REITS

Overweight (Maintained)

More Opportunities For Growth; Keep O/W

Stocks Covered	7
Rating (Buy/Neutral/Sell):	5 / 2 / 0
Last 12m Earnings Revision Trend:	Positive

- **Maintain OVERWEIGHT; Top Picks: Axis REIT (AXRB) and Sunway REIT (SREIT)**. We think M-REITs will continue to do well in 2025 on the back of strong fundamentals and a stable macroeconomic outlook. The occupancy rates for REITs under our coverage have improved to high levels, and managements are largely guiding healthy rental reversions ahead. While market sentiment has shifted to slower interest rate cuts in 2025, we think the downward trajectory would still be supportive of REITs' valuations over the medium term.
- **The current dividend yield spread** between the Bursa Malaysia REIT Index (KLREI) and Malaysia Government Securities (MGS10) is at +160bps – in line with the historical mean. Although the US 10-year bond yield has been more volatile, ranging between a low of 3.6% to a high of 4.7% in 2024, the MGS10 yield has remained broadly stable around 3.8%. While we do not expect any cuts to the overnight policy rate (OPR) in 2025, interest rate cuts globally should place downward pressure on the MGS10 yield, supporting REITs' valuations.
- **Catalysts for retail assets.** The growth rate of new supply of retail space in Kuala Lumpur is expected to ease over the next two years which should lead to better occupancy rates. Retail spending should also remain strong, boosted by a higher minimum wage, broad civil servants pay hike, and improving tourism industry. As such, we generally expect mid-single digit rental reversions for the retail REITs under our coverage, with more upside to rental rates for SREIT and IGB REIT following their major refurbishments.
- **Opportunities for inorganic growth.** We think the current improved sentiment on REITs (including sizeable listing of new REITs which could garner more interest) is favourable for asset acquisitions , to be funded via a combination of debt and equity with less dilutive effects. After AXRB's largest private placement yet in Oct 2024, 2025 will see a sizeable placement for Pavilion REIT's (PREIT) acquisitions of Banyan Tree, Pavilion Hotel, and potentially for the balance payment of Pavilion Bukit Jalil. SREIT could also potentially enter the capital market as it targets to grow its portfolio to MYR14bn by end-2027 (from MYR10bn currently).
- **Top Picks: AXRB and SREIT.** We like AXRB as a proxy to the resilient industrial property segment. The REIT announced MYR684m in new acquisitions in 2024, which should result in a 10% DPU growth in FY25 despite its higher share base. We also like SREIT for its robust earnings outlook, underpinned by its diversified portfolio and active acquisition strategy.

Top Picks	Target Price
Axis REIT (AXRB MK) – BUY	MYR2.08
Sunway REIT (SREIT MK) – BUY	MYR2.07

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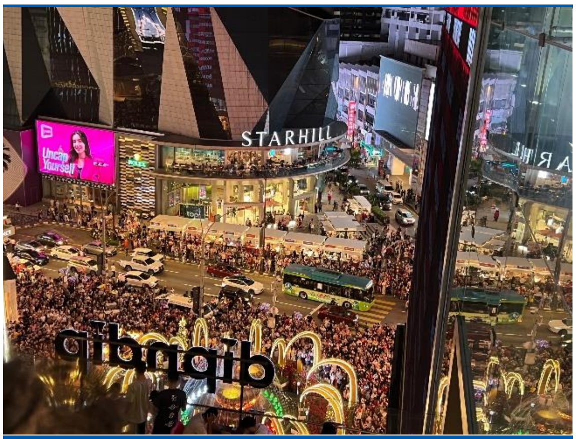
Strong crowds seen in Bukit Bintang, KL in Dec 2024



Source: RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
AME REIT	Buy	1.57	11.3	18.3	1.3	7.0	5.9
Axis REIT	Buy	2.08	20.2	15.9	1.1	6.7	5.8
IGB REIT	Neutral	2.12	(1.4)	19.0	1.9	10.1	5.5
KLCCP Stapled	Neutral	8.20	1.5	17.0	1.1	6.4	5.6
Pavilion REIT	Buy	1.74	12.3	16.6	1.1	6.6	6.2
Sentral REIT	Buy	0.91	14.5	11.2	0.7	6.2	8.6
Sunway REIT	Buy	2.07	8.9	16.3	1.2	7.3	5.8

