Malaysia REITs

Managing energy risk amid WHT reset

POSITIVE *[Unchanged]*

Headwinds priced in; maintain POSITIVE

We maintain our POSITIVE stance on Malaysia REITs despite the dual headwinds of (i) the removal of preferential WHT and (ii) rising electricity cost risks linked to elevated global energy prices. While both factors introduce near-term uncertainty, we believe their impact is manageable and largely reflected in current valuations, with sector fundamentals remaining intact. Our top picks are Paradigm REIT, CLMT and Al-Salam REIT.

Electricity costs: Retail and Office REITs most exposed

Electricity costs are a key operating variable, with utilities accounting for c.27%-35% of opex for retail REITs and c.25%-41% for office REITs. In contrast, industrial REITs have low exposure (<10%) due to lower energy intensity and stronger pass-through, while hospitality REITs are largely insulated under master lease structures. Our sensitivity analysis suggests that a 10% increase in electricity costs would result in only a c.0.7%-1.1% DPU impact for retail and office REITs, with minimal impact on other segments, suggesting that overall earnings and yield impact should be limited.

Margins proven resilient despite elevated cost cycles

Historical data suggests that even during the elevated tariff environment in 2022-2023, the impact on earnings was more contained than expected, with NPI margins across major REITs remaining relatively resilient. Retail REITs such as Pavilion REIT maintained stable margins, while IGB REIT saw margins recover to pre-cost cycle levels. CLMT also recorded margin improvement in the latest period, reflecting ongoing operational recovery. Meanwhile, industrial REITs such as Axis REIT continued to deliver consistently high margins, underscoring their defensive cost structure.

WHT repricing is done; energy risk a key watchpoint

The removal of WHT represents a valuation reset rather than an earnings impact, with distributions unchanged and cash flows intact. While the sector has largely repriced, ongoing geopolitical tensions pose downside risks to electricity costs, although the magnitude remains minimal in our view. We recommend selective accumulation, focusing on REITs with strong earnings visibility, active asset pipelines, and disciplined cost management. The recent correction offers an opportunity to accumulate quality names, with greater emphasis on revenue growth and operating efficiency. Our top picks are Paradigm REIT, CLMT and Al-Salam REIT.

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Abbreviations

AEIs - asset enhancement initiatives
DPU - dividend per unit
MGS - Malaysian Government Securities
NPI - Net Property Income
Opex - Operating expenses
RTS - Rapid Transit System
WHT - Withholding Tax

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	Price/DPU (x)		P/B (x)		Div yld (%)	
							26E	27E	26E	27E	26E	27E
KLCCP Stapled G	KLCCSS MK	3,980	Hold	8.88	9.18	8	18.8	18.0	1.1	1.1	5.3	5.6
IGB REIT	IGBREIT MK	2,368	Hold	2.69	2.96	15	19.7	19.0	1.9	1.9	5.1	5.3
Pavilion REIT	PREIT MK	1,648	Buy	1.69	2.05	27	15.9	15.7	1.2	1.1	6.3	6.4
Axis REIT	AXRB MK	970	Buy	1.93	2.30	24	17.9	17.0	1.1	1.1	5.6	5.9
CLMT	CLMT MK	488	Buy	0.59	0.79	42	11.5	11.4	0.6	0.6	8.7	8.8
YTL Hosp. REIT	YTLREIT MK	419	Buy	0.99	1.35	45	12.0	10.3	0.6	0.6	8.4	9.7
Paradigm REIT	PARADIGM MK	380	Buy	0.96	1.36	50	12.3	11.3	0.9	0.9	8.1	8.9
Sentral REIT	SENTRAL MK	212	Buy	0.72	0.89	33	11.1	10.8	0.6	0.6	9.0	9.3
Al-Salam REIT	SALAM MK	69	Buy	0.48	0.59	29	15.3	10.3	0.4	0.4	6.5	9.7

1. Electricity costs – a structural cost driver

Electricity costs are a material and recurring component of REIT operating expenses, particularly for retail and office assets, which are more energy-intensive due to centralised cooling systems, lighting requirements, and longer operating hours.

Based on our analysis, utilities expenses account for approximately 27%-35% of property operating costs for retail REITs, and remain similarly significant for office REITs (c.25%-41%). In contrast, industrial REITs show substantially lower exposure at below 10%, reflecting lower energy intensity and higher pass-through to tenants. Hospitality REITs, on the other hand, show minimal exposure (c.3%), largely due to master lease structures where operating costs are borne by operators.

