

REIT

NEUTRAL

Easing MGS Yields to Support Valuation



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We maintain our NEUTRAL stance on REIT. While the latest BNM’s 25 bps OPR cut has boosted sentiment in the sector, valuations appear to have been adequately priced in as we observed the KLREIT index rising by c.14% since March 2025, despite headwinds such as the additional SST on commercial rentals that has commenced from July 2025. On the 8% SST, we anticipate only marginal immediate impact to the REIT sector as we believe the cost pass-through to consumers in the retail segment is achievable with a slight upward revision in product prices, while certain segments such as office and industrial will be more insulated on better financial capacity and longer lease terms. That said, the SST may hinder mall operators’ near-term ability to raise rent should the SST cause tenant’s apprehension.

Following sustained MGS yield traction around the 3.5% level in addition to Kenanga’s revised in-house expectation of three U.S. Fed rate cuts ahead (from two previously), we adjust our MGS yield assumption downward from 3.75% to 3.5%, hence lifting our TP for most names under our coverage by c.5% each (refer to Exhibit 5). That said, we are revising our TP for CLMT from RM0.70 to RM0.65 but upgrading it to OUTPERFORM from MARKET PERFORM after its share price fell c.11% with ~7.5% net dividend yield for FY26. While there is no sector top pick, our “Not Rated” call on PARADIGM (TP: RM1.10) may also interest investors for its appealing prospects in Johor’s growing market and a 7% above-average net dividend yield in FY26.

8% Sales and Service Tax (SST) on rentals and its impact on REITs. In early June 2025, the Malaysian government announced the imposition of an 8% SST on rental and leasing services for all commercial spaces, effective 1st July 2025. Under this directive, REITs and property landlords will act as collecting agents by billing tenants the SST and remitting the amount to the tax authorities. Given that the tax is applied universally across commercial properties and not specifically targeted at REIT-owned assets, we expect tenants to pass on the additional cost to end-consumers.

Typically, rental expenses constitute c.15% of total revenue for retail tenants. With the implementation of the 8% SST, the rental component of a tenant’s cost structure would increase from 15% to 16.2%. This implies that tenants would hypothetically only need to raise selling prices slightly to offset the additional rental tax, suggesting the overall impact on end-consumers will likely be marginal. In the event if tenants are unable to pass through the additional cost to consumers, it will inevitably be more difficult for REIT operators to raise rental rates after tenants are burdened with the 8% increase in rental costs.

That said, we are mindful that the impending SST hike will not affect all REIT segments equally. Compared to the retail segment, we believe the office and industrial segments are more insulated. This is primarily due to two factors, namely: (i) the lower rental-to-revenue ratios among MNC office tenants which typically have stronger financial capacity to absorb incremental costs, and (ii) the longer lease durations for industrial tenants, averaging between 5 to 10 years, where rental escalations are already locked in.

Segmental Reviews

Exhibit 1 - Retail Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Exhibit 2 - Office Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

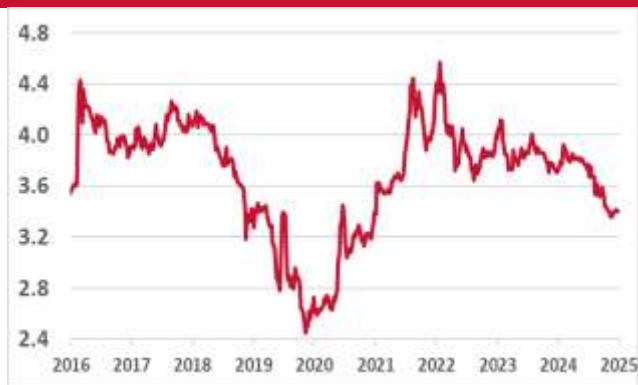
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Retail - Stable mall occupancy. 1HCY25 retail occupancy rates in shopping complexes held steady at 79.0% from 2HCY24 from a total retail space of 17.3m sqm.

Office - Steady office occupancy. 1HCY25 occupancy rate was broadly stable at 72.0% with a total private office space of 18.5m sqm.