Source: Company data, RHB

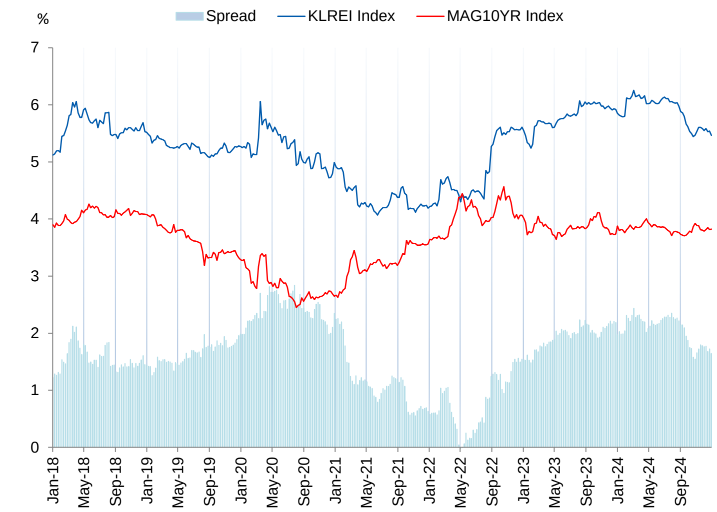
More upside from the current yield spread

The KLREI rose by 12% in 2024 vs FBM KLCI's 13% in 2024. The retail REITs under our coverage were the best performers (PREIT: +28%, IGB REIT: +24%, SREIT: +20%) as high occupancy rates and rental reversions provided strong earnings growth, while AXRB saw its share price drop by 3% for the year following its private placement in October last year.

Currently, the dividend yield spread between the KLREI and MGS10 is at +160bps – in line with the historical mean. While the US 10-year bond yield has been more volatile, ranging between a low of 3.6% in Sep 2024 to a high of 4.7% in Apr 2024, the MGS10 yield has remained broadly stable around 3.8%. RHB Economics currently expects three 25bps cuts to the US Federal Funds Rate in 2025 which should result in a more gradual easing in bond yields.

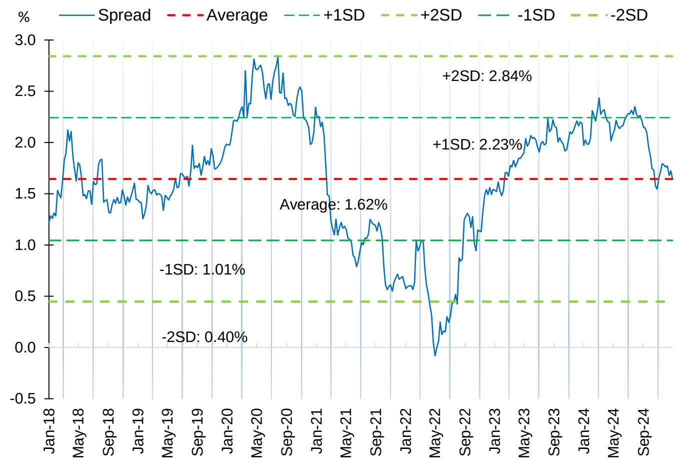
Similarly, while we expect Bank Negara Malaysia to keep the OPR at 3%, the MGS10 yield should ease alongside global yields due to the narrowing rate differential between Malaysia and other countries, driving capital into Malaysia bonds, exerting downward pressure into the Malaysia bond yields. As such, we think there is more room for the yield spread to grow from earnings growth and easing bond yields, thereby providing upside to M-REITs' share prices.

Figure 1: Yield spread between KLREI and 10-year MGS



Source: Bloomberg, RHB

Figure 2: Yield spread currently at c.160bps



Source: Bloomberg, RHB

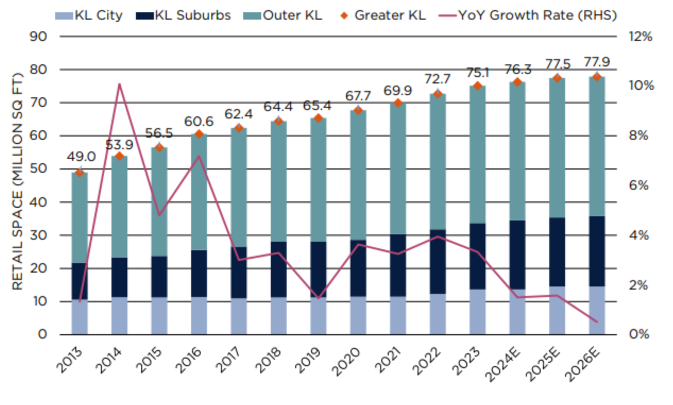
Catalysts for retail REITs

The retail sector in Malaysia has been healthy, with retail trade sales recording +7% YoY growth in Oct 2024. Retail spending should be supported in 2025 by government measures to raise minimum wage, targeted aid, and a broad pay hike for civil servants. Another driver would be the increasing tourist arrivals as the Government aims to promote tourism ahead of its Visit Malaysia Year campaign in 2026 where it aims to attract 36m tourists. As at Nov 2024, the country recorded 22m tourist arrivals which is a 26% increase (+5m) from the same period in 2023, although still 7% (-2m) behind the same period in 2019, being the pre-COVID-19 period.

