REITs

OVERWEIGHT

(MAINTAINED)

Rationale for report: Sector Update

Analyst (s)

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Opportunity knocks

Last time MREITs offered such an attractive window was during Covid-19 lockdowns. 5-6 years on, another opportunity is taking shape: the rate scare has pushed BIG-3's trading yield spread now to c.240bp (near +1SD of its 10yr mean) even as operations stay resilient and funding risks manageable. Also, we have reset our valuations for a higher-rate world, yet risk-reward is still firmly skewed to the upside. Moreover, local funds are lightly positioned at <3% and c.7% cash levels provide scope for incremental buying. History has rewarded patience as well: since IPO, BIG-3 have delivered average total returns of c.15-20% p.a. Retain OVERWEIGHT. Top picks: SREIT, PREIT and IGBREIT.

- **Keep OVERWEIGHT.** 2026 has hardly been kind to MREITs: expiry of the 10% preferential tax, Middle East conflict and global bond sell-off have come in quick succession, leaving the sector trailing the broader market. Yet, we see a valuation reset, not a thesis breaker. Recent pullback along with light fund positioning of <3%, sets the stage for incremental buying opportunity. Admittedly, higher 10yr MGS yield (MGS10) has eroded the spreads embedded in our existing BIG-3 valuations (SREIT, IGBREIT, PREIT) to c.110bp, near -1SD of its 10yr mean. As such, a recalibration is warranted: we raise our implied gross target yields to 5.1-5.3% (from 4.8-5.0%) and restore spreads to 120-140bp, closer to historical norms (inherently using c.3.9% MGS10 assumption vs c.4% spot).
- **Rate scare looks priced in.** The recent global bond sell-off has not spared MREITs, with the sector down 5% since end-July and 16% from its YTD peak as MGS10 spiked to c.4%. Although the de-rating is understandable given higher risk-free yields, we believe much of the repricing is now reflected in valuations. For one, 10yr US Treasury yield (UST10) is already at c.5% (around levels seen when Fed rate was at its 5.5% peak), despite markets pricing in only modest tightening (+75bp to 4.50%). Closer to home, the UST10-MGS10 gap is near a decade high of c.1ppt, while history shows MGS10 excursions >4% tend to be short-lived. Even allowing for a 25bp OPR increase (not our base case), we see limited room for another sharp leg-up in yields.
- **Funding risks look manageable.** Seeing BIG-3 face sizeable maturities over the next 1-2 years, refinancing is naturally in focus, but rising MGS10 tells only half the story. Unlike valuations, refinancing need not be priced off the long end. We find the picture around middle of the curve gentler, with MGS5 at c.3.7% (c.30bp discount to MGS10; in line with historical norms). Moreover, credit spreads remain tight at c.30bp, pointing to potential refinancing costs of c.4%, squarely within our assumptions for BIG-3. Besides, floating-rate risks look contained as well: OPR is anticipated to stay pat, 1M KLIBOR is steady, and even with a 25bp rate bump shaves sector distributable income by just c.-3%; BIG-3 are cushioned by their larger income base, lighter floating-rate mix and lower gearing.
- **Operationally chugging along well.** The recent reporting season brought no surprises as MREITs under our coverage posted broadly in-line results (BIG-3 distributable income +23% YoY; ex-inorganic growth: +6%). Encouragingly, the sector was resilient against a challenging backdrop; despite a seasonally softer quarter for malls and the Middle East conflict flare up since late-Feb, BIG-3 kept occupancy firmly >95% and rental reversions positive at mid-single digits. Hotels were equally sturdy: occupancy tracked the normal c.60% run-rate and room rates held steady (flat YoY). Elsewhere, offices and industrials coasted along: occupancy stayed at c.80-90% and rents edged up by a modest 1% YoY across both segments.

