Paradigm REIT

A Growing Neighbourhood REIT

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NOT RATED

IPO Price:	**RM1.00**
Fair Value:	**RM1.10**

A pure retail-play REIT which is set to debut on the main market on 10 June, PARADIGM's portfolio consists of three retail malls, namely, Paradigm JB, Paradigm PJ and Bukit Tinggi Shopping Centre (BTSC). Although we see moderate income risk attached to Paradigm PJ given a more saturated market, we believe the biggest income driver lies with Paradigm JB. The bulk rent reversion in the latter, benefitting from Johor RTS development, will likely propel decent net profit growth in the near to medium-term, thanks also to additional spaces requested by master-lease tenant AEON in Bukit Tinggi Shopping Centre. We have also ground-checked these assets ourselves (pictures behind). All in, based on a dividend yield spread of 2.75%, we derive a fair value of RM1.10 against its IPO price of RM1.00 per share.

PARADIGM is being listed with the following three assets under its portfolio, giving it exposure to the Klang Valley and Johor Bahru retail markets, primarily focused on neighbourhood malls. They are as follows:

1. **Paradigm JB – High Growth**

   A sizeable mall in Johor Bahru with 1.3m sq ft of NLA located right beside the Skudai Highway and enjoys 99% occupancy. The group indicated that the mall is significantly supported by Singaporean shoppers, making up approximately one-third of its foot traffic which command higher spending power as compared to locals. Our channel checks and ground surveys with Johoreans also suggest that this is a weekend-driven mall, which could be largely due to the availability of said Singaporean visitors during the weekends. Anchors include Parkson, Harvey Norman, and Village Grocer. A key differentiator from larger establishments such as Mid Valley Southkey includes entertainment offerings such as ice skating, bouldering and etc.

   Two catalysts for Paradigm JB:

   i. Major tenancy renewal in CY26, covering ~50% of total space, expected to deliver mid-teens rental reversion supported by a pandemic-driven low base and market growth.
   ii. RTS Link (expected by end-CY2026), which will likely boost the inflow of Singaporean shoppers further.

   Paradigm JB makes up 49% of PARADIGM's NPI in FY24

2. **Paradigm PJ – Moderate Risk**

   A neighbourhood mall with 680k sq ft of NLA and a 98% occupancy located next to the LDP highway, it features mid-tier brands with some entertainment and gaming tenants, while being anchored by Lotus's, GSC, and Harvey Norman. During our site visit, weekday footfall was observed to be low, while weekends showed moderate activity.Though the mall is well maintained, the Petaling Jaya retail market is saturated, with many rival malls such as Damen Mall, 3 Damansara, Subang Parade and etc. struggling to draw crowds, suggesting that competition remains intense. Overall, it is not considered a high-performing mall that demonstrates high income resilience relative to its size. Hence, we see a moderate income risk associated with this asset.

   Paradigm PJ makes up 24% of PARADIGM's NPI in FY24.

Share Price Performance

KLCI	1519.41
YTD KLCI chg	-7.5%
YTD stock price chg	N/A

Post-IPO Major Shareholders

WCTHJ	63.7%
Others	36.4%

IPO proceeds (RM m)

*No IPO proceeds as Paradigm REIT is issuing consideration units to acquire the three assets.	N.A.

Summary of IPO

Enlarged Share Cap (m)	1,600
IPO Price (RM)	1.00
Market Cap Upon Listing (RM m)	1,600

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Turnover	218.7	228.7	242.9
EBIT	147.2	159.8	169.6
PBT	97.7	110.3	120.0
PATAMI	**99.4**	**112.0**	**121.7**
Core PATAMI	**99.4**	**112.0**	**121.7**
Consensus (NP)		-	-
Earnings Revision		-	-
Core EPS (sen)	6.2	7.0	7.6
Core EPS Growth (%)	41.9	12.7	8.7
GDPS (sen)	-	7.0	7.7
NDPS (sen)	-	6.5	7.1
BVPS (RM)	3.14	1.00	1.00
PER (x)	16.1	14.3	13.1
PBV (x)	-	1.00	1.00
Gearing (x)	0.37	0.34	0.34
Net Div. Yield (%)	-	6.5	7.1

3. **Bukit Tinggi Shopping Centre – Strong Earnings Resilience**

A 1m sq ft GLA (Gross Lettable Area) asset fully master-leased to AEON Group. It serves everyday needs with a good variety of tenants and is notably one of AEON's best-performing malls in the Klang Valley.

