

27 April 2018 | 1QFY18 Results Review

Pavilion REIT

Decent start to FY18

INVESTMENT HIGHLIGHTS

- **1QFY18 results within expectation**
- **CNI grew 14.3%yoy as revenue jumped 10.6%yoy.**
- **Unchanged estimates for now**
- **Maintain Neutral with unchanged TP of RM1.41**

1QFY18 results within expectation. Pavilion REIT's 1QFY18 core net income (CNI) of RM65.4m came in largely within our expectation, making up 26% of our full year estimate. A DPU of 2.2 sen was announced and was in-line with our forecast.

CNI grew 14.3%yoy as revenue jumped 10.6%yoy. The higher gross revenue was driven by higher income contributed by Pavilion KL at +12.4%yoy to RM113m and The Intermark Mall at +21.1%yoy to RM7.4m. da:mén USJ mall, however, saw income decline by -15.5%yoy to RM7.9m. The higher income from Pavilion KL can be largely attributed to the repositioning of its tenants previously. Meanwhile, The Intermark Mall has enjoyed higher occupancy rate. One of the reasons is due to the shutdown of its neighbouring Ampang Park Mall.

Higher revenue more than offset rising operating costs. Pavilion REIT's higher rental income was more than enough to cover the increase in operating expenses, which rose 6%yoy to RM42.5m. The other income was higher by 25.5%yoy to RM27.1m primarily due to the higher revenue rent from Pavilion KL and the fees received from da:mén USJ mall's electricity provider to Pavilion REIT for collecting the electricity charges incurred by the da:mén USJ mall tenants.

Unchanged estimates for now. We make no changes to our forecasts at this point as estimates are in line. The acquisition of Pavilion Elite is pending conclusion in the second half and we expect borrowing costs to be higher as Pavilion REIT has earlier on cancelled the private placement to fund the purchase and opted for debt funding instead.

Maintain Neutral with unchanged TP of RM1.41. We believe that Pavilion REIT will be able to deliver earnings growth from Pavilion KL and The Intermark Mall this year but the growth will be partially offset by higher borrowing costs and the decline in income from da:mén USJ. We maintain our earnings assumption and DDM-derived valuation (perpetual growth rate of 1.6% and required rate of return of 7.9%).

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.41

RETURN STATS	
Price (26 April 2018)	RM1.44
Target Price	RM1.41
Expected Share Price Return	-2.1%
Expected Dividend Yield	5.4%
Expected Total Return	+3.3%
STOCK INFO	
KLCI	1,852.27
Bursa / Bloomberg	5212/ PREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,034.50
Market cap. (RM'm)	4,369.68
Price over NA	1.11
52-wk price Range	RM1.32 - RM1.78
Beta (against KLCI)	0.72
3-mth Avg Daily Vol	0.92m
3-mth Avg Daily Value	RM1.30m
Major Shareholders	
Qatar Holdings LLC	35.69%
Lim Siew Choon	27.86%
Tan Kewi Yong	9.29%
EPF	4.31%

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	414	460	490	526	556
Net Rental Income	292	315	323	346	369
Net Investment Income	339	400	348	355	381
Net Income	282	312	250	252	255
Core Net Income	241	235	233	252	255
Realised EPU (sen)	9.40	10.33	8.24	8.32	8.42
Core EPU (sen)	8.00	7.79	7.68	8.32	8.42
Gross DPU (sen)	8.23	8.24	7.93	8.56	8.66
Net DPU (sen)	7.40	7.42	7.13	7.71	7.80
Net Distribution Yield	5.1%	5.2%	5.0%	5.4%	5.4%
Core PER (x)	19.4	18.5	18.7	17.3	17.1
NAV per unit (RM)	1.28	1.30	1.30	1.30	1.30
P/NAV (x)	1.13	1.11	1.11	1.11	1.11
Core ROE	6.3%	6.1%	5.9%	6.4%	6.5%
Core ROA	5.1%	4.5%	4.1%	4.2%	4.1%

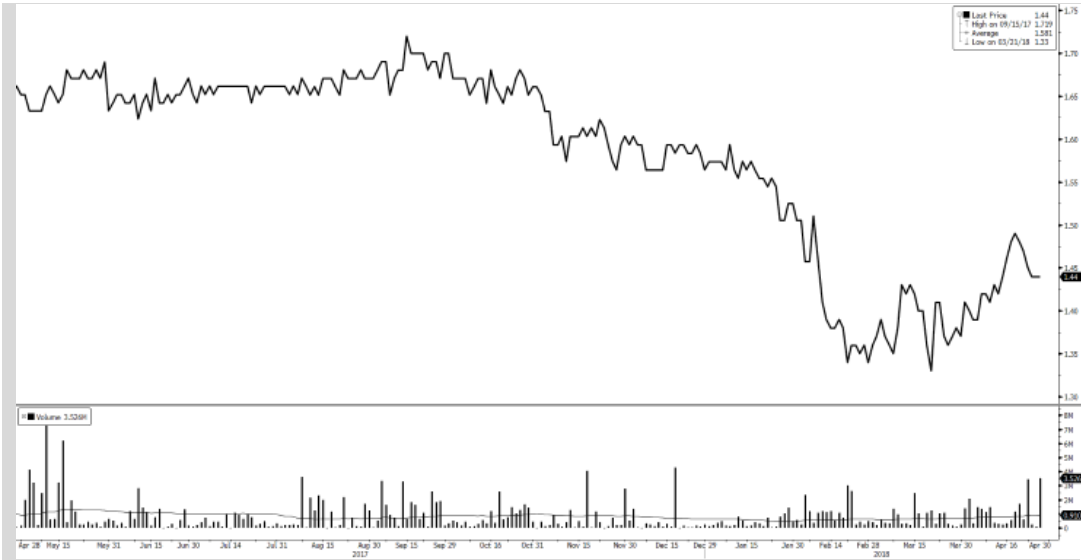
Source: Company, MIDF Research

PAVILION REIT: 1QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	131.5	10.6%	2%	131.5	10.57%
Net Rental Income	89.0	12.7%	0%	89.0	12.7%
Net Investment Income	91.2	12.3%	-16%	91.2	12.3%
Net Income	65.4	14.6%	-21%	65.4	14.6%
Core Net Income	65.4	14.6%	3%	65.4	14.6%
Realised EPU (sen)	2.2	14.3%	-21%	2.2	14.3%
Core EPU (sen)	2.2	14.3%	3%	2.2	14.3%
Gross DPU (sen)	2.2	N.M.	N.M.	2.2	N.M.

Source: Company, MIDF Research

DAILY PRICE CHART



Ng Bei Shan
ng.bs@midf.com.my
03-2173 8461

Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.