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Maybank Investment Bank

Malaysia REITs

2025: Strong recovery and yield expansion

POSITIVE *[Unchanged]*

REITs

Malaysia

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Driven by a confluence of positive factors

We maintain a POSITIVE outlook on MREITs in 2025. The MREITs are expected to be driven by several factors, in particular strong consumer spend, tourism recovery and sustained demand for industrial property assets. Collectively, we project CY25E earnings growth of +9.6% YoY, driven by sustained occupancy levels and rental rates, alongside several new asset injections (SunREIT, PavREIT, Axis REIT, YTLREIT). Besides that, we forecast average CY25E net DPU yield of 5.9% (CY24E: 5.3%). Our top BUY is CLMT, with other BUY calls on PavREIT, Axis REIT, and SENTRAL.

Stable OPR and wider forward yield spread

M-REITs net DPU yield (1-year forward) is currently at +194ps (7 Jan) above the 10Y-MGS yield, which is at +1SD above its 10-year mean. Average M-REITs forward dividend yield is at 5.76%. The higher yield spread between M-REITs' forward dividend yield and 10Y-MGS yield (our forecast of 3.8% (average) for 2025) offers a better risk-reward prospect for M-REITs. Separately, an expected stable OPR should offer temporary respite to financing costs.

Positive growth drivers favours retail and hospitality REITS

A confluence of factors should drive earnings growth for the MREITs in 2025. We are positive on the retail and hospitality segments, which we expect to see improved occupancy and rental reversions at key shopping malls especially IGBREIT, CLMT and SunREIT. Meanwhile, the expected return and improve of tourism footfall (see <Malaysia Tourism - Tourism upcycle begins now | POSITIVE>) would bode well for MREITs with hotel exposures, namely KLCCP, SunREIT and PavREIT, while continued influx of tourism in Japan and Australia would be positive for YTLREIT. Meanwhile, we expect the office segment to remain stable. Industrial asset REITs remain in a sweet spot due to high demand for such assets but cap rates are expected to decline due to competition. AXIS REIT is back on its aggressive asset acquisition mode.

AEIs and new assets acquisition supports growth

M-REIT under our coverage saw several asset enhancement initiatives (AEIs) and new assets acquisitions for retail assets, hotels and industrial properties which will support earnings growth in 2025. CLMT is our Top BUY for the sector. CLMT has transformed after the acquisition of Queensbay Mall and its attempted diversification into industrial assets. CLMT's earnings will be driven by high shopper traffic and occupancy rates at its prime malls, such as Gurney Plaza, Queensbay Mall, and East Coast Mall. It also offers an attractive FY25E dividend yield of 6.6%.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	Price/DPU (x) 24E	Price/DPU (x) 25E	P/B (x) 24E	P/B (x) 25E	Div yld (%) 24E	Div yld (%) 25E
KLCCP Stapled G	KLCCSS MK	3,234	Hold	8.06	8.23	7	21.1	20.2	1.0	1.0	4.7	5.0
IGB REIT	IGBREIT MK	1,734	Hold	2.20	2.22	6	22.2	21.6	2.0	2.0	4.5	4.6
Sunway REIT	SREIT MK	1,408	Hold	1.85	1.86	5	20.6	17.7	1.2	1.2	4.8	5.6
Pavilion REIT	PREIT MK	1,229	Buy	1.51	1.72	19	18.5	17.2	1.1	1.1	5.4	5.8
Axis REIT	AXRB MK	668	Buy	1.72	2.12	28	20.1	16.7	1.1	1.1	5.0	6.0
YTL Hosp. REIT	YTLREIT MK	439	Hold	1.16	1.25	15	16.3	13.9	0.7	0.7	6.1	7.2
CLMT	CLMT MK	425	Buy	0.67	0.73	16	15.2	15.0	0.7	0.7	6.6	6.7
Sentral REIT	SENTRAL MK	210	Buy	0.79	0.89	20	13.4	13.0	0.7	0.7	7.5	7.7
Al-Salam REIT	SALAM MK	50	Sell	0.39	0.36	(6)	54.5	26.8	0.3	0.4	1.8	3.7

1. Expect CY25E earnings growth of 9.6%

The KLREI index increased by +11.1% in 2024 (compared to +1.2% in 2023), aligned with the broader FBMKLCI's of +12.9%. This rise was primarily driven by the commencement of the US Federal Funds Rate (FFR) easing cycle and improved expectations for earnings delivery. REITs remain a preferred defensive sector, with dividends underpinned by resilient earnings and sustainable payout ratios.

M-REITs under our coverage posted core earnings growth of +7.8% for 9MCY24, supported by contributions from new assets (SunREIT, Axis REIT, YTLREIT, SENTRAL), positive rental reversions in the retail segment (IGBREIT, CLMT, SunREIT), and improved occupancy in hospitality assets (SunREIT, KLCCP, YTLREIT).

M-REITs with matured retail assets in prime locations remain attractive due to their ability to maintain high occupancy rates and achieve positive rental reversions. Furthermore, hospitality assets are poised to benefit from the anticipated increase in inbound tourist arrivals. We continue to favor M-REITs focused on the industrial segment for their resilient earnings, supported by long-term leases and robust rental reversion prospects.

