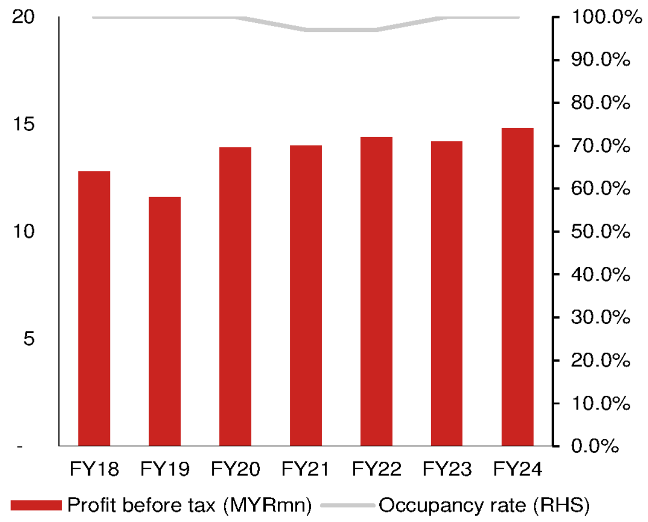
Menara Maxis is a 49-storied office tower with unique and distinctive architecture, housing Maxis (MAXIS MK, Neutral), one of the leading communications service providers in Malaysia and its associate companies. KLCCP REIT currently holds a 33% stake in Menara Maxis.

Fig. 164: Asset details

Asset details	
Age of building	26 years
Date of acquisition	May 31, 2004
Tenure	Freehold
Net Lettable area (sq ft)	537,085