Top picks

Sorted by upside

PREIT
TP: RM2.20 → RM2.10
Rec: BUY
Upside/Downside: +39%

SREIT
TP: RM2.80 → RM2.65
Rec: BUY
Upside/Downside: +35%

IGBREIT
TP: RM3.30 → RM3.05
Rec: BUY
Upside/Downside: +17%

AQAR
TP: RM1.25
Rec: HOLD
Upside/Downside: +14%

UOAR
TP: RM0.82
Rec: HOLD
Upside/Downside: +9%

HEKT
TP: RM0.50
Rec: HOLD
Upside/Downside: +3%

EXHIBIT 1. Changes to target price and call

	New TP (RM)	Old TP (RM)	Rating	New valuation (Dividend Discount Model)	Old valuation (Dividend Discount Model)
AQAR	1.25 (unchanged)	1.25	HOLD (maintain)	6.2%/230bp FY27 DY/spread	6.2%/230bp FY27 DY/spread
HEKT	0.50 (unchanged)	0.50	HOLD (maintain))	6.1%/220bp FY27 DY/spread	6.1%/220bp FY27 DY/spread
IGBREIT	3.05	3.30	BUY (maintain)	5.1%/120bp FY27 DY/spread	4.8%/90bp FY27 DY/spread
PREIT	2.10	2.20	BUY (maintain)	5.3%/140bp FY27 DY/spread	5.0%/110bp FY27 DY/spread
SREIT	2.65	2.80	BUY (maintain)	5.3%/140bp FY27 DY/spread	5.0%/110bp FY27 DY/spread
UOAR	0.82 (unchanged)	0.82	HOLD (maintain)	9.6%/570bp FY27 DY/spread	9.6%/570bp FY27 DY/spread