We maintain a POSITIVE outlook on the sector heading into 2025. We project CY25E YoY earnings growth of +9.6%, driven by sustained occupancy levels and rental rates, alongside several new asset injections (e.g., SunREIT, PavREIT, Axis REIT, YTLREIT). The sector is expected to deliver an average CY25E net DPU yield of 5.9% (CY24E: 5.3%).

Our top BUY is CLMT, with other BUY calls on PavREIT, Axis REIT, and SENTRAL.

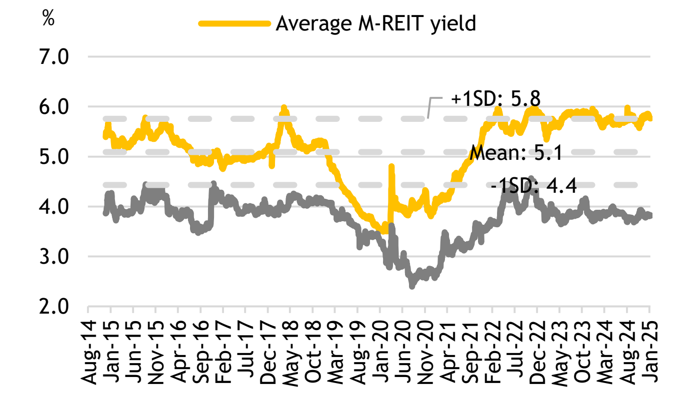
2. Wider forward yield spread

The 10-year Malaysian Government Securities (MGS) yield recorded lower volatility in 2024, fluctuating within a 32bps range (3.69–4.00%) compared to 52bps in 2023 (3.64–4.16%). The yield spread between the 10-year MGS and M-REITs' net DPU yield has remained steady at around 164–229bps, which is above the 10-year average of 135bps.

As at 7 Jan 2025, M-REITs' net DPU yield (1-year forward) offers a spread of +194bps over the 10-year MGS yield, at its +1SD above its 10-year average. According to our Fixed Income Research, the 10-year MGS yield is expected to remain stable at 3.8–3.9% in 1H25 and could ease to 3.75% by 4Q25 from its current level of 3.8%. In comparison, the average forward dividend yield for M-REITs currently stands at 5.76%.

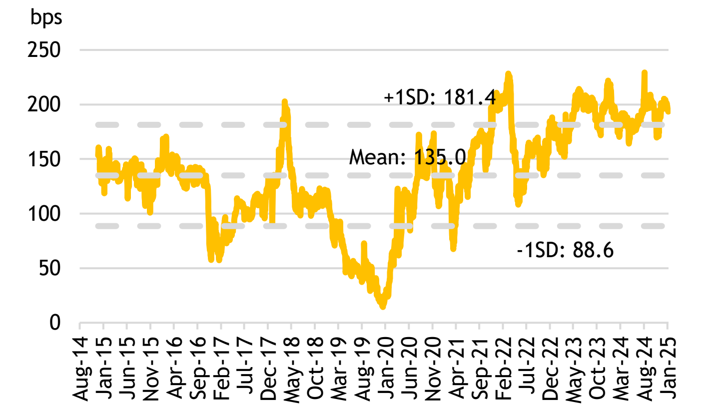
The elevated yield spread between M-REITs' forward dividend yield and the 10-year MGS yield enhances the risk-reward attractiveness of M-REITs as an investment option.

Fig 1: Average M-REIT net yield vs. 10-year MGS yield



Source: Bloomberg, Maybank IBG Research

Fig 2: Net yield spread (M-REIT net yield vs. 10-year MGS yield)



Source: Bloomberg, Maybank IBG Research

3. Stable OPR offers temporary respite to financing cost

Separately, our Economics Research team anticipates the Overnight Policy Rate (OPR) to remain unchanged at 3.0% throughout 2025, providing stability to M-REITs' financing costs.

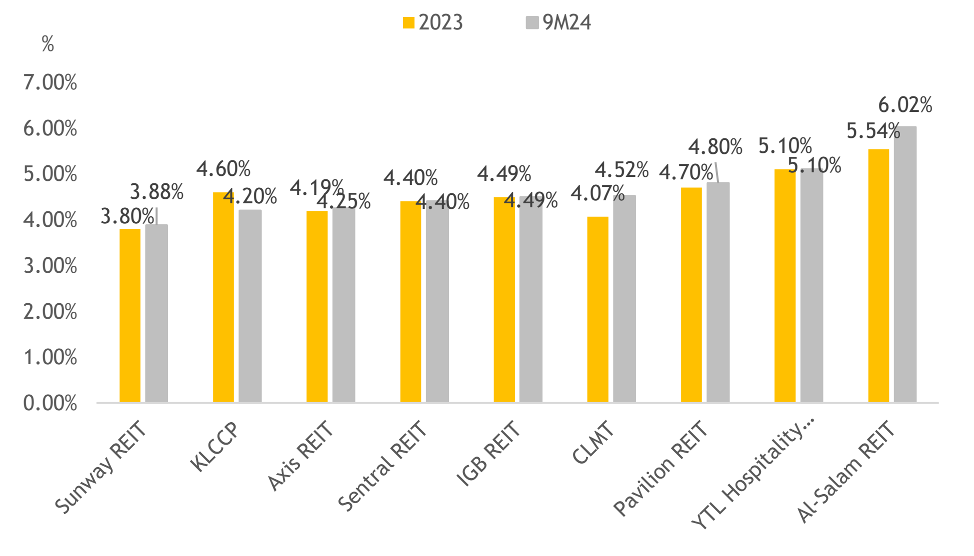
As of end-3Q24, the debt profile of most M-REITs under our coverage remains largely comprised of floating-rate loans, ranging from 9% of total debt for KLCCP to 100% for ALSREIT, with a sector average of 55% (MYR11.7b out of a total debt of MYR21.5b). Meanwhile, M-REITs' average interest costs for 9M24 were within the range of 3.9% to 6.0%.

