

22 January 2026

REIT

10% Withholding Tax Renewal Likely

By Chris Tong | christong@kenanga.com.my

NEUTRAL



We maintain our NEUTRAL stance on REIT. While July 2025's BNM 25 bps OPR cut has boosted sentiment in the sector, valuations appear to have been fairly priced as we observed the KLREIT index rising by c.10% since March 2025. On the 8% SST, as expected, the REITs under our coverage in general have reported minimal to zero impact to their performances while being able to pencil in encouraging rental reversions since 1st July 2025. With regard to the 10% withholding tax concession on M-REITs that is scheduled to expire by Dec 2025, we see a higher likelihood of a full renewal, underpinned by M-REIT's total annual estimated net earnings of about RM2.8b, implying that the incremental tax charges would be immaterial, amounting to less than 0.2% of the government's 2026 estimated total tax revenues. The concession's historical precedence of repeated renewals, and its alignment with the S-REIT framework also mark the importance of a renewal in sustaining investor appeal and supporting the long-term growth of both the M-REIT ecosystem and the commercial real estate value chain. Meanwhile, we have also initiated a coverage on AMEREIT for its quality assets, strong tenant profiles and a strategic portfolio concentration in the JS-SEZ. Having said that, following its YTD share price run-up, we see a MARKET PERFORM call for the stock being adequate at this point. Separately, following recent share price appreciations, we are downgrading CLMT (MP, TP: RM0.65) from OUTPERFORM to MARKET PERFORM, IGBREIT (UP, TP: RM2.51) from MARKET PERFORM to UNDERPERFORM and SUNREIT (UP, TP: RM2.22) from MARKET PERFORM to UNDERPERFORM. We do not have a sector top pick in this quarter.

10% withholding tax rate for REIT. The government's concessionary 10% withholding tax rate on REIT dividends, which has been in place from CY16 to CY25, is scheduled to expire in December 2025, with no renewal announced to date. We understand that the Malaysian REIT Association (MRMA) is currently in the midst of engaging with the relevant regulatory authorities to negotiate a continuation of the concession. Pending finalization, we outline three potential hypothetical scenarios as followed:

1. **Full-renewal** – renewed on existing terms with no impacts to REITs.
2. **Non-renewal** – the concession lapses, the dividends received by investors will be subject to their respective tax brackets which are generally higher than 10%, up to 24%, though a minority group of investors such as retirees could emerge as beneficiaries for being in the category of lower tax bracket below 10%. Consequently, the potential negative impacts to REITs' valuation could be up to 14%.
3. **Renewed with revised terms** – the concession is renewed with revised terms that may include a differentiated concessionary tax rates on dividends, potential tax exemption measures for pension funds, a minimum threshold for taxable amount, a reduced tenure and etc.

We find it noteworthy to highlight that regardless of the outcome, investors are still obliged to declare a separate dividend tax of 2% on annual dividend income exceeding RM100,000 for individual shareholders. This implies that investors with sizeable portfolios may be required to pay 12% in annual tax to dividends.

In our assessment, we opine that the likelihood leans towards the "full-renewal" scenario described above for the following reasons:

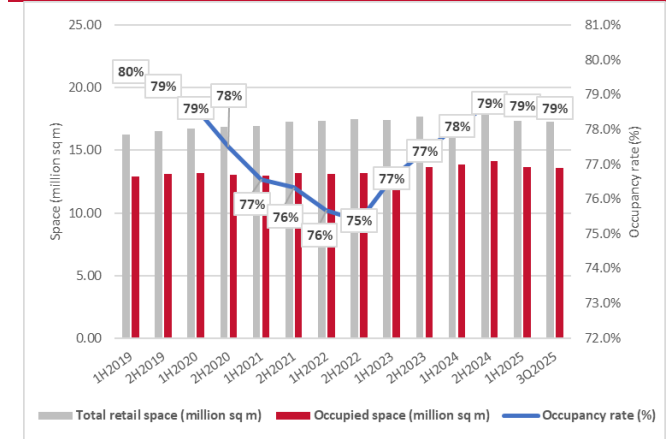
1. M-REIT's total annual estimated net earnings of about RM2.8b implies that the incremental taxation income for the government would be immaterial, representing only less than 0.2% of the government's 2026 estimated total tax revenues. Historically, the concession has also been renewed numerous times.
2. The existing concession partially mirrors the regulatory structure of Singapore REIT (S-REIT). Given the REIT model's pivotal role in the commercial real-estate value chain, from developments, asset operations to asset securitisations, a removal of the concession would reduce the attractiveness of M-REIT for both local and foreign investors, potentially hindering the long-term growth of the sector.

Updates on the 8% sales and service tax (SST)

Minimal impacts on REIT. 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. As expected, REITs under our coverage on general have reported minimal to no impacts to their performances while being able to achieve encouraging rental reversions since 1st July 2025.

