PROPERTY

IOIPG's REIT listing expected to unlock value

Rising investor appetite for yield assets to lend support

PETALING JAYA: IOI Properties Group Bhd (IOIPG) is expected to enter a new phase of growth as it prepares to unlock sizeable embedded asset value through a planned real estate investment trust (REIT) listing that could reshape the group's capital structure and earnings trajectory.

Market conditions have turned increasingly favourable for yield-focused instruments, offering a supportive backdrop for the potential exercise in 2026.

According to Hong Leong Investment Bank Research (HLIB Research), IOIPG is entering a sweet spot for its REIT launch, supported by stronger asset fundamentals, rising investor appetite for yield assets and a favourable macro backdrop.

The research house added that the listing window aligns with the rental reversion cycle at IOI City Mall Phase 2, enhancing prospects for an uplift in asset valuation.

"The listing timing aligns with IOI City Mall Phase 2's rental reversion cycle, while the REIT listing should unlock revaluation gains from IOI City Mall, hotel assets, and potential Real Property Gains Tax (RPGT) reversals, lifting book value," it said.

HLIB Research expects the REIT to debut around mid-calendar year 2026, coinciding with the completion of Phase 2's first significant renewal cycle.

Phase 2, completed in August 2022, will see most tenants completing their first rental renewals in 2025.

The research house said: "This cycle should drive a narrowing in rental rates between Phase 2 (around RM11 per sq ft) and Phase 1 (around RM13 per sq ft) by end-2025, enhancing the mall's overall income profile and valuation ahead of the REIT's debut."

It also highlighted the strength of IOIPG's hospitality portfolio, which HLIB Research said has been underappreciated due to accounting treatment.

"Because these are non-cash charges, they depress reported earnings but not cash flow, thereby masking the strong earnings and cash flow capacity of the hotel portfolio."

It estimated earnings before interest, tax, depreciation and amortisation for the Malaysia hotel business at above RM70mil, supported by steady demand at Le Méridien, Moxy, Putrajaya Marriott and Palm Garden in IOI Resort City, as well as improving performance at the newly acquired W Hotel Kuala Lumpur and Courtyard Penang.

Hotels, carried at historical cost, could see meaningful revaluation gains upon transfer into the REIT.

The uplift potential also extends to IOI City Mall, which is expected to benefit from stronger rental reversions.

A reversal of deferred RPGT liabilities may add a further boost.

"As at June 30, 2025, deferred tax liabilities stood at RM897mil (not all are related to RPGT), indicating meaningful potential for upward balance sheet revaluation," HLIB Research noted.

Sector sentiment is also improving. Malaysia REITs have delivered a year-to-date return of 8.4% against the FBM KLCI's 1% decline, with retail-focused trusts outperforming on the back of rising consumer spending, stable office demand and a tourism resurgence.

Foreign investors have also been more receptive to lower yields due to currency strength, with some prime Malaysian REITs trading at below 5% yields.

Against this backdrop, HLIB Research argued that IOIPG's REIT assets – which carry a book value of RM6.97bil – could command above-book valuations.

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Hong Leong Investment Bank Research

Although IOIPG is expected to retain 60% ownership of the REIT, the research house anticipates minimal earnings dilution due to tax efficiencies, interest savings and the removal of depreciation charges once hotel assets are reclassified as investment properties.

"We believe that the alignment of stronger asset fundamentals, rising investor appetite for yield instruments, and supportive market conditions are paving the way for a successful IOIPG's Malaysia REIT listing, allowing the group to unlock the embedded asset value within the group and reinforce its de-gearing and capital recycling exercise," it added.

HLIB Research has revised its financial year 2026 and 2027 forecasts by minus 18.3% and minus 15.2% respectively due to slower sales and lower margin assumptions for the Marina View development, but said its outlook remains constructive.

The firm has introduced a 2028 earnings estimate of RM1.2bil and reiterated its conviction "buy" call with a target price of RM4.15.