During our Sunday site visit, parking spaces were almost fully taken up with robust footfalls in the mall, predominantly local Malays and Chinese shoppers. Activity levels were well-distributed across all floors, comparing well with most other neighbourhood malls in the Klang Valley. Upon lease expiry in CY29, the REIT holds the right to raise rent by up to 12%. The upcoming LRT3 station next to the mall (expected completion in CY25) will further improve accessibility. Given it being favoured by the community, AEON has requested additional space from the management. While this presents a potential income upside for the REIT, the additional rental profits would be shared with the Sponsor, who would undertake the construction.

BTSC makes up 27% of PARADIGM's NPI in FY24.

Future Pipelines. According to the group, future injection pipelines from the Sponsor (WCTH) include Hyatt Place Johor Bahru, Le Méridien Petaling Jaya, Première Hotel in Klang, and Gateway@klia2 at KLIA.

That said, we believe PARADIGM will need to exercise strong vigilance in asset quality screening, valuation assessment, and funding strategy to ensure that any future acquisition results in net DPU accretion. On that note, the group's current gearing stands at 34%.

Valuation

In our view, the appropriate peers for comparison are:

(i) **Pavilion REIT** (PAVREIT) – which is a retail focused portfolio where income is primarily derived from a regional and a neighbourhood mall.

(ii) **Capitaland Malaysia** (CLMT) - as PARADIGM also shares a similar portfolio of multiple mid-tier neighbourhood malls and a mixture of both resilient and risk-exposed assets, with both REITs in the category of <RM2b market capitalization

We ascribe a 6.5% target yield (derived from a 2.75% yield spread above our 10-year MGS assumption of 3.75%) on PARADIGM's FY26F after-tax dividend of 7.1 sen, implying a **fair value of RM1.10 per share.**

This is derived from a slight premium against **CLMT (OP; TP: RM0.75)**, which we ascribed a target yield of 6.75%, as we see more optimistic organic growth prospect in PARADIGM. Meanwhile, based on last 5-day average, PAVREIT currently trades at a target yield of 6.3% on its FY26F after-tax dividend. On that note, our target yield for PARADIGM also represents a slight discount against PAVREIT's valuation to reflect its smaller asset sizes and lower profitability. However, given that PARADIGM's rental growth prospects appear promising given the abovementioned factors, we believe the group's earnings could increase by 9% in FY26. We do not assign a valuation premium solely based on the existence of a Rights of First Refusal (ROFR) unless future acquisitions are demonstrably beneficial to minority unitholders.

Target Yield at a Glance (Kenanga)

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AXREIT	MP	1.86	5.25
CLMT	OP	0.75	6.75
IGBREIT	MP	2.20	5.25
KLCC	MP	8.52	5.50
SUNREIT	OP	2.11	5.25

^ Derived from yield spread above our 10-year MGS yield assumption of 3.75%.
Source: Kenanga Research