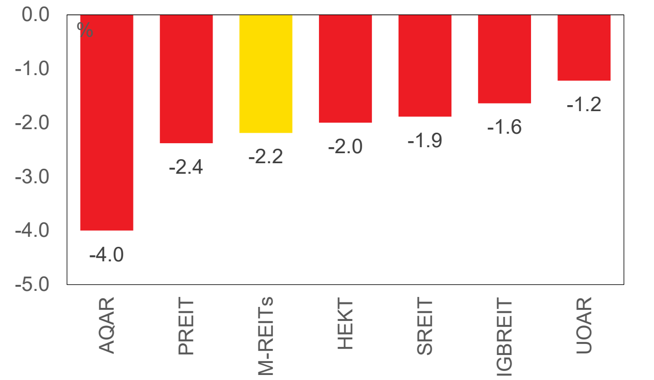
Source: AmInvestment Bank

EXHIBIT 2. Peers comparison

	Price (RM)	Target (RM)	Call	P/E (x)		P/B (x)		Div. yield (%)		Net div. yield (%)		ROE (%)	
				2026	2027	2026	2027	2026	2027	2026	2027	2026	2027
Diversified													
Al-Salam	0.61	-	N.R.	15.1	12.1	-	-	6.6	7.1	5.0	5.4	3.6	4.1
KLCC	8.46	-	N.R.	17.3	16.7	1.1	1.1	5.6	5.8	4.2	4.4	6.2	6.4
Sub-sector				**16.2**	**14.4**	**1.1**	**1.1**	**6.1**	**6.5**	**4.6**	**4.9**	**4.9**	**5.2**
HealthCare													
Al-'Aqar	1.16	1.25	HOLD	14.7	14.3	0.9	0.9	6.4	6.7	4.9	5.1	6.2	6.4
Hospitality													
YTL	1.00	-	N.R.	9.6	9.5	-	-	8.5	8.4	6.5	6.4	4.7	5.0
Industrial													
AME	1.52	-	N.R.	19.7	18.5	1.3	1.3	5.7	6.3	4.4	4.8	6.9	7.3
Axis	1.81	-	N.R.	17.2	15.9	1.1	1.1	6.0	6.2	4.5	4.7	6.4	6.8
Sub-sector				**18.4**	**17.2**	**1.2**	**1.2**	**5.8**	**6.2**	**4.4**	**4.7**	**6.7**	**7.0**
Office													
IGB Com	0.62	-	N.R.	12.6	12.4	0.6	0.7	8.5	8.6	6.4	6.5	5.1	5.3
Sentral	0.66	-	N.R.	9.8	9.4	0.6	0.6	9.7	10.2	7.4	7.7	5.9	6.2
UOA	0.83	0.82	HOLD	10.7	10.5	0.6	0.6	9.3	9.5	7.1	7.2	5.4	5.5
Sub-sector				**11.0**	**10.8**	**0.6**	**0.6**	**9.2**	**9.4**	**7.0**	**7.2**	**5.5**	**5.7**
Retail													
Capitaland	0.59	-	N.R.	11.2	10.8	0.6	0.6	8.8	9.0	6.7	6.8	5.5	5.7
Hektar	0.52	0.50	HOLD	17.9	16.7	0.5	0.5	5.6	6.0	4.3	4.6	2.7	2.9
IGB	2.75	3.05	BUY	18.9	18.0	1.9	1.9	5.5	5.7	4.1	4.3	10.1	10.7
KIP	0.85	-	N.R.	10.0	8.9	0.7	0.7	8.5	8.9	6.4	6.8	6.9	7.3
Paradigm	0.84	-	N.R.	11.2	9.8	0.8	0.8	9.0	10.1	6.8	7.6	7.1	8.2
Pavilion	1.59	2.10	BUY	16.6	15.2	1.1	1.1	6.4	7.0	4.8	5.3	6.9	7.5
Sunway	2.07	2.65	BUY	15.3	14.2	1.3	1.3	6.3	6.8	4.8	5.2	8.7	9.4
Sub-sector				**14.4**	**13.4**	**1.0**	**1.0**	**7.1**	**7.6**	**5.4**	**5.8**	**6.8**	**7.4**
Sector				**14.2**	**13.3**	**0.9**	**0.9**	**7.3**	**7.6**	**5.5**	**5.8**	**6.1**	**6.5**

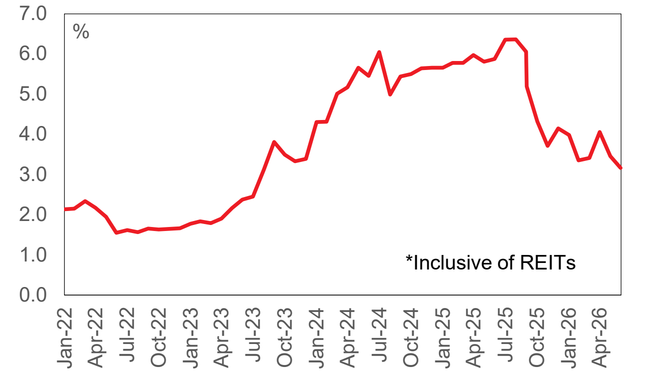
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. TP sensitivity to every +10bp movement in MGS10