Fig 3: M-REITs' debt composition (floating vs. total)

As of 3Q24	IGBREIT	KLCCP	CLMT	AXIS	SENTRAL	SunREIT	PavREIT	YTLREIT	ALSREIT	Total
Total debt (MYR m)	1,201	4,360	2,169	1,875	1,166	4,403	3,392	2,266	639	21,471
- % floating rates	-	9%	15%	50%	76%	77%	88%	96%	100%	55%
Gross gearing *	22%	24%	42%	40%	45%	43%	39%	42%	49%	35%

** Total borrowings to total assets   Source: Company, Maybank IBG Research*

Fig 4: M-REIT average financing rate for FY23, 9M24



Source: Company, Maybank IBG Research

4. AEIs and/or new assets acquisition supported earnings growth

The M-REITs under our coverage saw several asset enhancement initiatives (AEIs) and new asset acquisitions, including retail properties, hotels, and industrial assets, which are expected to support earnings growth in 2025. The key developments are as follows:

Fig 5: M-REITs' FY24 AEIs and/or acquisitions

M-REIT	FY24 AEIs and/or acquisitions
IGB REIT	- The reconfiguration of the Metrojaya space at Mid Valley Megamall (MVM) was completed in Jun 2024. Previously 200k sq. ft., Metrojaya now occupies only 34.5k sq. ft. This offers IGBREIT an opportunity to transform the space from low-yielding (anchor tenant) to higher-yielding rental income with new specialty tenants. - Catalyst: IGBREIT holds the right of first refusal to acquire Mid Valley Southkey in Johor Bahru from its sponsor, IGB Berhad (Not Rated).
Sunway REIT	- Completed the acquisition of six new hypermarkets (Giant) on 30 Apr 2024. - The phased refurbishment of Sunway Carnival Mall is ongoing, with the first phase completed in Aug 2024. The final phase is expected to be completed by Jun 2025. - Sunway Pyramid Mall launched its new Oasis wing in Nov 2024, with near full occupancy (260k sq. ft.) following a renovation that began in 3Q23. Rental rates for the Oasis wing have more than doubled compared to pre-AEI levels. - Completed the acquisition of 163 Retail Park in Oct 2024. - The acquisition of Kluang Mall in Johor was completed in Jan 2025.
YTL Hospitality REIT	- Lease rental for JW Marriott Hotel KL increased as of 1 Jan 2024, with a 5% step-up every five years under a renewed 15-year lease. - Lease rental step-ups also took effect for three AC Hotels (AC Hotel KL Titiwangsa, AC Hotel Penang Bukit Jambul, and AC Hotel Kuantan City Centre) after the completion of refurbishments to hotel rooms and corridors in Jun 2024. - Renovations at Syuen Hotel in Ipoh are expected to complete in 3QCY25.
Pavilion REIT	- Acquired two hospitality assets in Kuala Lumpur – Banyan Tree KL (BTKL) and Pavilion Hotel KL – for MYR480m in Dec 2024, with completion expected in 1H25. Both hotels will generate a fixed total annual rental income of MYR33.5m for the first five years of the lease, yielding an NPI of 7.0%.
Axis REIT	- Recorded its highest acquisition at approximately MYR700m. - The acquisition of Axis Hypermarket in Temerloh, Pahang, was completed on 16 Jan 2024. - The development of Axis Mega Distribution Centre (Phase 2) was completed and received the Certificate of Completion and Compliance on 27 Mar 2024. - Completed the acquisition of Axis Facility 1 at Bukit Raja, Selangor on 31 May 2024. - Completed the acquisitions of Axis Vista 2 and Axis Industrial Facility @ Batu Caves on 15 Jul 2024. - Completed the acquisition of Axis Industrial Facility @ Sendayan, Negeri Sembilan on 23 Jul 2024. - Completed the acquisition of Axis Facility 3 @ Bukit Raja, Selangor on 8 Oct 2024. - Completed the acquisition of Axis Facility 1 @ Pulau Indah on 11 Oct 2024. - Completed the acquisition of a warehouse in Pulau Indah, Selangor on 26 Nov 2024. - Completed the disposal of Axis Steel Centre @ SiLC, Johor on 12 Dec 2024. - A storage yard in Bukit Raja, Selangor, was acquired for MYR38.8m on 22 Apr 2024, with vacant possession anticipated by the end of 2025.
CapitaLand Malaysia Trust	- Three freehold ready-built factories in Nusajaya Tech Park, Iskandar Malaysia, Johor, were acquired for MYR27m in Feb 2024, with completion expected in 2025. - A freehold automated logistics property, Elmina Logistics Hub, was acquired for MYR180m in Dec 2024, with expected completion by 1H25. - Retrofit works at Glenmarie Distribution Centre (GDC) are expected to be completed in 4Q24. GDC is fully leased for 10 years, with income recognition set to begin in 2025.