While newly opened malls provide increased competition, which could suppress rental rate growth, we think the established malls under our coverage – Suria KLCC, Pavilion Kuala Lumpur, Mid Valley Megamall, and Sunway Pyramid – would continue to do well. This is reflected by the malls recording close to full occupancy rates as of Sep 2024. REITs' managements are generally guiding for mid-single digit rental reversions, with the exception of KLCCP Stapled partly due to its higher base. This is reflected by it recording close to full occupancy rates as of Sep 2024. On a macroeconomic level, the growth rate of new supply of retail space in Kuala Lumpur is also expected to slow down over the next two years. According to Savills Malaysia, malls in Greater KL have shown a gradual improvement in occupancy rates since 2023 compared to the downtrend in 2013-2019.

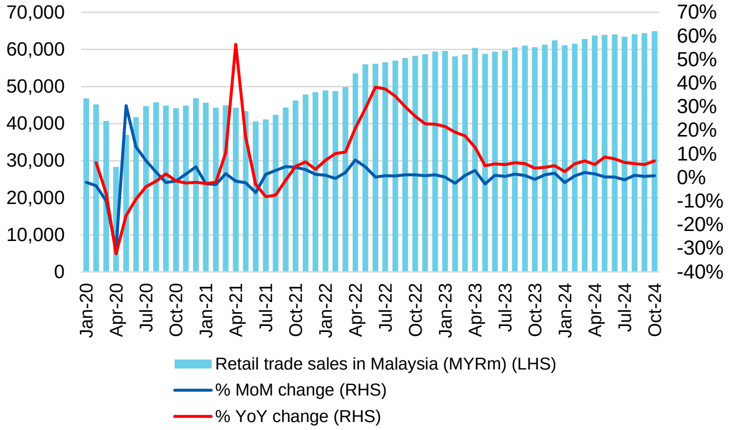
SREIT and IGB REIT should also see a boost in rental rates thanks to their major asset enhancement initiatives. SREIT is currently refurbishing Sunway Carnival Mall's old wing to match the aesthetics of its new wing, allowing it to attract higher quality tenants. The REIT also recently opened Sunway Pyramid's new Oasis wing in Nov 2024, reconfiguring a space previously occupied by a single anchor tenant to now hosting over 100 smaller, higher yielding tenants. Similarly, with IGB REIT, Mid Valley Megamall now has over 20 tenants replacing its previous anchor tenant, of which the full impact should be reflected in FY25.

Figure 3: Greater Kuala Lumpur's retail supply and vacancy rate



Source: Savills Malaysia Research

Figure 4: Retail trade sales in Malaysia (MYRm)



Source: Department of Statistics Malaysia

Opportunities for inorganic growth

With the improved sentiment on REITs (including sizeable listing of new REITs which could garner more investor interest), we also think the market is more favourable for asset acquisitions to be funded via a combination of debt and equity with less dilutive effects.

Retail REITs. The M-REITs under our coverage only have a gearing ratio of 32% on average as of Sep 2024, with the lowest being IGB REIT at 22%. While there is no official guidance, we continue to keep an eye out for any potential acquisition of Mid Valley Southkey Mall, which could be a strong catalyst for IGB REIT due to the mall's strong positioning in Iskandar Malaysia. As SREIT's gearing is already at 43%, we expect its following acquisitions to be partially funded via equity as it aims to meet its MYR14bn asset under management target by end-2027 (currently MYR10bn). PREIT also recently announced that it is acquiring two hotels in Bukit Bintang – Banyan Tree and Pavilion Hotel – for MYR480m. While we expect it to be dilutive in the short term due to a higher share base, in the long term it could bring synergistic opportunities alongside Pavilion KL, proving to be a timely acquisition as the country prepares for Visit Malaysia 2026.