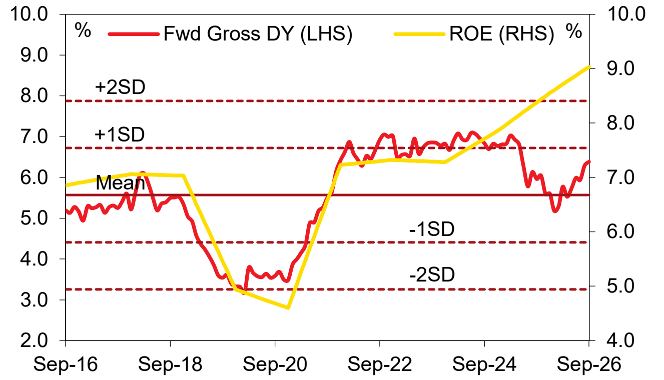
Source: AmInvestment Bank

EXHIBIT 4. MREITs under-owned by local insti at <3% AUM



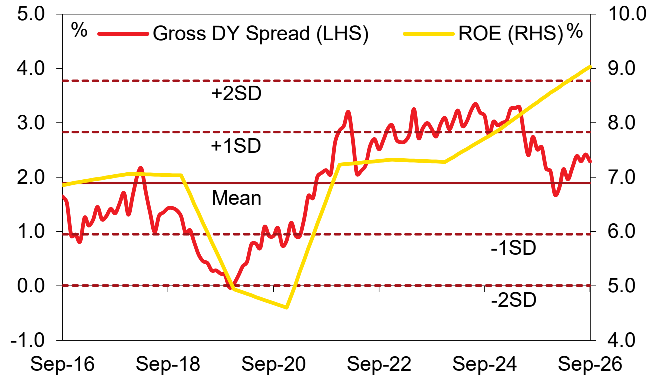
Source: AmInvestment Bank

EXHIBIT 5. 10yr fwd avg BIG-3 gross DY band



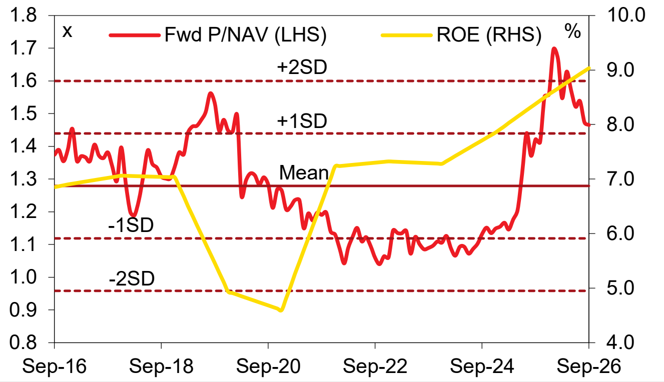
Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10yr fwd avg BIG-3 gross yield spread band



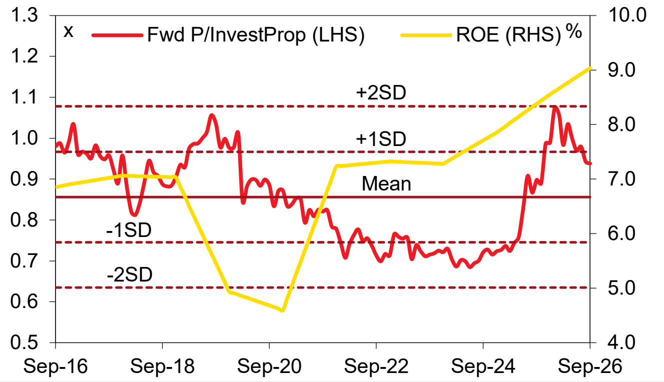
Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. 10yr fwd avg BIG-3 price-to-NAV band