This highlights a clear divergence in cost sensitivity across subsectors, with retail and office REITs more exposed to electricity tariff movements, while industrial and hospitality REITs remain relatively defensive.

A 10% increase in electricity costs is estimated to result in a c.0.7%-1.1% reduction in DPU for retail and office REITs, reflecting their higher exposure to utilities expenses.

In contrast, the impact on industrial REITs is minimal (~0.1%), while hospitality REITs remain largely insulated due to master lease structures.

Fig 1: Utilities cost as % of property operating expenses (2022-2025) and estimated DPU sensitivity

Company	Asset class	Utilities cost 2022 (%)	2023 (%)	2024 (%)	2025 (%)	DPU impact (+10% cost) FY26E (%)
KLCCP Stapled Group	Stapled	34.1%	38.5%	37.2%	33.4%	-1.4%
IGB REIT	Retail	31.9%	35.6%	33.9%	30.4%	-0.7%
Pavilion REIT	Retail	26.8%	30.8%	31.1%	27.1%	-1.0%
Capitaland Malaysia Trust	Retail	38.0%	36.0%	32.7%	28.0%	-1.1%
Paradigm REIT	Retail	N/A	N/A	N/A	21.7%	-0.7%
Al-Salam REIT	Diversified	33.6%	33.6%	34.5%	30.4%	-1.0%
Sunway REIT	Diversified	21.3%	23.4%	22.2%	N/A	N/A
Axis REIT	Industrial	10.5%	10.9%	9.6%	9.3%	-0.1%
SENTRAL REIT	Office	33.5%	40.2%	44.6%	41.1%	-1.0%
IGB Commercial REIT (NR)	Office	25.4%	30.6%	27.9%	25.5%	-1.0%
YTL Hospitality REIT	Hospitality	3.9%	2.8%	2.9%	3.1%	-0.1%

Source: Maybank IBG Research, Annual Report respective companies
NR - Not Rated

Retail and Office REITs show higher energy intensity

Utilities expenses peaked in 2023 across most REITs, reflecting the impact of higher electricity tariffs during the previous cost cycle. Retail REITs such as IGB REIT and Pavilion REIT saw utilities costs rise to ~36% and ~31% of property operating expenses (opex) respectively, while office-focused names such as SENTRAL REIT recorded even higher levels at ~40%.

Encouragingly, the latest 2025 data suggests moderation across most retail REITs, with utilities cost ratios declining (e.g. IGB REIT to ~30%, CLMT to ~28%).

Fig 2: NPI margin trend (2022-2025)

Company	Asset class	NPI margin 2022 (%)	2023 (%)	2024 (%)	2025 (%)
KLCCP Stapled Group*	Stapled	65.7%	63.0%	62.4%	61.9%
IGB REIT	Retail	75.5%	74.1%	72.8%	75.7%
Pavilion REIT	Retail	66.1%	63.4%	61.8%	63.0%
Capitaland Malaysia Trust	Retail	55.3%	55.0%	58.0%	60.7%
Paradigm REIT	Retail	N/A	N/A	N/A	69.5%
Al-Salam REIT	Diversified	66.7%	66.7%	65.5%	68.8%
Sunway REIT	Diversified	76.8%	73.6%	74.3%	73.6%
Axis REIT	Industrial	86.2%	85.1%	85.9%	86.6%
SENTRAL REIT	Office	77.8%	77.0%	77.2%	76.1%
IGB Commercial REIT (NR)	Office	59.7%	59.4%	56.5%	59.0%
YTL Hospitality REIT	Hospitality	59.0%	51.6%	52.2%	53.3%

Source: Maybank IBG Research, Annual Report respective companies
NR - Not Rated
** Operating profit margin*

Margins remain resilient despite cost pressures

Despite elevated utilities costs during 2022–2023, NPI margins across most REITs remained relatively resilient. Retail REITs such as Pavilion REIT maintained margins at ~63%, while IGB REIT saw margins recover to ~76% in 2025. CLMT also recorded improvement to ~61%.

Office REITs showed more mixed trends, with margins generally stable but lacking the same degree of recovery momentum. Meanwhile, industrial REITs such as Axis REIT continued to deliver consistently high margins (~85%-86%), underscoring their defensive cost structure.

