

15 July 2026

# REIT

## Swing in Fed's Rate Outlook

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# NEUTRAL

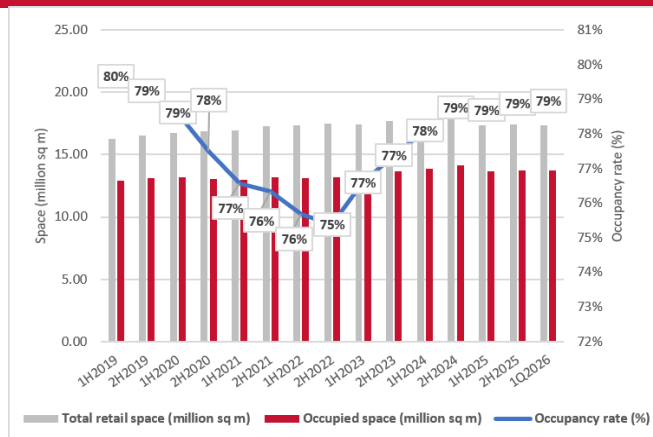


We maintain our NEUTRAL stance on M-REITs. Following our sector-wide average TP trim of 4% post confirmation of the withholding tax removal on 18<sup>th</sup> Mar 2026, we subsequently saw a 5% correction in the KL REIT index, suggesting that the impact of the new ruling has been priced in. Following channel checks, we do not observe any substantial sell-down by foreign REIT investors despite the new tax regime being most punitive to foreign investors. The recent normalization in crude oil prices could also provide some relief to business owners and the broader economy. Within the sector, we expect stable performance for office and industrial assets while prime retail and hospitality assets in tourist hotspots may see some support from the government's increased allocation in promoting inbound tourism with potential key proxies including PAVREIT (OP, TP: RM1.80), KLCC (MP, TP: RM9.22), and IGBREIT (MP, TP: RM2.81). Meanwhile, we take this opportunity to upgrade both SUNREIT (OP, TP: RM2.45) and PAVREIT from MARKET PERFORM to OUTPERFORM following recent share price corrections. SUNREIT is our preferred sector pick for this quarter. All in, although there is a swing in Fed's rate outlook in CY26, we continue to view M-REITs remain a safe haven in the near-term amid the ongoing geopolitical tensions in the Middle East.

**Removal of withholding tax for REIT met with muted reaction.** Post the removal of the preferential 10% withholding tax treatment for REIT for the assessment year 2026 onwards, we had anticipated for REIT counters to see less favour within the affected resident non-corporate investors (i.e. foreign institutional and retail investors). However, we had not observed any substantial sell-down by foreign REIT investors in a meaningful way. Provident and retirement funds will likely continue to accumulate REITs for their yield-seeking portfolios given their continued tax-exempt on income generated including dividends.

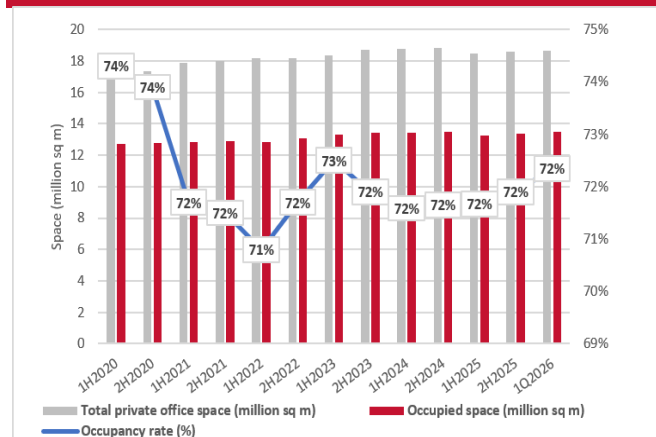
### Segmental Review

**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. 1QCY26 retail occupancy rates in shopping complexes held steady at 79.0% versus 4QCY25 from a total retail space of 17.4m sqm (refer to Exhibit 1).

**Office** - Office occupancy climbs. 1QCY26 occupancy rate inched up to 72.3% from 71.9% in 4QCY25 with a total private office space of 18.6m sqm (refer to Exhibit 2).

**Hospitality** - The hotel operators under our coverage experienced a rather soft 1QCY25, largely due to the surge in air ticket prices and the onset of the Middle East war since late Feb 2026. Having said that, we foresee improvements for the hotel segment in 2HCY26 following the recent normalization in crude oil prices while being supported by the increased allocation for tourism in the national budget in conjunction with Visit Malaysia Year 2026 and our in-house CY26 projection of 30m tourist arrivals in Malaysia (+11% increase from 2025). The key REIT proxies for hospitality and tourism exposures include **PAVREIT**, **KLCC**, and **IGBREIT**.