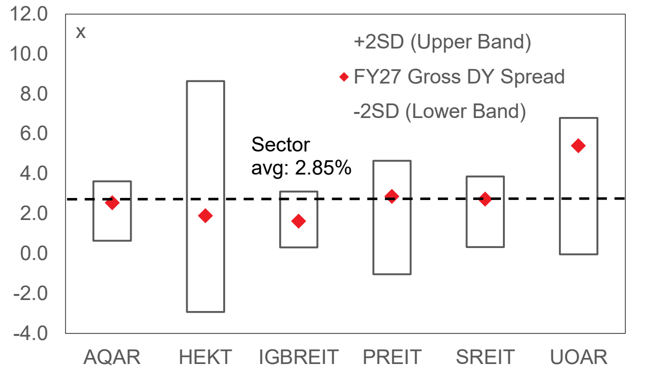
Source: AmInvestment Bank, Bloomberg

EXHIBIT 8. 10yr avg BIG-3 price-to-investment properties band



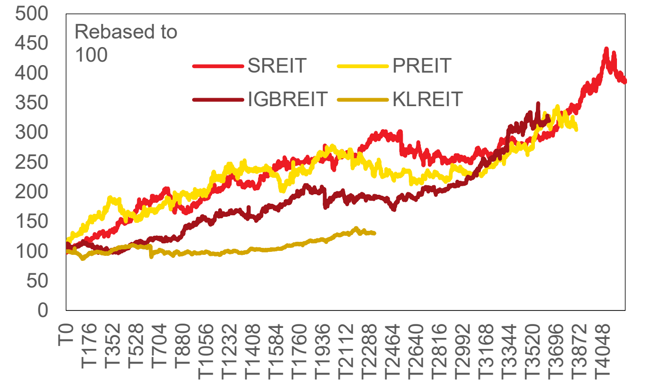
Source: AmInvestment Bank, Bloomberg

EXHIBIT 9. M-REITs' gross yield spread vs respective +/2SD levels



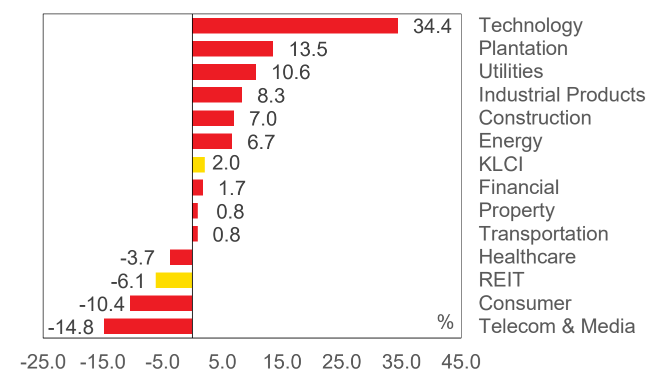
Source: AmInvestment Bank, Bloomberg

EXHIBIT 10. Strong returns by SREIT, PREIT, IGBREIT since IPO



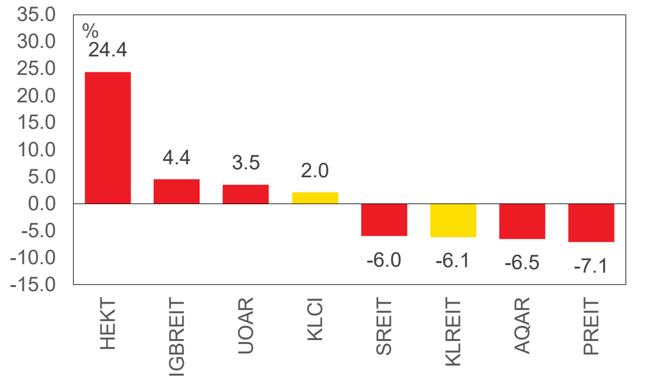
Source: AmInvestment Bank, Bloomberg

EXHIBIT 11. Sectoral index YTD returns (9/9/26)



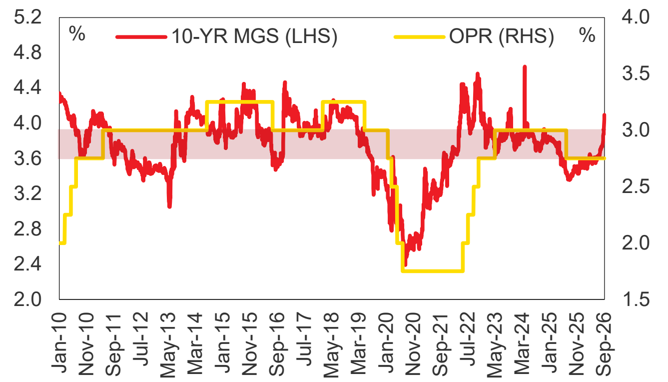
Source: Bloomberg

EXHIBIT 12. MREITs price performance YTD (9/9/26)