Source: Company, Maybank IBG Research

5. REIT-ing of some commercial assets?

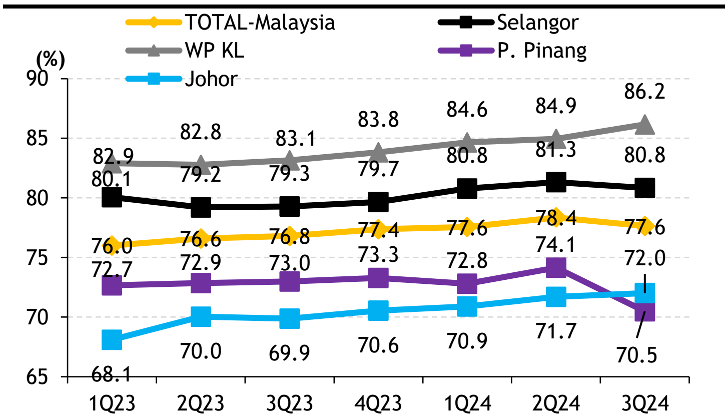
On the corporate front, 2025 could see the REIT-ing of some retail/commercial assets by SP Setia (SPSB MK, CP MY1.34, BUY, TP MYR1.64), IOIPG (Not Rated) and WCT (Not Rated). The REIT-ing of some commercial assets could create some excitement for the sector in 2025 in our view.

6. Sector outlook

6.1 Retail segment

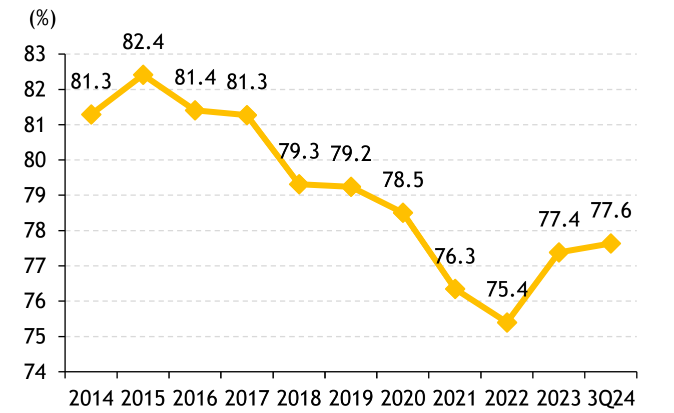
According to the latest statistics from the National Property Information Centre (NAPIC), average occupancy rates for shopping complexes improved in 3Q24 across Kuala Lumpur, Selangor, and Johor, reaching 86%, 81%, and 72%, respectively, compared to 83%, 79%, and 70% in 3Q23. However, Penang's retail sector experienced a decline in occupancy to 70.5% from 73% in 3Q23, primarily due to the low occupancy of the newly completed Sunshine Mall, which added a significant 820k sq. ft. of net lettable area (NLA) to the market. Nationally, the average occupancy rate stood at 77.6%, still below the pre-pandemic level of 79.2% recorded in 2019.

Fig 6: Retail space occupancy in shopping complexes by key states



Source: National Property Information Centre (NAPIC)

Fig 7: Average shopping complexes occupancy rate in Malaysia



Source: National Property Information Centre (NAPIC)

Looking ahead, the retail segment is expected to face challenges from new supply, particularly in the Klang Valley, where an additional 1.0m sq. ft. of retail space is set to come online by 1H25 (+1.4% compared to the existing 70.9 million sq. ft. in 2024). Notable upcoming developments include Pavilion Damansara Heights Phase 2, Senada Shopping Centre, and Sunsuria Forum @7th Avenue.

Major acquisitions in 2024, such as Tropicana Gardens Mall by IOI Properties Group (Not Rated), DPulze Shopping Gallery by KIP REIT (Not Rated), and 163 Retail Park by SunREIT, boosted investor confidence because it is high-quality, in our view and are strategically located.

While this influx of new retail space may exert downward pressure on rental rates and pose occupancy challenges, we remain optimistic on matured malls in prime locations such as Suria KLCC (KLCCP), Pavilion KL (PavREIT), Mid Valley Megamall (IGBREIT) and The Gardens Mall (IGBREIT). These malls are expected to maintain high occupancy rates due to sustained strong demand for their retail spaces.