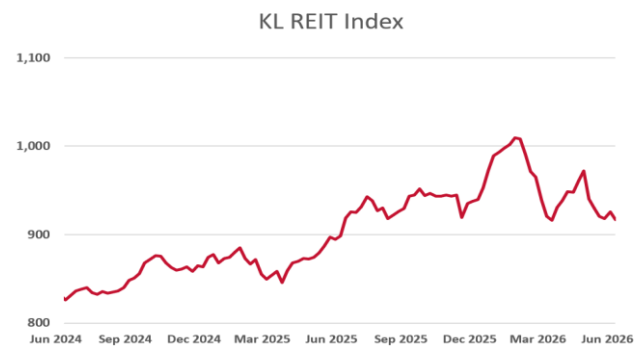
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Exhibit 3 - 10-Year MGS Yield Movement



Source: Bloomberg

Exhibit 4 - KLREIT Index (1 Year)



Source: Bloomberg

We reiterate our **NEUTRAL** stance on the **REIT** sector as the downsides from the withholding tax removal appeared to have been adequately priced in by the market after the KL REIT index falling by c.5% as of 19 Jun 2026 since the announcement made on 18 Mar 2026 (refer to Exhibit 4). At the same time, the market has recalibrated its expectations towards a more hawkish U.S. Fed rate decisions in CY26, suggesting limited valuation upsides for REIT in the near term, while the 10-year MGS yield has remained broadly stable at around 3.6%, in line with 1QCY26.

We take this opportunity to upgrade both **SUNREIT (OP, TP: RM2.45)** and **PAVREIT (OP, TP: RM1.80)** from MARKET PERFORM to OUTPERFORM following share price corrections. SUNREIT is also our preferred sector pick for this quarter.

Exhibit 5 - Target Yield at a Glance

| REIT    | Stock Call | Target Price (RM) | Target Yield (%) |
|---------|------------|-------------------|------------------|
| ALAQAR  | OP         | 1.25              | 6.00             |
| AMEREIT | MP         | 1.58              | 5.50             |
| AXREIT  | MP         | 2.02              | 5.75             |
| CLMT    | MP         | 0.65              | 8.00             |
| IGBREIT | MP         | 2.81              | 5.50             |
| KLCC    | MP         | 9.22              | 5.50             |
| PAVREIT | OP         | 1.80              | 6.25             |
| SUNREIT | OP         | 2.45              | 5.10             |

<sup>^</sup> 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 at 19 Jun (RM) | Target Price (RM) | Upside | Market Cap (RM m) | 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. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd.       | 1-Yr. Fwd.    |
| REITS                     |        |                              |                   |        |                   |                   |             |                |            |                 |            |                         |            |            |            |                  |               |
| AL-AQAR REIT              | OP     | 1.17                         | 1.25              | 6.8%   | 982.3             | Y                 | 12/2026     | 8.1            | 8.3        | 5.8%            | 2.4%       | 14.5                    | 14.1       | 0.9        | 6.4%       | 8.0              | 6.8%          |
| AME REIT                  | MP     | 1.55                         | 1.58              | 1.9%   | 824.6             | Y                 | 03/2027     | 8.1            | 8.5        | 8.3%            | 5.5%       | 19.1                    | 18.2       | 1.2        | 6.5%       | 9.0              | 5.8%          |
| AXIS REIT                 | MP     | 2.01                         | 2.01              | 0.0%   | 4,070.0           | Y                 | 12/2026     | 10.6           | 11.1       | 6.2%            | 5.1%       | 19.0                    | 18.1       | 1.2        | 6.3%       | 10.1             | 5.0%          |
| CAPITALAND MALAYSIA TRUST | MP     | 0.620                        | 0.650             | 4.8%   | 2,086.4           | N                 | 12/2026     | 5.2            | 5.4        | 10.1%           | 4.2%       | 11.9                    | 11.4       | 0.6        | 5.4%       | 4.8              | 7.8%          |
| IGB REIT                  | MP     | 2.74                         | 2.81              | 2.6%   | 11,860.7          | N                 | 12/2026     | 14.4           | 15.4       | 42.6%           | 7.0%       | 19.1                    | 17.8       | 2.6        | 9.9%       | 15.4             | 5.6%          |
| KLCCP STAPLED GROUP       | MP     | 9.52                         | 9.22              | -3.2%  | 17,186.8          | Y                 | 12/2026     | 47.8           | 49.2       | 5.8%            | 2.9%       | 19.9                    | 19.3       | 1.3        | 6.1%       | 46.9             | 4.9%          |
| PAVILION REIT             | OP     | 1.71                         | 1.80              | 5.3%   | 6,716.8           | N                 | 12/2026     | 10.5           | 11.0       | 15.1%           | 4.1%       | 16.2                    | 15.6       | 1.3        | 7.6%       | 11.3             | 6.6%          |
| SUNWAY REIT               | OP     | 2.20                         | 2.45              | 11.4%  | 7,534.6           | N                 | 12/2026     | 12.7           | 13.3       | 1.7%            | 5.3%       | 17.4                    | 16.5       | 1.5        | 7.8%       | 12.5             | 5.7%          |
| SECTOR AGGREGATE          |        |                              |                   |        | 51,262.2          |                   |             |                |            | 13.4%           | 4.7%       | 18.6                    | 17.7       | 1.3        | 7.0%       |                  | 6.0%          |

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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