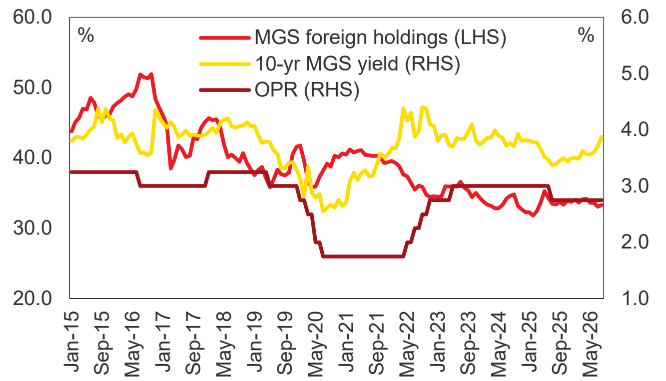
Source: Bloomberg

EXHIBIT 13. MGS10 typically ranged 3.6-4.0%; >4.0% short-lived



Source: Bloomberg

EXHIBIT 14. MGS foreign holdings steady at 33%



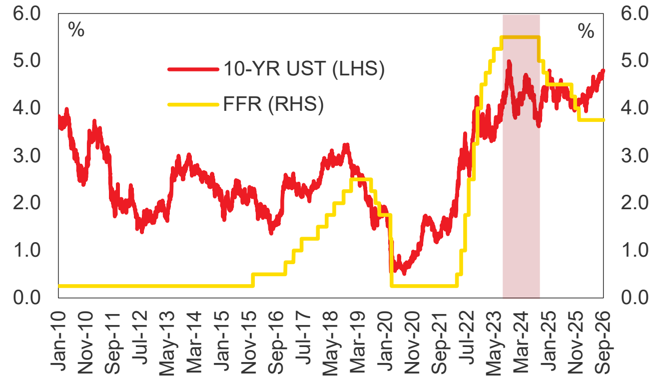
Source: BNM, Bloomberg

EXHIBIT 15. High odds of 75bp FFR hikes by end-2027

Date	350-375	375-400	400-425	425-450
9/16/2026	39.4%	60.6%	0.0%	0.0%
10/28/2026	15.0%	85.0%	0.0%	0.0%
12/9/2026	0.0%	60.3%	39.7%	0.0%
1/27/2027	0.0%	35.0%	65.0%	0.0%
3/17/2027	0.0%	0.0%	96.1%	3.9%
4/28/2027	0.0%	0.0%	79.0%	21.0%
6/9/2027	0.0%	0.0%	57.6%	42.4%
7/28/2027	0.0%	0.0%	51.0%	49.0%
9/15/2027	0.0%	0.0%	45.0%	55.0%
10/27/2027	0.0%	0.0%	45.0%	55.0%
12/8/2027	0.0%	0.0%	93.5%	6.5%