Source: Company data, Nomura research

Fig. 165: PBT and occupancy rate

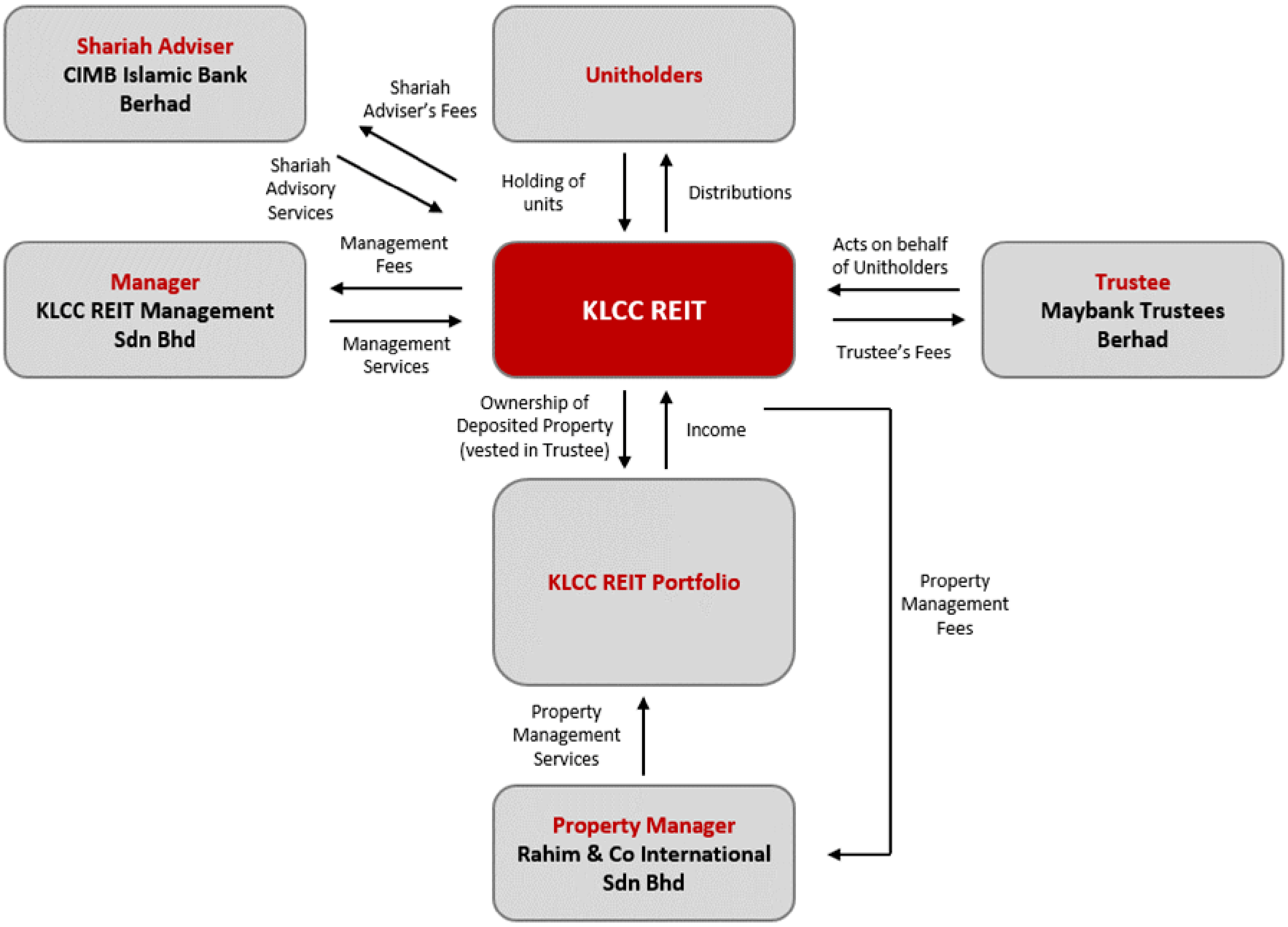


Source: Company data, Nomura research

KLCCP: An overview

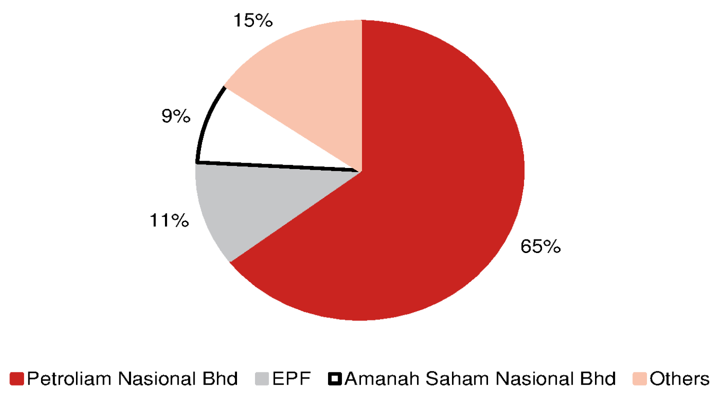
KLCCP Stapled Group stands as Malaysia's largest REIT and only unique Stapled Security, comprising KLCC REIT and KLCC Property Holdings Berhad (KLCCP). As a cornerstone of Malaysia's real estate sector, constituting over 30% of Bursa Malaysia's REIT Index, the Group leverages its distinctive structure to maximize stakeholder value through active asset management and strategic acquisition growth. With a proven portfolio strength delivering consistent stable earnings and sustainable value, the Group is backed by MYR18.7bn in total assets, ensuring robust financial flexibility and market position. The Group owns, manages, develops, and invests in a premium portfolio of iconic office, retail, and hotel properties centered in the heart of Kuala Lumpur, complemented by award-winning asset management services through KLCC Urusharta Sdn Bhd (KLCCUH) and KLCC Parking Management Sdn Bhd (KPM). Guided by a three-pronged growth strategy focused on purposeful expansion and a comprehensive Sustainability Plan 2030 targeting net-zero by 2050, KLCCP Stapled Group remains committed to creating progressive lifestyle experiences within the KLCC Precinct.

Fig. 166: KLCC— REIT structure



Source: Company data, Nomura research

Fig. 167: KLCCP— Shareholding structure



Source: Company data, Nomura research

ESG

We arrive at an average ESG rating (out of 5) of 3.8 for KLCCP as we assign an environmental score of 3.5 (out of 5.0), social score of 4.0 (out of 5.0) and governance score of 4.0 (out of 5.0).