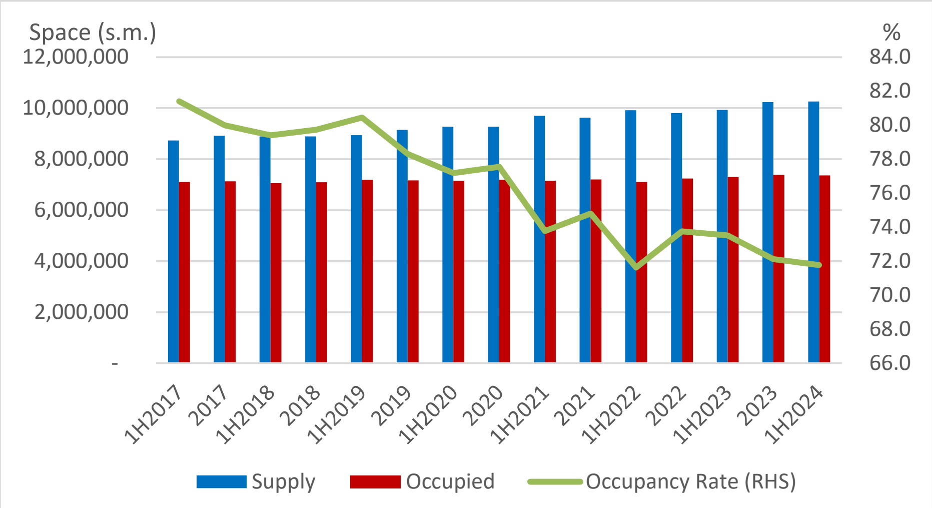
Industrial REITs. FY25 should see strong earnings growth from AME REIT and AXRB as they picked up the pace of acquisitions in 2024 after a quieter 2023. AXRB completed MYR719m in new acquisitions, and subsequently raised MYR449m through a private placement in Oct 2024 to lower its gearing from an estimated 44% to 33%. AME REIT, on the other hand, announced MYR119m in new acquisitions, expected to be completed between 4QFY25 (Mar) and 2QFY26, which should result in a 11% DPU growth in FY26. We remain positive on AME REIT's long-term growth trajectory as it aims to acquire c.MYR100m in new acquisitions each year, supported by a pipeline of new assets from its Sponsor.

Status quo for offices

We continue to be cautious on the office sector as the occupancy rate in Kuala Lumpur remains low at c.70%, compounded by an increasing supply of new offices. According to Knight Frank, one-third of the current office space is green certified, and demand was largely supported by a flight-to-quality trend with tenants relocating to newly completed Grade A offices.

That said, in this subsector, we like Sentral REIT for its attractive high dividend yield. We think the downside risks to its occupancy rate in the medium term is minimal, with tenancies up for expiry mostly consisting of the REIT's long-term tenants that are likely to continue, as well as tenancies in its in-demand flagship assets – Platinum Sentral and Menara Shell. Earnings are also underpinned by a long-term tenancy at Menara CelcomDigi. We highlight that the upside risk from a potential disposal of the vacant Wisma Sentral Inai, which would result in significant interest cost savings, and further boost its dividend yield.

Figure 5: Supply of purpose-built offices in Kuala Lumpur



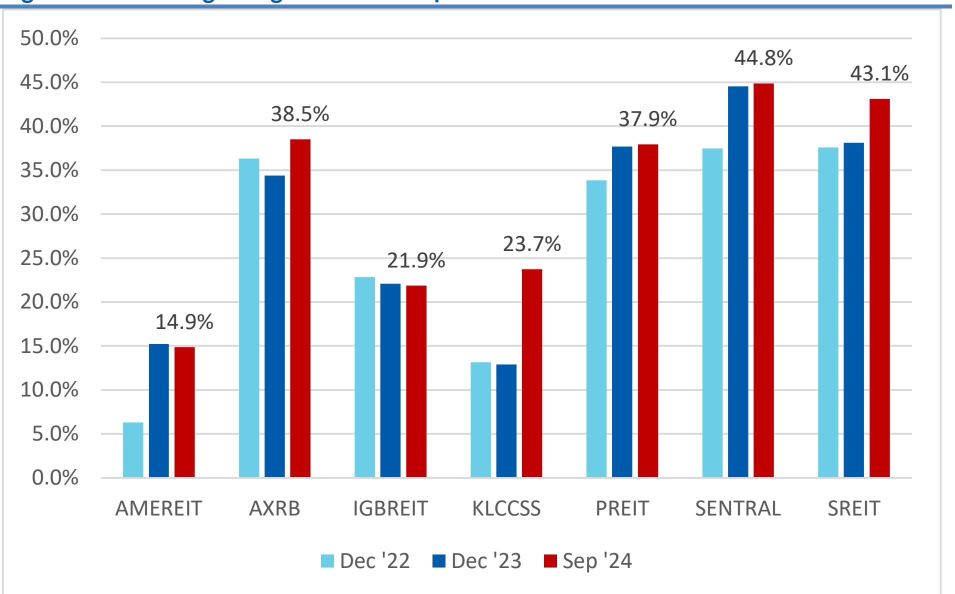
Source: National Property Information Centre (NAPIC)