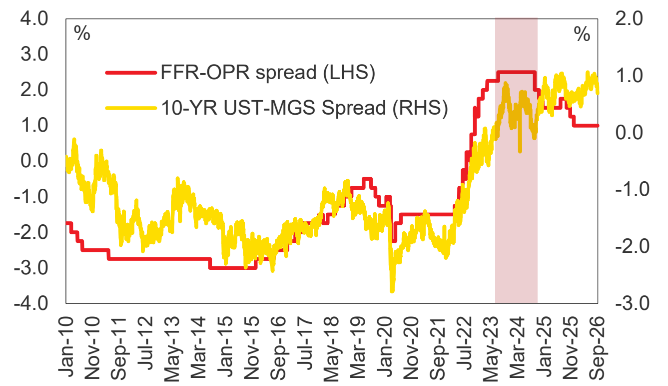
Source: CME FedWatch Tool

EXHIBIT 16. UST10 near 5%, levels last seen when FFR was 5.5%



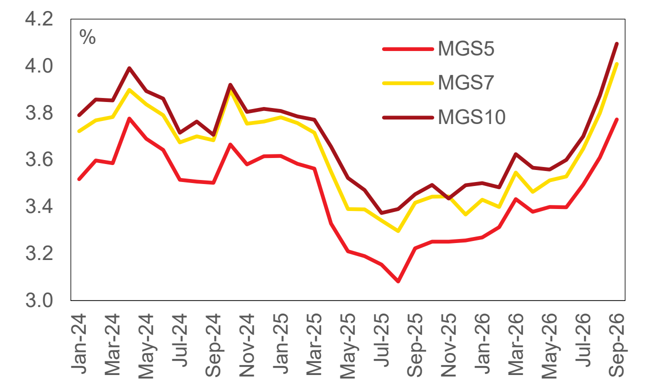
Source: Bloomberg

EXHIBIT 17. UST10-MGS10 spread is near 10yr high of c.1ppt



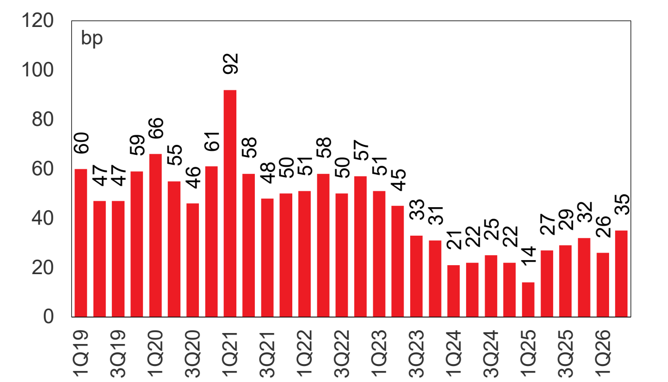
Source: Bloomberg

EXHIBIT 18. MGS5 is at c.30bp discount to MGS10



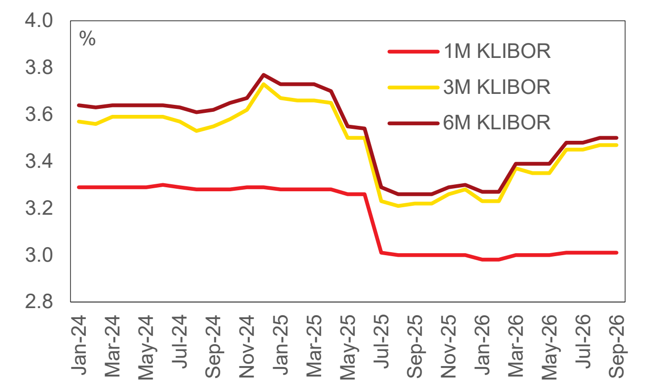
Source: Bloomberg

EXHIBIT 19. Credit spread remains tight at c.30bp



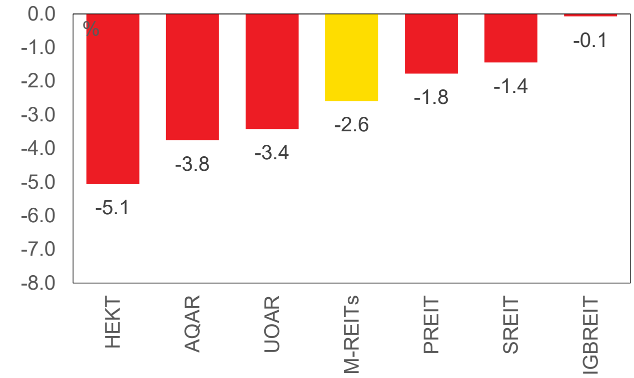
Source: BIX Malaysia

EXHIBIT 20. 1M KLIBOR is stable unlike 3M & 6M



Source: Bloomberg

EXHIBIT 21. DI sensitivity to every +25bp movement in rates



Source: AmInvestment Bank

EXHIBIT 22. Debt & funding cost profile

M-REITs	Funding cost (%)	Floating rate (%)	Gearing (%)	% debt expiry over next 1-2yrs
AQAR	4.9	100.0	48.2	63.3
HEKT	4.9	64.4	43.5	3.6
IGBREIT	4.1	9.0	25.6	54.2
PREIT	4.3	76.5	39.9	39.0
SREIT	3.6	64.0	40.6	62.0
UOAR*	3.6	100.0	40.1	100.0
SECTOR	4.2	69.0	39.7	53.7

*UOAR's credit facilities are revolving in nature

Source: Companies

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