Meanwhile, retail sales grew by 3.8% in 3Q24, driven by robust domestic demand and increased tourist spending despite rising costs, according to Retail Group Malaysia (RGM). Growth is projected to accelerate to 4.4% in 4Q24, supported by the Malaysia Year-End Sale and government initiatives. For the full year 2024, retail sales growth is expected to reach 3.9% (2023: +2.2%), with RGM forecasting steady growth of 4.0% in 2025 as challenges from the rising cost of living persist.

The sector challenge in 2025 will be the increasing cost of living, driven by the RON95 petrol subsidy rationalisation expected by mid-2025 and higher excise duties on sugar-sweetened beverages. However, consumer spending may be supported by initiatives such as withdrawals from Employees Provident Fund (EPF) Account 3, civil service salary increases and minimum wage hikes. Additionally, higher tourist arrivals are expected to boost footfall and tenant sales.

We remain positive on prime retail malls such as Suria KLCC (KLCCP), Pavilion KL (PavREIT), Mid Valley Megamall (IGBREIT), The Gardens Mall (IGBREIT), Sunway Pyramid Mall (SunREIT), Gurney Plaza (CLMT), and Queensbay Mall (CLMT). However, malls facing earnings risks due to lower shopper traffic, weaker occupancy rates, and negative rental reversions amid stiff competition include 3 Damansara (CLMT), Sungei Wang Plaza (CLMT), and DA MEN Mall (PavREIT).

Fig 8: Occupancy rates (%) of M-REITs' malls

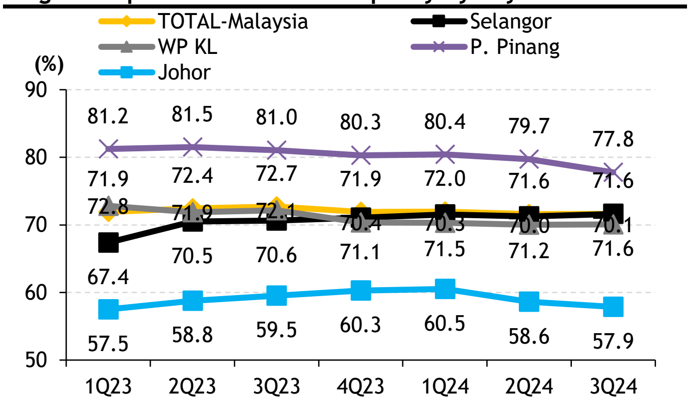
Mall	M-REIT	FY18	FY19	FY20	FY21	FY22	FY23	3QFY24
Suria KLCC	KLCCP	98.0	99.0	97.0	93.0	92.0	96.0	99.0
Pavilion KL Mall	PavREIT	98.7	98.0	96.5	90.2	92.0	95.2	96.8
Pavilion Bukit Jalil	PavREIT	-	-	-	-	-	88.1	86.6
DA MEN Mall	PavREIT	74.4	71.7	68.9	62.3	73.0	73.4	74.6
Intermark Mall	PavREIT	94.4	97.1	85.7	83.6	87.0	89.8	93.0
Elite Pavilion Mall	PavREIT	96.7	95.0	83.2	86.4	92.0	95.9	96.6
Mid Valley Megamall	IGBREIT	99.3	99.0	99.0	99.6	99.9	100.0	100.0
The Gardens Mall	IGBREIT	97.2	99.0	92.0	99.5	100.0	100.0	100.0
Sunway Pyramid	SunREIT	99.0	97.2	97.0	98.0	97.0	98.0	98.0
Sunway Carnival	SunREIT	98.2	96.7	89.1	95.0	93.0	97.0	96.0
SunCity Ipoh Hypermarket	SunREIT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sunway Putra Mall	SunREIT	91.0	91.1	93.3	93.0	91.0	92.0	93.0
Gurney Plaza	CLMT	99.9	99.8	98.6	94.4	98.2	99.2	99.6
Queensbay Mall	CLMT	-	-	-	-	-	99.3	99.6
The Mines	CLMT	89.1	90.5	85.2	76.6	79.0	80.0	80.1
Sungei Wang Plaza	CLMT	75.3	82.0	64.2	61.0	64.5	87.2	84.4
East Coast Mall	CLMT	99.0	99.5	97.4	96.7	98.2	98.7	99.1
3 Damansara	CLMT	90.6	92.8	81.2	74.4	79.0	82.7	82.8
KOMTAR JBCC Mall	ALSREIT	95.0	60.0	57.0	48.0	53.0	63.0	69.1

Source: Company, Maybank IBG Research

6.2 Office segment

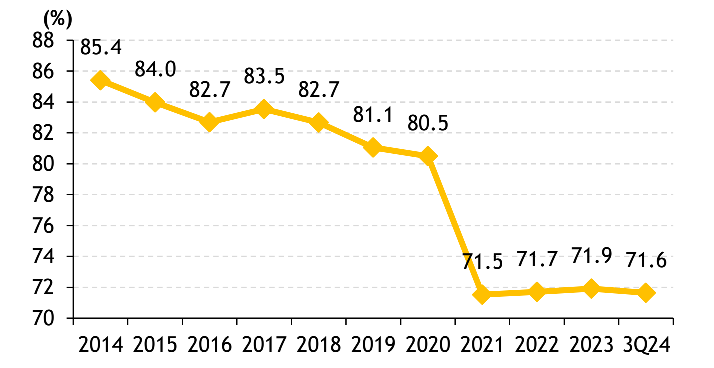
The average office occupancy rate in Malaysia remained subdued in 3Q24, standing at 71.6%, consistent with the 71-72% range observed since 2021, according to the latest NAPIC statistics. In Kuala Lumpur, office occupancy mirrored this trend at 70-72%. Meanwhile, Selangor experienced an improvement, with occupancy rates rising to 71.6% in 3Q24, up from 67% in 2021. Despite this progress, the nationwide average occupancy rate for purpose-built offices in 3Q24 remained significantly below the pre-pandemic level of 81.1% recorded in 2019.