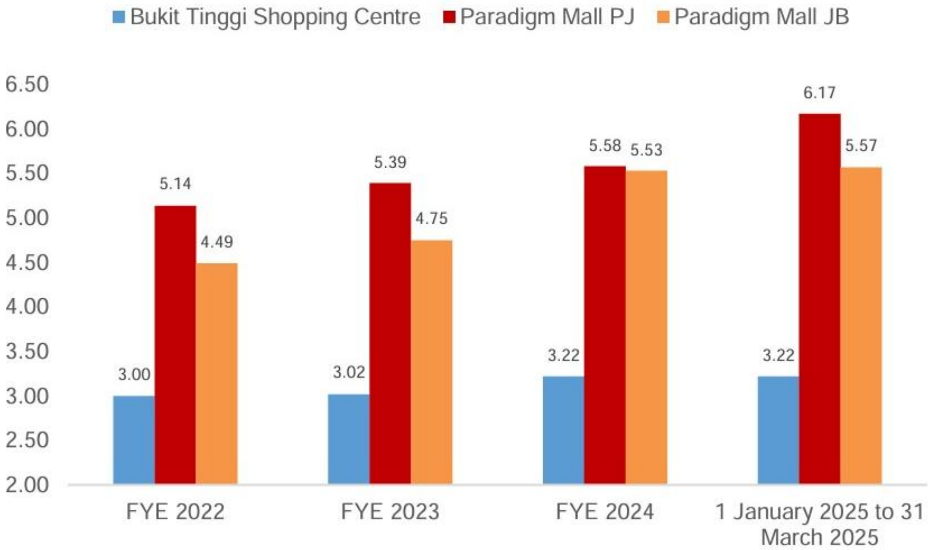
Appendix

Portfolio Overview

	AEON Bukit Tinggi Klang	Paradigm Mall PJ	Paradigm Mall JB
Type	Neighbourhood	Neighbourhood	Neighbourhood / Regional
Age of Property (Years)	16	12	7
Total Revenue FY2024 (RM'000)	46,996	59,062	82,683
NPI FY2024 (RM'000)	39,212	35,424	72,588
Appraised Value (RM million)	680	600	1157
Purchase Consideration (RM million)	680	600	1157
NLA (sq ft)	*GFA: 1,000,950	NLA: 680,048	NLA: 1,292,956
SFA (sq ft)	2,215,221	2,304,682	3,630,689
No. of Tenants (as at 31 Mar 2025)	AEON master lease	273	449
Occupancy Rate (%)	100	97.7	99.3
No. of Car Parks	3,343	2,343	4,013

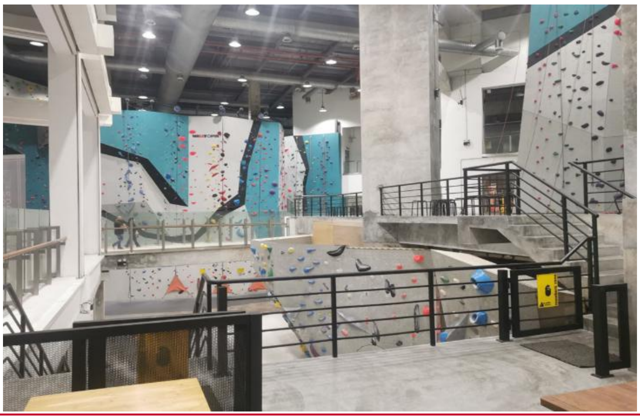
Source: Company, Kenanga Research

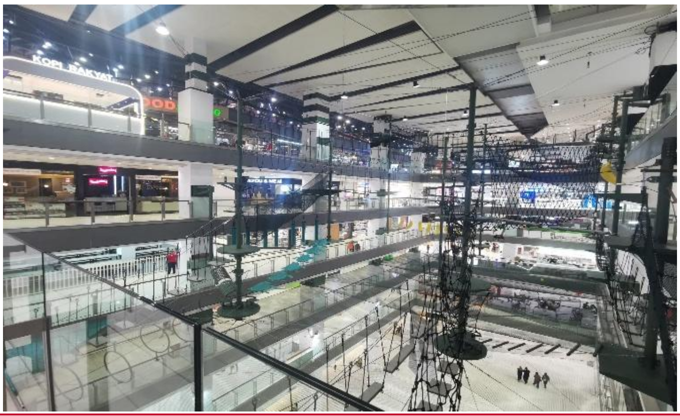
Average Monthly Rental Rate (RM per sq ft)



Source: Company, Kenanga Research

Paradigm JB





Source: Company, Kenanga Research

Paradigm PJ

Source: Company, Kenanga Research

Bukit Tinggi Shopping Centre

Source: Company, Kenanga Research

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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