Hospitality - Weak 1HCY25 where hotels under our coverage recorded weaker performances YoY mainly due to the full Ramadan season in the quarter where locals tend to host less MICE activities, and have less staycations, coupled with probable down-trading from some high-end hotels to cheaper alternatives in certain tourist groups, likely due to the U.S. tariffs anxiety. While we do not anticipate strong recovery for the segment in 2HFY25, hoteliers should be partially cushioned on the back of the increased allocation on tourism in the national budget and our in-house projection of 27.7m tourist arrivals in Malaysia (+15% increase from 2024). REITs with hospitality exposures include SUNREIT and KLCC.

Exhibit 3 - 10-Year MGS Yield Movement



Source: Bloomberg

Exhibit 4 - KLREIT Index from June 2024



Source: Bloomberg

With MGS yields stabilising around the 3.5% level and taking into account Kenanga's revised in-house expectation of three U.S. Fed rate cuts ahead (from two previously), we are adjusting our MGS yield assumption downward from 3.75% to 3.5%, hence lifting our TP for most names under our coverage by c.5%. On the other hand, following the recent placement undertaken by CLMT, which has been net-dilutive to unitholders, the group has reiterated its direction to continue expanding its industrial portfolio via acquisition opportunities. We are increasing our yield spread for the group from 3% to 3.75% as debt headroom appears limited on a gearing ratio at 43% as of 2QFY25, suggesting that future sizeable acquisitions could involve equity fund-raising. Having said that, its share price has been sold down 11% from RM0.70, warranting an upgrade on valuation basis from MARKET PERFORM to OUTPERFORM while supported by a 7.5% net dividend yield for FY26.

We reiterate our NEUTRAL stance on the REIT sector as the upsides appeared to have been adequately priced in by the market following the 25-bps rate cut by the BNM in Jun 2025. This is also reflective by the ~14% rally in KLREIT index since March 2025 (refer to Exhibit. 4) despite headwinds such as the additional 8% SST on commercial rentals which has commenced from July 2025.

PARADIGM (non-rated) – after its recent IPO, we remain positive on PARADIGM on a 7% estimated net dividend yield for FY26 (above sector's average of 5%-6%) supported by its Bukit Tinggi Shopping Centre's highly resilient tenant profile and its Paradigm JB mall which is well positioned to ride on the growth of the booming economy in the southern part of Johor, underpinned by the upcoming RTS and the ongoing JS-SEZ developments. (more detailed information in our IPO note on PARADIGM, published on 10 June 2025)

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Exhibit 5 - Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	MP	1.96 (+5%)	5.00 (-0.25)
CLMT	OP	0.65 (-7%)	7.25 (+0.50)
IGBREIT	UP	2.51 (+5%)	5.25 (-0.25)
KLCC	MP	8.93 (5%)	5.25 (-0.25)
SUNREIT	MP	2.22 (5%)	5.00 (-0.25)

[^] Derived from yield spread above our 10-year MGS yield assumption of 3.5%.

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price as of 19 Sep (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Gross Div. (sen)	Gross Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
REITS																	
AXIS REIT	MP	2.05	1.86	-9.3%	4,142.6	Y	12/2025	10.4	10.6	28.1%	2.0%	19.7	19.3	1.3	6.3%	9.6	4.7%
CAPITALAND MALAYSIA TRUST	OP	0.62	0.65	12.9%	2,065.4	N	12/2025	5.1	5.0	13.1%	13.7%	12.1	12.3	0.6	5.1%	4.7	7.6%
IGB REIT	MP	2.69	2.40	-10.8%	9,748.5	N	12/2025	11.7	13.7	14.6%	39.8%	23.0	19.7	2.5	10.0%	11.0	4.1%
KLCCP STAPLED GROUP	MP	8.61	8.52	-1.0%	15,543.9	Y	12/2025	47.6	48.8	9.8%	2.5%	18.1	17.7	1.2	6.3%	45.7	5.3%
SUNWAY REIT	OP	2.09	2.11	1.0%	7,157.8	N	12/2025	12.0	12.5	16.8%	3.8%	17.4	16.8	1.4	7.2%	10.8	5.2%
SECTOR AGGREGATE					38,658.2					14.1%	11.2%	18.9	17.0	1.4	7.0%		5.4%

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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