Fig 9: Purpose-built office occupancy by key states



Source: National Property Information Centre (NAPIC)

Fig 10: Purpose-built office occupancy rate in Malaysia



Source: National Property Information Centre (NAPIC)

In 1H25, the Klang Valley is expected to see approximately 1.6m sq. ft. of new office space added, representing a 1.4% increase from the existing supply of 118.3m sq. ft. in 2024, according to Knight Frank. Notable new developments include The Exchange TRX Office by Lendlease, Oxley Tower in KL City, TNB Gold Bangsar on the outskirts of KL, and Sunway Square Corporate Tower 2 in Selangor. Despite the overall soft occupancy rate in the Klang Valley, the region continues to attract multinational corporations (MNCs) establishing regional hubs, with rental rates maintaining positive momentum due to demand for high-quality office spaces.

The office segment accounts for only 36% of the total net lettable area (NLA) across all assets under our coverage. M-REITs with the largest exposure to the office segment are KLCCP (79% of total assets) and SENTRAL REIT (86% of total assets). A key mitigating factor is that over half of tenants are on long-term or triple-net lease agreements, including all office towers under KLCCP. This lease structure provides stable and recurring income while reducing both tenancy and earnings risks, particularly for KLCCP. Meanwhile, SENTRAL's strategies remain focused on tenant retention and continuous building improvements to drive organic growth. For its overall portfolio, we understand that SENTRAL is not dismissing the potential for opportunistic divestment of its properties and it continues to explore yield accretive acquisition strategies.

Fig 11: Occupancy rates (%) of M-REITs' office assets

Office building/tower	M-REIT	FY18	FY19	FY20	FY21	FY22	FY23	3QFY24
PETRONAS Twin Towers *	KLCCP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara 3 PETRONAS *	KLCCP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara ExxonMobil^	KLCCP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Menara Dayabumi *	KLCCP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Pavilion Office Tower	PavREIT	94.0	85.8	86.0	79.0	73.0	72.0	73.6
Menara Sunway	SunREIT	94.0	95.0	97.0	97.0	93.0	90.0	95.0
Sunway Tower	SunREIT	21.0	20.0	33.0	32.0	27.0	38.0	42.0
Sunway Putra Tower	SunREIT	56.0	82.0	86.0	83.0	86.0	80.0	70.0
Wisma Sunway	SunREIT	78.0	94.0	100.0	100.0	100.0	100.0	100.0
The Pinnacle Sunway	SunREIT	97.0	99.0	100.0	84.0	98.0	99.0	100.0
Axis Business Park	Axis	68.0	90.0	82.0	81.0	82.0	87.0	90.1
Crystal Plaza	Axis	71.0	77.0	46.0	46.0	100.0	100.0	86.0
Menara Axis	Axis	68.0	78.0	73.0	76.0	48.0	54.0	54.0
Wisma Kemajuan	Axis	72.0	76.0	73.0	71.0	58.0	71.0	64.0
Axis Business Campus	Axis	69.0	85.0	75.0	75.0	75.0	75.0	75.0
Fonterra HQ	Axis	85.0	85.0	85.0	85.0	85.0	85.0	85.0
Quattro West	Axis	50.0	43.0	100.0	100.0	100.0	100.0	100.0
Strateq Data Centre	Axis	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Axis Vista	Axis	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Axis Technology Centre	Axis	48.0	50.0	52.0	52.0	75.0	92.0	91.8
Wisma Academy Parcel	Axis	77.0	70.0	71.0	72.0	78.0	81.0	73.0
The Annex	Axis	60.0	60.0	60.0	60.0	60.0	60.0	60.0
Sentral Building 1 - DHL	Sentral	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sentral Building 2 - DHL	Sentral	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sentral Building 4 - City University	Sentral	100.0	100.0	100.0	100.0	0.0	0.0	100.0
Sentral Building 3 - BMW	Sentral	91.0	91.0	91.0	80.0	68.0	68.0	68.0
Wisma Sentral Inai	Sentral	100.0	90.0	83.0	83.0	0.0	0.0	0.0
Platinum Sentral	Sentral	87.0	84.0	84.0	80.0	96.0	97.0	97.0
Menara Shell	Sentral	93.0	95.0	99.0	92.0	99.0	99.0	82.0
Menara CelcomDigi	Sentral	-	-	-	-	-	100.0	100.0
Menara KOMTAR	ALSREIT	90.0	89.0	86.0	86.0	89.0	93.0	80.0

*Source: Company, Maybank IBG Research, *triple net lease, ^long term leases*

6.3 Hospitality segment

In 3Q24, Malaysia's hospitality sector has 278,992 hotel rooms spread across 3,555 properties, based on the latest data from NAPIC. Kuala Lumpur dominates the market, offering 47,177 rooms in 253 hotels.

