REIT

Maintain POSITIVE

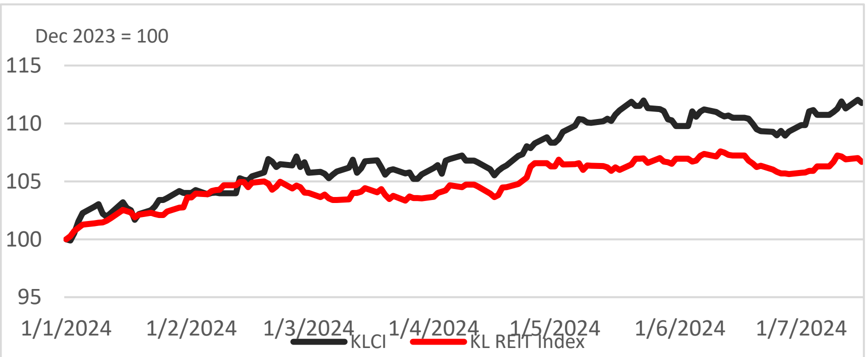
Steady Outlook

KEY INVESTMENT HIGHLIGHTS

- **Positive performance of KL REIT Index**
- **More REIT in the pipeline**
- **Higher occupancy rate of shopping complex while office occupancy rate remains subdued**
- **Earnings expectations for REIT remains encouraging**
- **Maintain POSITIVE on REIT**
- **Top picks are Sunway REIT (BUY; TP: RM1.80) and Pavilion REIT (BUY; TP: RM1.60)**

Positive performance of KL REIT Index. Performance of REIT in Malaysia has been positive with KL REIT Index recording gains of +6.7% year-to-date (as of 16 July 2024) albeit lower than KLCI's gains of +11.8%. Out of 19 REIT listed on Bursa Malaysia, 14 REIT recorded positive gains year-to-date. The positive performance of REIT was mainly spurred by earnings recovery in REIT amid recovery in retail and hotel segments which supported by higher tourist arrival and reopening of economy. Four REIT recorded double-digit increase in share price namely YTL Hospitality REIT (+21.6%), Capitaland Malaysia Trust (+21.1%), Pavilion REIT (+20.7%) and IGB REIT (+15.8%).

Figure 1: KL REIT Index and KLCI



Source: Bloomberg, MIDF Research

Figure 2: KL REIT Index Gainers (YTD gains as of 16 July 2024)

REIT	Gains (%)	Yield (%)
YTL HOSPITALITY REIT	21.6%	6.15%
CAPITALAND MALAYSIA TRUST	21.1%	6.37%
PAVILION REIT	20.7%	6.39%
IGB REIT	15.8%	5.42%
AME REIT	9.1%	5.33%
KLCCP STAPLED GROUP	8.8%	5.41%
AL-'AQAR HEALTHCARE REIT	7.2%	6.12%
AXIS REIT	6.7%	4.65%
SUNWAY REIT	6.3%	5.85%
IGB COMMERCIAL REIT	4.6%	7.27%
UOA REIT	4.4%	7.05%
KIP REIT	3.6%	6.93%
AMFIRST REIT	3.6%	6.25%
SENTRAL REIT	2.8%	8.35%

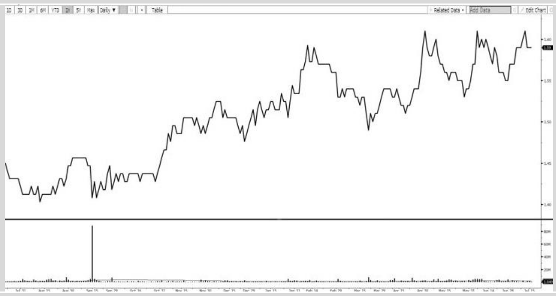
Source: Bloomberg, MIDF Research

COMPANY IN FOCUS

Sunway REIT
Maintain **BUY** | Revised Target price: RM1.80
Price @ 16th July 2024: RM1.59

- Earnings from Sunway Pyramid should normalise from FY25 onwards after completion of reconfiguration exercise.
- Hotel division will benefit from higher tourist arrivals.
- Distribution yield is estimated at 5.6%.

Share price chart



Pavilion REIT
Maintain **BUY** | Revised Target price: RM1.60
Price @ 16th July 2024: RM1.41

- Strong earnings in 1QFY24 (+18.7%yoy) due to earnings contribution from Pavilion Bukit Jalil.
- Positive rental reversion outlook for Pavilion KL Mall due to high shopper footfall.
- Distribution yield is estimated at 5.8%.