Overall, the data suggests that while electricity costs increased meaningfully during the previous cycle, the impact on profitability was more contained than expected, supported by cost pass-through mechanisms and operational efficiencies.

2. Current energy risk

Ongoing geopolitical tensions introduce upside risks to global energy prices, which may translate into higher electricity generation costs. However, the magnitude and duration of the impact remain uncertain and dependent on external developments.

Historical trends suggest that sustained increases in energy prices can lead to higher electricity tariffs, with retail and office REITs most exposed, given their higher energy intensity. In contrast, industrial REITs remain relatively insulated, while hospitality REITs are largely protected under master lease arrangements.

The actual earnings impact will depend on: (1) tariff adjustment mechanisms, (2) the speed of cost pass-through, and (3) asset-level energy efficiency initiatives.

3. Subsector positioning

Retail REITs - high exposure, but mitigated by pass-through

Retail REITs remain exposed to electricity cost fluctuations, but this is partially mitigated by service charge recovery, strong tenant demand in prime assets, and active asset management.

Office REITs - elevated cost exposure with limited pass-through

Office REITs also show meaningful exposure to electricity costs, in some cases higher than retail. However, cost recovery may be less flexible, depending on lease structures, which could result in relatively higher margin sensitivity.

Industrial REITs - structurally defensive

Industrial REITs remain the most defensive segment, with low electricity cost exposure (<10%) and stronger cost pass-through mechanisms.

Hospitality REITs - insulated via master lease structures

Hospitality REITs are largely insulated from electricity cost volatility, as operating costs are typically borne by hotel operators under master lease arrangements, resulting in minimal direct impact on REIT-level earnings.

4. WHT reset – valuation repricing

The removal of the WHT regime represents a structural shift in the valuation framework for M-REITs. The key impact is the reduction in net yields for certain investor segments, leading to higher required yield spreads and a corresponding downward adjustment in unit prices.

However, this does not affect underlying cash flows or DPU. As such, the WHT change should be viewed as a repricing event rather than a deterioration in operating performance.

Overall, we view the current environment as a confluence of valuation reset and cost-cycle adjustment, rather than a structural downturn.

5. Top picks

We recommend a selective accumulation strategy, focusing on REITs with: (1) strong earnings visibility, (2) asset enhancement and acquisition pipelines, and (3) a proven ability to manage operating costs effectively. The recent sector correction provides an opportunity to build positions in quality REITs at more attractive valuations.

We reiterate our BUY calls on:

(1) **Paradigm REIT** – we like it for strong income visibility and defensive retail positioning, supported by high occupancy and stable cash flows from its key malls. At the same time, there is clear growth optionality from sponsor pipeline and ROFR (Right of First Refusal) assets, which gives it a good balance of yield and growth.

(2) **CapitaLand Malaysia Trust (CLMT)** - earnings recovery and portfolio rejuvenation following several AEIs and repositioning initiatives. CLMT has also been diversifying into industrial assets, which provides a more defensive income base and reduces reliance on pure retail, so we see this as a more balanced and resilient portfolio going forward.

(3) **Al-Salam REIT** - the key catalyst is the value unlocking at KOMTAR JBCC through AEIs ahead of the Johor Bahru–Singapore RTS Link in 2027. There is meaningful rent reset potential given the large proportion of leases due for renewal, and the stock is also offering an attractive yield with clear medium-term upside.

Overall, despite the emergence of electricity cost pressures and the WHT-driven valuation reset, we believe the core investment case for M-REITs remains intact. Data from the 2022–2025 period suggests that even under elevated cost conditions, REIT earnings have remained resilient, supported by cost pass-through mechanisms and operational adaptability. At the same time, the WHT impact has largely been reflected in current valuations.

As such, we maintain our POSITIVE recommendation, with a preference for REITs that can deliver both income stability and earnings growth.