Fig 12: Existing supply of hotel rooms by star rating in Malaysia

State	Total		5-Star		4-Star		3-Star	
	No of hotels	No of rooms	No of hotels	No of rooms	No of hotels	No of rooms	No of hotels	No of rooms
WP Kuala Lumpur	253	47,177	36	14,288	41	12,262	36	8,291
Johor	488	31,971	9	2,506	23	7,607	47	7,007
Selangor	210	26,089	19	6,528	24	7,389	35	5,009
Pulau Pinang	248	25,071	21	5,568	32	8,364	26	3,111
Other states	2,356	148,684	63	18,369	113	24,872	236	33,549
TOTAL - MALAYSIA	**3,555**	**278,992**	**148**	**47,259**	**233**	**60,494**	**380**	**56,967**

Source: National Property Information Centre (NAPIC)

According to Knight Frank, upcoming hotel developments in the Klang Valley showcase a balanced mix of luxury, premium, and economy accommodations, with the majority being mid-scale properties featuring 200 to 400 rooms. Several new hotels, set to open in 2025, will be managed by globally recognised brands, including Accor Hotel Group, Hyatt Hotels, IHG Hotels & Resorts, Kempinski Hotels, and Hilton Worldwide. Around nine new hospitality developments, totaling approximately 3,145 rooms, are slated for completion in 2025 (2024: 1,950 rooms).

The hospitality sector in the Klang Valley has demonstrated signs of recovery, with the average occupancy rate (AOR) and average daily rate (ADR) steadily improving, approaching pre-pandemic levels. Key factors driving these improvements include the introduction of visa-free policies for Chinese and Indian tourists. China has extended its visa exemption for Malaysian citizens until 2025, while Malaysia will continue granting visa exemptions to Chinese visitors until 2026.

In 9M24, Malaysia's tourism sector saw a robust recovery, with 18.4m tourists (+27% YoY) compared to 14.5m in 9M23. This growth is expected to continue in 2025, driven largely by Visit Malaysia Year 2026. See <Malaysia Tourism - Tourism upcycle begins now | POSITIVE>.

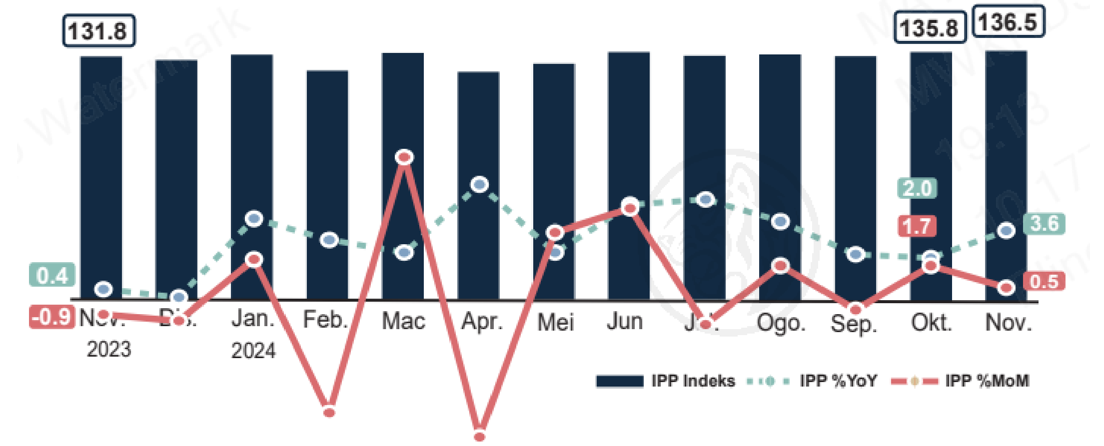
Hospitality assets under our coverage include SunREIT, KLCCP, and YTLREIT. Meanwhile, PavREIT has proposed to acquire two hotels - Banyan Tree Kuala Lumpur (BTKL) and Pavilion Hotel Kuala Lumpur (PHKL) - for a total of MYR480m in Dec 2024, with the deal expected to be finalised by 1H25. This is PavREIT's maiden entry to the hospitality segment which comprises 5.5% of its total assets under management upon completion and is expected to raise earnings by +4% in FY25E and +8% in FY26E.

Meanwhile, earnings for YTLREIT is premised on stable rental income from its Malaysia and Japan properties under master lease arrangements (64% of total net property income (NPI) in 1QFY25). Meanwhile, we anticipate better performance for its 2Q and 3QFY25 by its Australia hotels supported by the festive holiday seasons.

6.4 Industrial segment

From Jan to Nov 2024, Malaysia's Industrial Production Index (IPI) rose by 3.7% YoY, driven by increased output in manufacturing (+4.2%), mining (+0.7%), and electricity (+5.8%).