Share price chart

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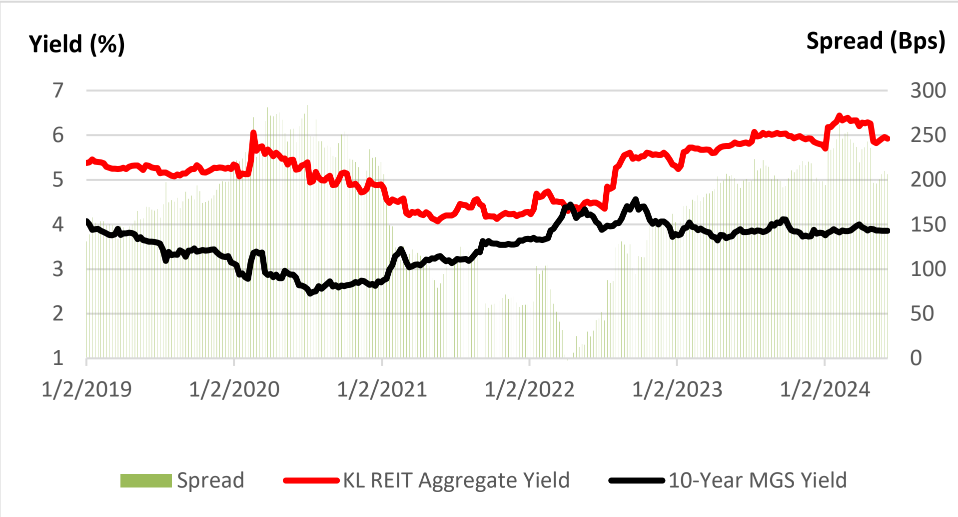
More REIT in the pipeline. With the recovery in retail backdrop and higher investors interest on REIT as evidenced by the positive performance of REIT, some of the assets owners such as property companies are exploring to list their investment assets as REIT to unlock value of these assets. Notably, S P Setia revealed that it has started pre-IPO works to explore the establishment of a REIT which may include retail complexes, office buildings, schools and convention centre. On the other hand, WCT Holdings Berhad announced that it is proposing to establish a REIT with initial portfolio of the REIT will comprise retail assets owned by the company. Overall, we see that the potential listing of new REIT will improve vibrancy of REIT market in Malaysia as it increases number of REIT listed on Bursa Malaysia and increase investment choices for yield seeking investors. Meanwhile, spread between aggregate yield of KL REIT Index and 10-year MGS yield narrowed to slightly above 200bps from above 250bps in March 2024 following increase in share price of REIT. Nevertheless, the current spread is still above its 5-year average spread of 160bps, hence we think that REIT is still appealing for yield seeking investors.

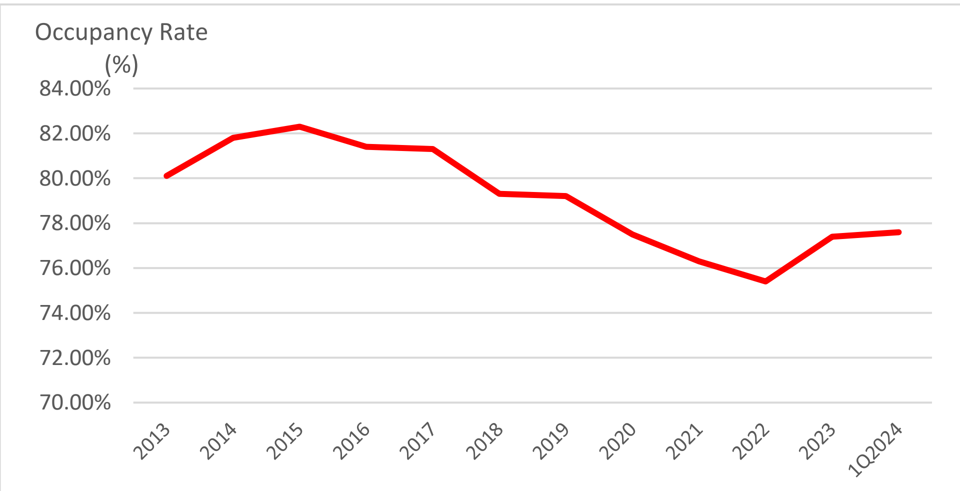
Figure 3: Spread between KL REIT Index aggregate yield and 10-year MGS Yield



Source: Bloomberg, MIDF Research

Higher occupancy rate of shopping complex. Retail industry in Malaysia is recovering post Covid-19 pandemic with improving occupancy rates of shopping malls. According to data by National Property Information Centre (NAPIC), occupancy rate of shopping complex in Malaysia recovered from low of 75.4% in 2022 to 77.4% in 2023. Meanwhile, the latest occupancy rate of shopping complex as of 1QCY24 showed that occupancy rates increased further to 77.6%. We think that the continuous recovery in occupancy rates was due to higher shopper footfall at malls, which supported tenant sales and increased demand for retail space. Note that occupancy rate of shopping complex in Malaysia fell below 80% since 2018 due to influx of retail space. Looking forward, we opine that the outlook for shopping malls in Malaysia will remain stable going forward and we expect occupancy rate of shopping complex to stay below 80% as supply of retail space stabilizes.