1. Environmental

- **Energy & Emissions Performance**: Demonstrated significant progress in climate action through 11% reduction in both energy consumption and GHG emissions from 2019 baseline. This was achieved through systematic implementation of energy-efficient technologies, smart building management systems, and operational optimization across their property portfolio.
- **Water Management Infrastructure**: Established comprehensive water crisis Standard Operating Procedures (SOPs) across all properties, incorporating advanced monitoring systems, emergency response protocols, and alternative water source strategies to ensure operational resilience and water security during supply disruptions.
- **Waste Management Strategy**: Implemented strategic roadmap targeting 40% waste diversion from landfills by 2030, incorporating comprehensive recycling programs, food waste composting initiatives, and tenant engagement programs to promote responsible waste management practices.
- **Green Building Leadership**: Secured multiple prestigious certifications including GreenRE Platinum status for Sunway Resort Hotel (Malaysia's first Platinum-certified hotel) and GreenRE Gold for Sunway Putra Mall, demonstrating commitment to sustainable building practices through extensive retrofitting and green technology implementation.
- **Climate Action Framework**: Established clear decarbonization pathway, targeting a 10% reduction in Scope 1 & 2 operational emissions by 2030, supported by internal carbon pricing mechanisms, energy audits, and equipment enhancement programs across the portfolio.

2. Social

- Achieved and maintained 50% women directors on board, significantly exceeding industry standards and national requirements, demonstrating strong commitment to gender equality in corporate leadership.
- Implemented comprehensive performance management system ensuring 100% of employees received structured reviews and development plans, supported by targeted training programs and career advancement opportunities.
- Maintained zero fatalities and high-consequence work-related injuries through rigorous safety management systems, regular training, and systematic risk

assessment protocols across all properties.
- Successfully reached 443,104 beneficiaries through structured community programs from 2021-2023, focusing on education, healthcare, and community enrichment initiatives with measurable social impact metrics.
- Maintained 100% local hiring practices for senior management positions, demonstrating commitment to developing Malaysian talent and contributing to national economic development.

3. Governance

- Embedded sustainability into corporate strategy by linking 25% of senior management KPIs directly to ESG performance metrics, ensuring accountability and alignment with sustainability goals.
- Structured over 97.5% of borrowings (approximately MYR4.7bn) with sustainable finance mechanisms, demonstrating innovative approach to integrating sustainability into capital management.
- Maintained strong performance across major ESG indices through systematic implementation of best practices and transparent reporting frameworks.
- Achieved zero reported corruption cases through comprehensive policies including mandatory training, clear reporting procedures, and effective whistleblowing mechanisms.
- Aligned reporting with TCFD recommendations, incorporating climate-related risks and opportunities into strategic planning and risk management frameworks.

Appendix A-1

Analyst Certification

I, Raghavendra Rajiv Divekar, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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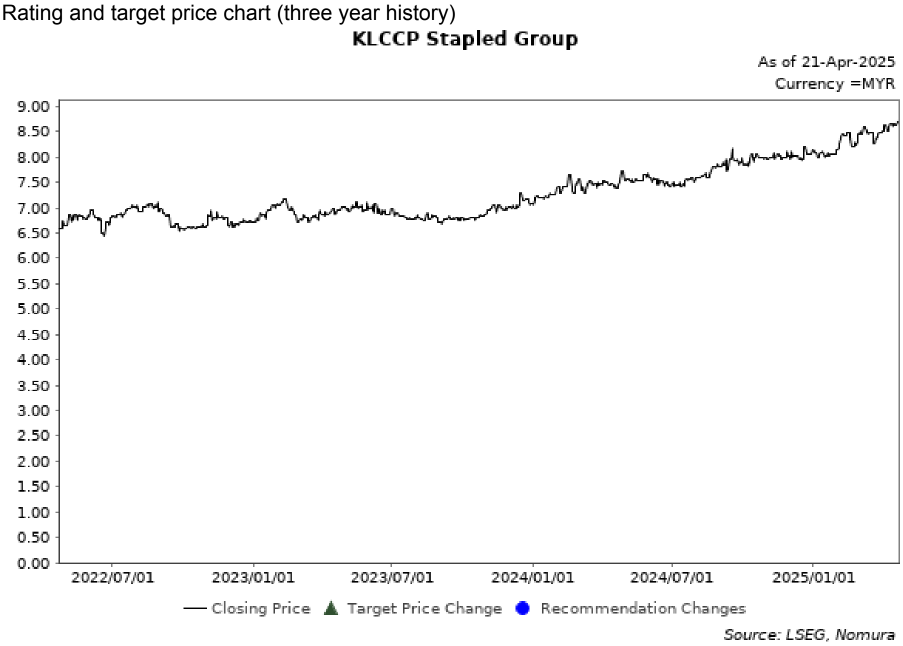
The terms "Nomura" and "Nomura Group" used herein refer to Nomura Holdings, Inc. and its affiliates and subsidiaries, including Nomura Securities International, Inc. ('NSI') and Instinet, LLC ('ILLC'), U. S. registered broker dealers and members of SIPC.

Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
KLCCP Stapled Group	KLCCSS MK	MYR 8.64	18-Apr-2025	Neutral	N/A	
Pavilion REIT	PREIT MK	MYR 1.46	18-Apr-2025	Buy	N/A	
Sunway REIT	SREIT MK	MYR 1.91	18-Apr-2025	Buy	N/A	

KLCCP Stapled Group (KLCCSS MK) **MYR 8.64 (18-Apr-2025)** Neutral (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price

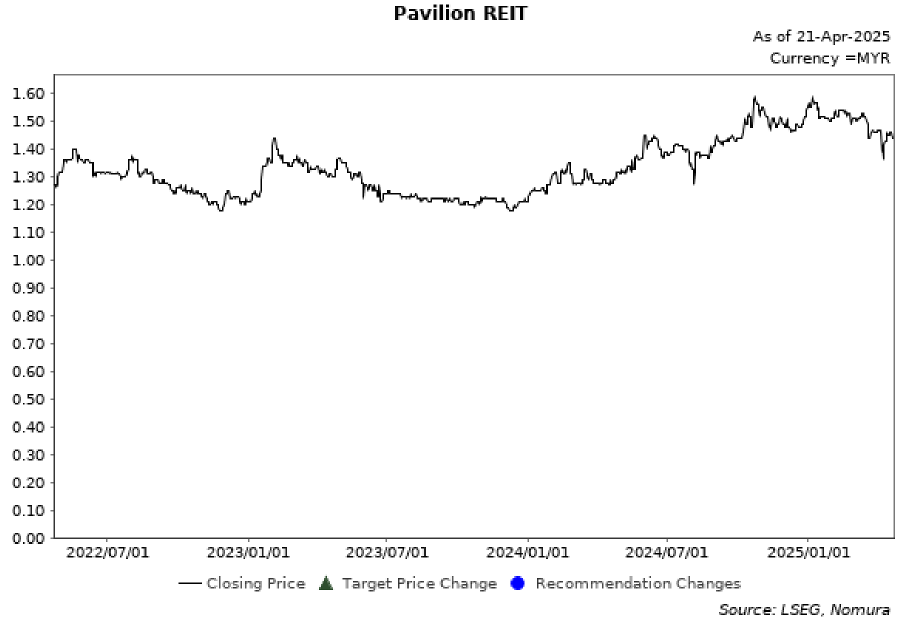
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use the dividend discount model (DDM) to value KLCCSS, using our forward 3 year DPU forecast, cost of equity of 7.4% and long-term DPU growth of 2%. This gives us a fair value of MYR9.40/unit, which is 24% above the intrinsic NAV derived for the company. The benchmark index is the KLCI Index.

Risks that may impede the achievement of the target price Key upside risk to our view include higher than expected rental reversion, interest rate cut. Key downside risks to our view include weaker than expected occupancy and rental reversion, margin pressure, interest rate risk and outbreak of communicable diseases.