Fig 13: Industrial Production Index (IPI)



Source: Department of Statistics Malaysia (DOSM)

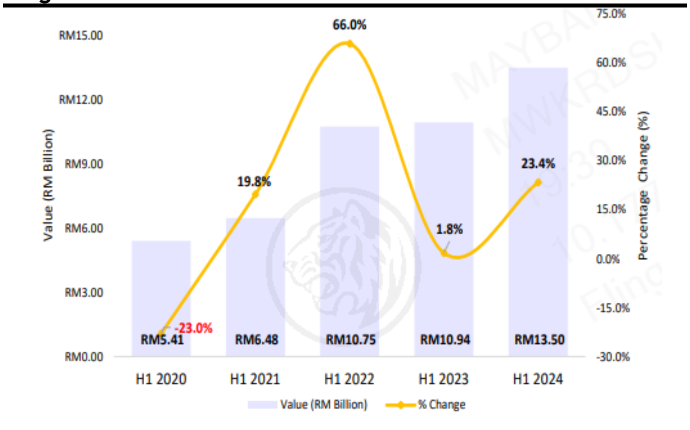
The industrial property market has shown strong performance, driven by steady growth in transaction volumes (+2.3% YoY in 1H24) and values (+23.4% YoY in 1H24).

According to NAPIC, Sarawak accounted for the largest share of overhang units, accounting for 42.8%, followed by Johor at 15.7% and Perak at 10.5% as at 1H24. Johor saw the largest decrease in overhang units, with a reduction of 32.4% compared to 2H23. As of Jun 2024, there were over 122,000 existing industrial units, with nearly 4,000 units in incoming supply and over 6,000 units in planned supply. Meanwhile, Selangor led in all development stages, representing 34.9% of existing stock, 31.9% of incoming supply, and 31.8% of planned supply.

Industrial property prices have risen across various states, with particular price increases observed for terraced factories. This upward trend is mainly driven by the growing demand for warehouses and storage, drived by the expansion of e-commerce. In Kuala Lumpur and Selangor, industrial property prices have remained relatively stable. However, Johor recorded both the highest increase and decrease in average price changes in the region for 1H24.

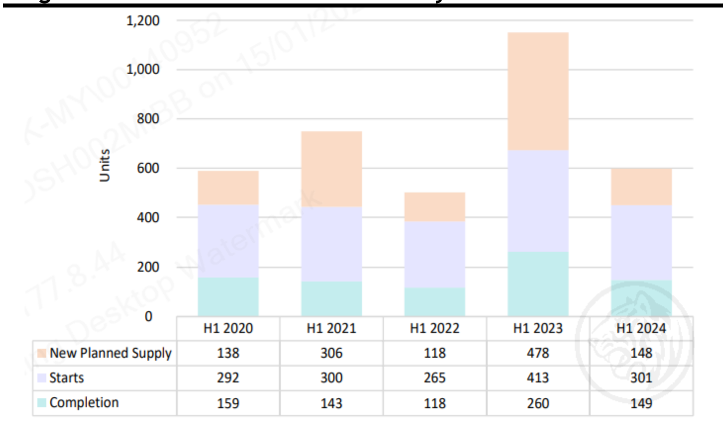
Industrial REITs have demonstrated strong confidence in the sector's growth potential, with active acquisitions of assets in 2024, including by Axis REIT and AMEREIT (Not Rated).

Fig 14: Industrial Transactions Value 1H20 - 1H24



Source: National Property Information Centre (NAPIC)

Fig 15: Industrial construction activity 1H20 - 1H24



Source: National Property Information Centre (NAPIC)

7. Valuation and recommendation

We maintain our POSITIVE outlook on the sector. We remain optimistic about M-REITs with investments in the industrial segment, as they offer resilient earnings from long-term tenancies and strong rental reversion prospects. We also favour selective M-REITs with mature retail assets in prime locations, as these can sustain high occupancy rates and deliver positive rental reversions. We expect hospitality assets to benefit from higher inbound tourist arrivals to the country.

CLMT is our Top BUY for the sector, having significantly transformed over the past few years by strategically acquiring earnings-accretive assets i.e. Queensbay Mall and making its first foray into industrial property, albeit on a small scale (2.5% of total AUM). Its earnings will be primarily driven by strong shopper traffic and high occupancy rates at its prime malls, such as Gurney Plaza, Queensbay Mall, and East Coast Mall. It also offers an attractive FY25E dividend yield of 6.6%.

We also have BUY calls on PavREIT, Axis REIT, and SENTRAL. PavREIT's earnings growth will be supported by its prime mall assets, including Pavilion KL, and newly acquired hospitality properties. Axis REIT will benefit from its strong exposure to the industrial segment and its active search for new assets to grow its portfolio. Meanwhile, SENTRAL offers a favorable FY25E net yield of 7.7%.

8. Risk

We remain cautious on the oversupply of retail and office space in the Klang Valley which could exert pressure on occupancy rates and/or rental reversions. These, in turn, would increase the downside risk to DPUs. Elsewhere, OPR hike(s) would lower M-REITs' profitability (higher finance cost) and deter asset acquisitions (more expensive to fund acquisitions via borrowings).

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