Fig 3: M-REITs' dividend yield under our coverage

Company	Share Price 6-Apr-26	Market cap (MYRm)	Target Price (MYR)	Gross Div Yield CY26E (%)	CY27E (%)	CY28E (%)
KLCCP Stapled Group	8.88	16,031	9.18	5.3	5.6	6.0
IGB REIT	2.69	11,636	2.96	5.1	5.3	5.3
Pavilion REIT	1.69	6,638	2.05	6.3	6.4	6.5
Axis REIT	1.93	3,908	2.30	5.6	5.9	6.1
Capitaland Malaysia Trust	0.59	1,985	0.79	8.7	8.8	9.1
YTL Hospitality REIT	0.99	1,776	1.35	9.0	9.4	9.2
Paradigm REIT	0.955	1,530	1.36	8.1	8.9	9.1
SENTRAL REIT	0.715	855	0.89	9.0	9.3	9.3
Al-Salam REIT	0.48	278	0.59	6.5	9.7	10.0
Simple average				**7.1**	**7.7**	**7.9**

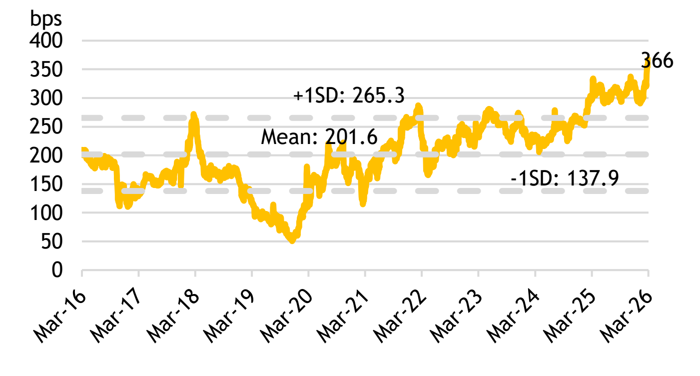
Source: Maybank IBG Research, Factset 6 Apr

Fig 4: M-REITs' net dividend yields under different tax scenarios

Company	Net Dividend Yield (10%)			Net Dividend Yield (24%)			Net Dividend Yield (30%)		
	CY26E (%)	CY27E (%)	CY28E (%)	CY26E (%)	CY27E (%)	CY28E (%)	CY26E (%)	CY27E (%)	CY28E (%)
KLCCP Stapled Group	5.0	5.3	5.6	4.7	4.9	5.2	4.5	4.7	5.0
IGB REIT	4.6	4.7	4.8	3.9	4.0	4.0	3.6	3.7	3.7
Pavilion REIT	5.6	5.7	5.8	4.8	4.8	4.9	4.4	4.5	4.5
Axis REIT	5.0	5.3	5.5	4.2	4.5	4.7	3.9	4.1	4.3
Capitaland Malaysia Trust	7.8	7.9	8.2	6.6	6.7	7.0	6.1	6.2	6.4
YTL Hospitality REIT	8.1	8.5	8.3	6.9	7.1	7.0	6.3	6.6	6.5
Paradigm REIT	7.3	8.0	8.2	6.2	6.7	6.9	5.7	6.2	6.4
SENTRAL REIT	8.1	8.3	8.4	6.9	7.0	7.1	6.3	6.5	6.5
Al-Salam REIT	5.9	8.7	9.0	5.0	7.4	7.6	4.6	6.8	7.0
Simple average	**6.4**	**6.9**	**7.1**	**5.5**	**5.9**	**6.0**	**5.0**	**5.5**	**5.6**

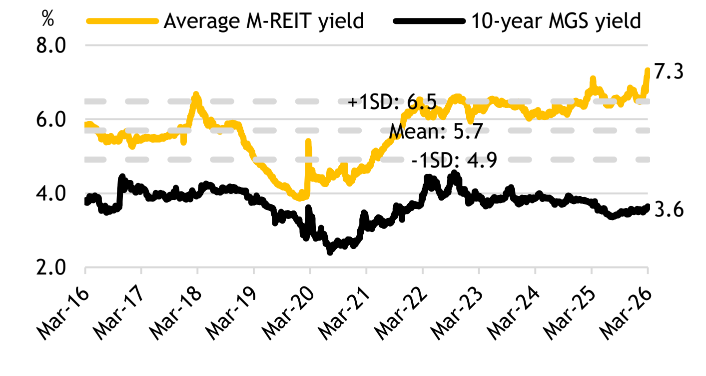
Source: Maybank IBG Research, Factset 6 Apr

Fig 5: Average M-REIT gross yield vs. 10-year MGS yield



Source: Bloomberg, Maybank IBG Research

Fig 6: Gross yield spread (M-REIT yield vs. 10-year MGS yield)



Source: Bloomberg, Maybank IBG Research

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