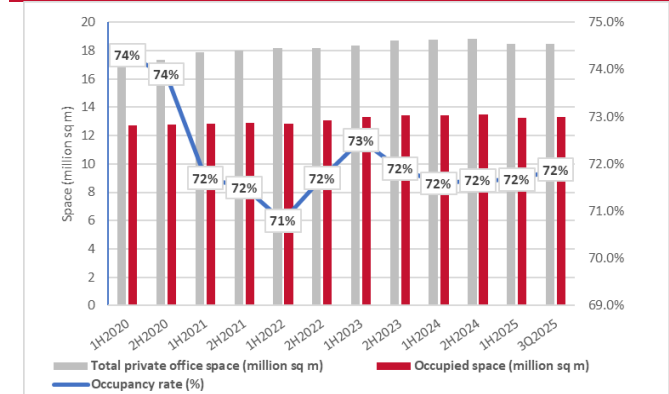
Segmental Reviews

Exhibit 1 - Retail Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Exhibit 2 - Office Space Occupancy Rate Trend



Source: NAPIC, Kenanga Research

Retail - Stable mall occupancy. 3QCY25 retail occupancy rates in shopping complexes held steady at 79.0% from 2QCY25 from a total retail space of 17.3m sqm (refer to Exhibit 1).

Office - Steady office occupancy. 3QCY25 occupancy rate was broadly stable at 72.0% with a total private office space of 18.5m sqm (refer to Exhibit 2).

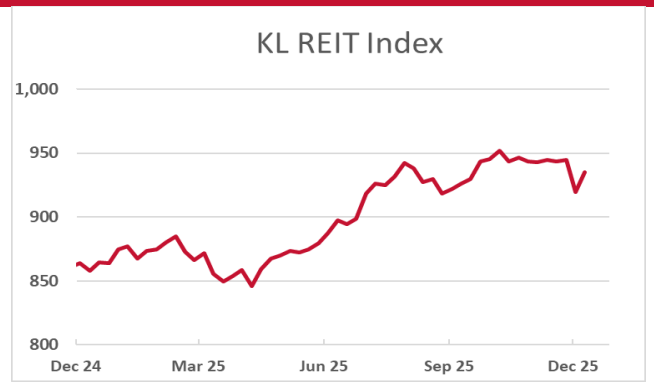
Hospitality – The hotel operators under our coverage have seen a strong rebound in 3QCY25, we believe, largely attributable to the relief of RON95 subsidy rationalisation, the gradual easing of tariffs anxiety and cushioned by the normalization of air travel following the disruptions experienced in certain regions in 1HCY25. This is being fuelled by the increased allocation on tourism in the national budget and our in-house CY26 projection of 30m tourist arrivals in Malaysia (+11% increase from 2025). REITs with hospitality exposures include SUNREIT, PAVREIT and KLCC.

Exhibit 3 - 10-Year MGS Yield Movement



Source: Bloomberg

Exhibit 4 - KLREIT Index from Dec 2024



Source: Bloomberg

22 January 2026

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 Jul 2025. This is also reflective by the ~10% rally in KLREIT index since March 2025 (refer to Exhibit. 4)

AMEREIT (MP, TP: RM1.68) – We have initiated a coverage on AMEREIT in Dec 2025 for its quality assets, strong tenant profiles and a strategic portfolio concentration in the JS-SEZ. Having said that, following its YTD share price run-up, we see a MARKET PERFORM call for the stock being adequate at this point.

PARADIGM (non-rated) – after its recent IPO, we remain positive on PARADIGM on a 7.5% 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)

Exhibit 5 - Target Yield at a Glance

REIT	Stock Call	Target Price (RM)	Target Yield (%)
AMEREIT	MP	1.68	4.75
AXREIT	MP	1.96	5.00
CLMT	MP	0.65	7.25
IGBREIT	UP	2.51	5.25
KLCC	MP	8.93	5.25
SUNREIT	UP	2.22	5.00

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

Exhibit 6 – Sensitivity Table: Hypothetical change in TP on every - 25 bps change in target yield

REIT	Target Price (RM)	Target Yield (%)
AMEREIT	1.78 (+0.10)	4.50 (-0.25)
AXREIT	2.06 (+0.10)	4.75 (-0.25)
CLMT	0.67 (+0.02)	7.00 (-0.25)
IGBREIT	2.64 (+0.13)	5.00 (-0.25)
KLCC	9.38 (+0.45)	5.00 (-0.25)
SUNREIT	2.34 (+0.12)	4.75 (-0.25)

Source: Kenanga Research

22 January 2026

Peer Table Comparison

Name	Rating	Last Price (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																	
AME REIT	MP	1.67	1.68	0.6%	885.6	Y	03/2026	7.6	8.0	17.3%	4.8%	21.9	20.9	1.5	6.9%	7.6	4.6%
AXIS REIT	MP	2.02	1.96	-3.0%	4,090.3	Y	12/2025	10.4	10.6	28.1%	2.0%	19.4	19.1	1.2	6.3%	9.6	4.8%
CAPITALAND MALAYSIA TRUST	MP	0.665	0.650	-2.3%	2,215.3	N	12/2025	5.1	5.0	13.1%	13.7%	13.0	13.2	0.7	5.1%	4.7	7.1%
IGB REIT	UP	2.96	2.52	-14.9%	12,796.4	N	12/2025	11.7	13.7	14.6%	39.8%	25.4	21.7	2.8	10.0%	11.0	3.7%
KLCCP STAPLED GROUP	MP	9.15	8.93	-2.4%	16,518.8	Y	12/2025	47.6	48.8	9.8%	2.5%	19.2	18.8	1.3	6.3%	45.7	5.0%
SUNWAY REIT	UP	2.48	2.22	-10.5%	8,493.5	N	12/2025	12.0	12.5	16.8%	3.8%	20.7	19.9	1.6	7.2%	10.8	4.4%
SECTOR AGGREGATE					44,999.9					14.1%	11.1%	21.6	19.4	1.5	7.0%		5.0%

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

22 January 2026

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my