Top Picks: AXRB and SREIT

We like AXRB as a proxy to the thriving industrial property segment. The industrial segment should continue to fare better as the South-East Asian region is expected to benefit from more trade diversions after Donald Trump becomes the US President again later this month. We think AXRB's recent share price retraction post-placement provides an opportunity to accumulate the stock. The REIT currently offers an estimated yield of 5.8% for FY25, which is well above the historical average spread of 86bps to the MGS10 yield.

We also like SREIT for its robust earnings outlook, underpinned by its diversified portfolio and active acquisition strategy. We expect the REIT to continue acquiring new assets as it aims to achieve assets under management of MYR14bn by end-2027 (currently MYR10bn). Its strong market positioning in the retail segment could unlock more opportunities for earnings growth by upgrading its recently acquired properties, similar to the asset enhancement initiatives done in Sunway Carnival and Sunway Pyramid.

Figure 6: M-REITs' gearing levels as at Sep 2024



Source: Company data, RHB

Figure 7: Occupancy rates of buildings of M-REITs

	2018	2019	2020	2021	2022	2023	1H24
Petronas Twin Towers	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara 3	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara Exxon Mobile	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara Dayabumi	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara Maxis	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Suria KLCC	98.0	99.0	97.0	93.0	92.0	96.0	98.0
Mid Valley Mall	99.0	99.0	99.7	97.8	99.9	100.0	100.0
The Gardens Mall	97.0	99.0	91.8	90.7	99.9	100.0	100.0
Pavilion Kuala Lumpur	98.7	98.0	96.5	90.2	91.6	95.2	96.4
Intermark Mall	94.4	97.1	85.7	83.6	86.9	89.8	90.2
DA MEN Mall	74.4	71.7	68.9	62.3	64.5	73.4	75.4
Elite Pavilion Mall	96.7	95.0	83.2	86.4	92.3	95.9	95.5
Pavilion Bukit Jalil	-	-	-	-	-	88.1	87.8
Pavilion Tower	94.0	85.8	85.8	79.1	73.0	72.0	75.0
Sunway REIT Offices	61.0	72.0	78.0	84.0	83.0	84.0	84.0
Sunway REIT Retail	96.0	96.0	95.0	97.0	96.0	97.0	97.0
Sunway REIT Hospitality	74.0	69.0	53.0	32.0	54.0	64.0	62.0
Axis REIT*	94.0	92.0	91.0	96.0	95.0	97.0	89.0
Sentral REIT*	93.0	90.0	90.0	90.0	77.0	89.0	84.0
AME REIT*	-	-	-	-	-	100.0	100.0

*Note: * blended portfolio occupancy*
Source: Company data, RHB

Figure 8: Valuations of M-REITs

	FYE	Target	Mkt Cap	P/E (x)		EPS Growth (%)		P/BV (x)	DY (%)	Rec
		(MYR/s)	(MYRm)	FY25F	FY26F	FY25F	FY26F	FY24F	FY24F	
Sunway REIT	Dec	2.07	6,507	16.3	15.3	12.7	6.4	1.2	5.8	Buy
Pavilion REIT	Dec	1.74	5,674	16.6	16.4	4.0	1.5	1.1	6.2	Buy
Axis REIT	Dec	2.08	3,478	15.9	16.6	10.1	2.4	1.0	5.8	Buy
Sentral REIT	Dec	0.91	950	11.2	10.9	2.6	3.1	0.7	8.6	Buy
AME REIT^	Mar	1.57	743	17.9	17.3	10.7	3.3	1.3	6.0	Buy
KLCCP Stapled	Dec	8.20	14,587	17.0	16.6	7.5	2.4	1.1	5.6	Neutral
IGB REIT	Dec	2.12	7,773	19.0	18.3	5.7	4.0	1.9	5.5	Neutral
Weighted Sector Avg				**16.8**	**16.1**	**7.7**	**2.6**			

Note: ^FY25F-26F valuations refer to those of FY26F-27F
Source: Bloomberg, RHB

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