Pavilion REIT (PREIT MK) **MYR 1.46 (18-Apr-2025)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



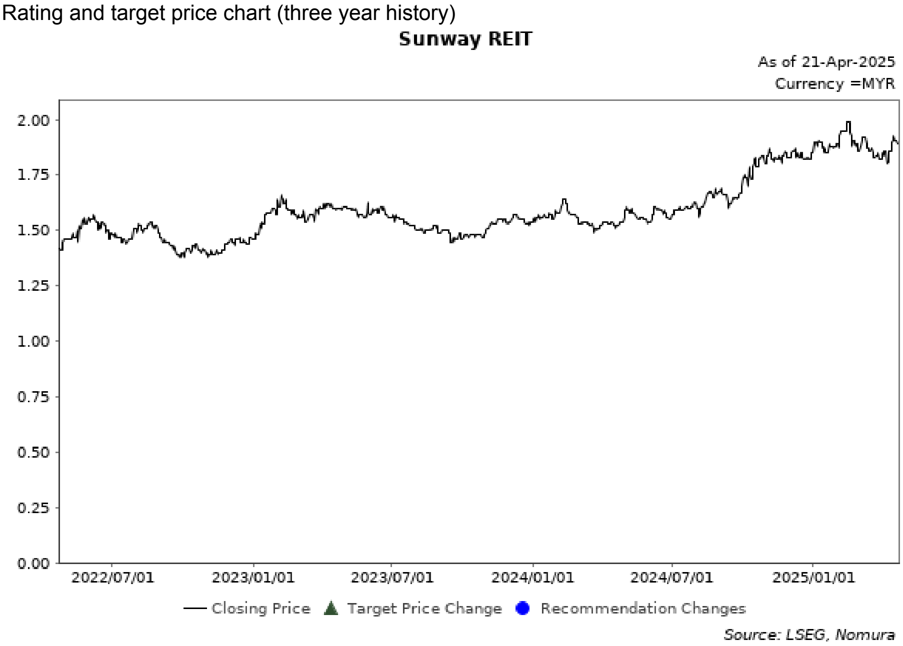
Date	Rating	Target price	Closing price

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use the DDM to value PREIT. We use our forward 3 year DPU forecast, cost of equity of 8% and long-term DPU growth of 2%. This gives us a fair value of MYR1.70/unit. Our benchmark index is the KLCI.
Risks that may impede the achievement of the target price Key downside risks to our view include weaker than expected occupancy and rental reversion, NPI margin pressure, interest rate risk, outbreak of communicable diseases and asset concentration risk.

Sunway REIT (SREIT MK) **MYR 1.91 (18-Apr-2025)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We use the dividend discount model (DDM) to value SREIT, using our forward 3 year DPU forecast, cost of equity of 7.6% and long-term DPU growth of 2%. This gives us a fair value of MYR2.20/unit, which is slightly above the intrinsic NAV derived for the company. The benchmark index is the KLCI Index.
Risks that may impede the achievement of the target price Key downside risks to our view include weaker than expected occupancy and rental reversion, NPI margin pressure, interest rate risk and outbreak of communicable diseases.

Rating and target price changes

Issuer	Ticker	Old Stock Rating	New Stock Rating	Old Target Price	New Target Price
KLCCP Stapled Group	KLCCSS MK	Not Rated	Neutral	N/A	MYR 9.4
Pavilion REIT	PREIT MK	Not Rated	Buy	N/A	MYR 1.7
Sunway REIT	SREIT MK	Not Rated	Buy	N/A	MYR 2.2

Important Disclosures

Online availability of research and conflict-of-interest disclosures

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If you have any difficulties with the website, please email grpsupport@nomura.com for help.

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The distribution of all ratings published by Nomura Group Global Equity Research is as follows:
53% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 37% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services** by the Nomura Group.
44% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 57% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group
3% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 3% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.
As at 31 March 2025.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*
*** As defined by the EU Market Abuse Regulation*

Definition of Nomura Group's equity research rating system and sectors

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst’s target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan:** please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/m/Disclosures; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

Target Price

A Target Price, if discussed, indicates the analyst’s forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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