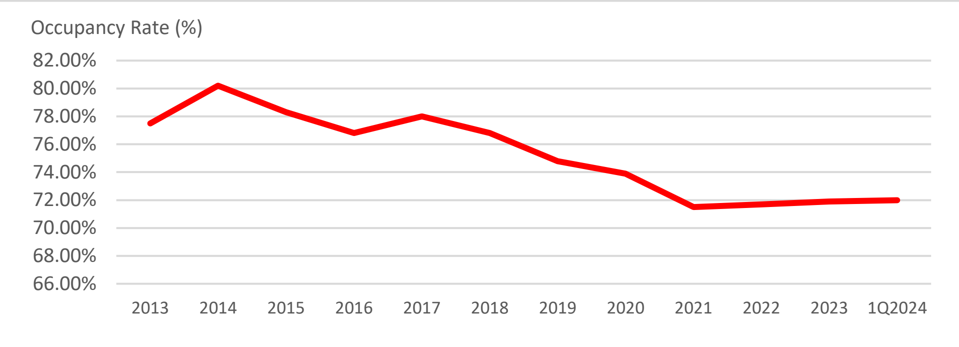
Figure 4: Shopping Complex Occupancy Rate



Source: NAPIC, MIDF Research

Office occupancy rate remains subdued. Performance of office segment is muted mainly due to the increasing supply of office space in Malaysia in the past 10 years. According to NAPIC, total office space (privately-owned) increased to 17m square metre in 2019 from 14.4m square metre in 2014 which led occupancy rate of office buildings fell to 74.8% from 80.2%. Subsequently, total office space continued to increase to 18.7m square metre in 2023 with occupancy rate declining further to 71.90% in 2023. Meanwhile, the occupancy rate of office building remains flat at 72% in 1QCY24 as demand for office space remains unexciting as some organizations embrace hybrid works style which reduce demand for office space. In a nutshell, we see that the outlook for office segment to remain subdued going forward with flattish rental growth outlook as a result of subdued occupancy rate and tepid demand for office space.

Figure 5: Office Buildings (Privately-Owned) Occupancy Rate



Source: NAPIC, MIDF Research

Earnings expectations for 2QCY24. As REIT enters earnings reporting season with Pavilion REIT, IGB REIT and Axis REIT are scheduled to release 2QCY24 earnings by end of July, we expect earnings of retail REIT to remain encouraging in 2QCY24. Notably, we expect earnings growth of Pavilion REIT to remain stable in 2QFY24 after recording double digit earnings growth of +18.7%yoy in 1QFY24 due to contribution from Pavilion Bukit Jalil and higher rental income from Pavilion KL Mall. Outlook for rental income from Pavilion KL Mall is positive due to high shopper footfall that partly supported by higher tourist arrival. On the other hand, earnings of IGB REIT is expected to be supported by organic growth of positive rental reversion as Mid Valley Mall and The Gardens Mall continue to enjoy high shopper footfall and high occupancy rate of close to 100%. Meanwhile, we expect earnings of Axis REIT to remain stable due to healthy demand for industrial space which is expected to support positive rental reversion.

Maintain POSITIVE on REIT. In a nutshell, we remain **POSITIVE** on the outlook for REIT as we expect a stable earnings outlook for REIT particularly retail REIT as retail backdrop remains resilient. Besides, average yield of REIT under our coverage remains attractive at 5.2%. Meanwhile, we have revised target prices for REIT under coverage (refer to figure 6) as we rollover our DDM valuation for REIT. Our top picks for the sector are **Sunway REIT (BUY; TP: RM1.80)** and **Pavilion REIT (BUY; TP: RM1.60)**. We remain positive on Sunway REIT as contribution from its retail division should remain stable in the long term on the back of positive rental reversion. Besides, outlook for hotel division is also improving with expectation of higher tourist arrivals. Meanwhile, we are positive on Pavilion REIT as its flagship mall namely Pavilion KL Mall should continue to record earnings growth in the mid to long term amid high shopper footfalls. In addition, the stable improvement in Pavilion Bukit Jalil should translate into better earnings growth going forward.

Figure 6: Peers comparison table

Stock	Rec.	Price @ 16-July-2024	Revised Target Price (RM)	Previous Target Price (RM)	Core EPS (sen)		Core PER (x)		Net DPS (sen)		Net Dvd Yield	
					FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sunway REIT	BUY	1.59	1.80	1.70	10.5	11.0	15.1	14.5	8.9	9.2	5.6%	5.8%
Pavilion REIT	BUY	1.41	1.60	1.48	7.6	7.9	18.5	17.9	8.2	8.1	5.8%	5.7%
IGB REIT	BUY	1.93	2.04	1.86	10.4	10.7	18.6	18.0	9.5	9.8	4.9%	5.1%
Axis REIT	BUY	1.86	2.12	2.02	8.9	9.9	20.9	18.8	7.83	8.67	4.2%	4.7%
KLCCP Stapled Group	NEUTRAL	7.48	7.50	7.20	45.3	48.7	16.5	15.4	38.4	38.6	5.1%	5.2%
Al-`Aqar Healthcare REIT	NEUTRAL	1.29	1.31	1.25	8.2	8.4	15.7	15.3	7.2	7.3	5.6%	5.7%

Source: MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology