

27 July 2018 | 2QFY18 Results Review

## Pavilion REIT

*Decent set of results*

**Maintain NEUTRAL**

**Adjusted Target Price (TP): RM1.60**  
(Previously RM1.41)

### INVESTMENT HIGHLIGHTS

- **1HFY18 results slightly exceeded expectation**
- **CNI for the period grew 13.2% yoy as revenue jumped 11.4%**
- **Increase earnings estimates by +4.4%/+14.5% for FY18F/FY19F**
- **Maintain NEUTRAL with adjusted TP of RM1.60 (from RM1.41 previously)**

**1HFY18 results slightly exceeded expectation.** Pavilion REIT's 1HFY18 core net income (CNI) of RM126.2m was slightly better than our expectation, making up 50% of our full year estimates but within consensus' expectation at 48% of consensus'. Although the 1H usually account for 48% to 49% of full year earnings, FY18 earnings should have higher weightage in 2H18 in view of new contribution from Pavilion Elite. A DPU of 4.34 sen was announced, which is slightly above our expectation.


**CNI grew 13.2% yoy as revenue jumped 11.4% during the period.** The higher gross revenue for 1HFY18 was driven by higher income from Pavilion KL at +8.1% yoy to RM218.8m, The Intermark Mall at +17.9% to RM14.5m as well as the addition of Elite Pavilion Mall that amounted to RM11.9m in 1HFY18. da:mén USJ mall's revenue however fell 18% to RM15.0m. Income from Pavilion KL remains strong following the repositioning of the tenants last year. Meanwhile, The Intermark Mall continued to see higher occupancy qoq from 91% to 92% befitting from the shutdown of Ampang Park Mall.

**Qoq, CNI fell 7% to RM60.8m, while gross revenue was by up 3% to RM135m.** This is due to lower income from Pavilion KL in 2QFY18 compared to 1QFY18 and also due to the higher borrowing cost from the drawdown of loans to fund the acquisition of Pavilion Elite. Pavilion Elite has started its contribution during the quarter.

**Second half should be stronger than the first** driven by a much improved consumer sentiment compared to the few months running up to the 14<sup>th</sup> General Election. The reduction of GST to 0% from June until end-August should also spur consumer spending as consumers may take the opportunity before the implementation of SST to purchase certain luxury or big ticket items. It is also seasonally stronger. That said, we expect higher borrowing cost to partially offset the better performance going forward due to the higher drawdown.

RETURN STATS	
Price (26 July 2018)	RM1.65
Target Price	RM1.60
Expected Share Price Return	-3.1%
Expected Dividend Yield	+5.0%
<b>Expected Total Return</b>	<b>+1.9%</b>
STOCK INFO	
KLCI	1,766.23
Bursa / Bloomberg	5212/ PREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,034.5
Market cap. (RM'm)	5,006.9
Price over NA	1.95
52-wk price Range	RM1.32 - RM1.78
Beta (against KLCI)	0.66
3-mth Avg Daily Vol	0.87m
3-mth Avg Daily Value	RM1.38m
Major Shareholders	
Qatar Holdings LLC	35.69%
Lim Siew Choon	27.86%
Tan Kewi Yong	9.29%
KWAP	5.1%

**Increase earnings estimates by +4.4%/+14.5% for FY18F/FY19F** to RM263m and RM292m. We increase our revenue estimates by +2.3% to RM538m in FY18F and +9.0% to RM606m in FY19F. We believe that Pavilion REIT stands a good chance to renegotiate for favourable rates for Pavilion KL in FY19 following the reconfiguration exercise earlier as 65% of the NLA is up for renewal in FY19. Besides that, 50% of the NLA at The Intermark is also expiring next year. We have imputed higher occupancy rate and rental reversion after taking into consideration of the factors mentioned above.

**Maintain NEUTRAL with adjusted TP of RM1.60 (from RM1.41 previously).** We believe that Pavilion REIT will be able to deliver earnings growth from Pavilion KL and The Intermark Mall this year and next year. However, the higher earnings may be offset by higher borrowing cost from the drawdown to fund the acquisition of Pavilion Elite. Average interest to-date was 4.6%. Our DDM-derived valuation (perpetual growth rate of 1.6% and required rate of return of 7.9%) is unchanged. 

## INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	414	460	490	538	606
Net Rental Income	292	315	323	358	416
Net Investment Income	339	400	348	367	428
Net Income	282	312	250	263	292
Core Net Income	241	235	233	263	292
Realised EPU (sen)	9.40	10.33	8.24	8.68	9.65
Core EPU (sen)	8.00	7.79	7.68	8.68	9.65
Gross DPU (sen)	8.23	8.24	7.93	8.92	9.89
Net DPU (sen)	7.40	7.42	7.13	8.03	8.90
Net Distribution Yield	4.5%	4.5%	4.3%	4.9%	5.4%
Core PER (x)	19.4	21.2	21.5	19.0	17.1
NAV per unit (RM)	1.28	1.30	1.30	1.26	1.26
P/NAV (x)	1.29	1.27	1.27	1.31	1.31
Core ROE	6.3%	6.1%	5.9%	6.8%	7.6%
Core ROA	5.1%	4.5%	4.1%	4.4%	4.7%

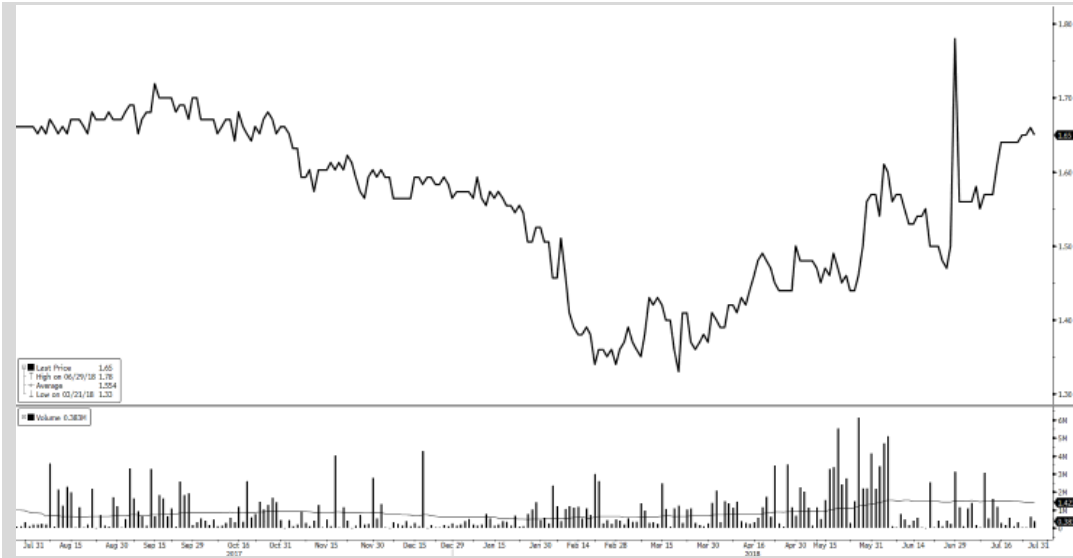
Source: Company, MIDF Research

## PAVILION REIT: 2QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Gross Revenue	135.1	12.3%	3%	266.6	11.44%
Net Rental Income	90.6	18.1%	2%	179.6	15.4%
Net Investment Income	93.6	18.9%	3%	184.8	15.5%
Net Income	60.8	11.8%	-7%	126.2	13.2%
Core Net Income	60.8	11.8%	-7%	126.2	13.2%
Realised EPU (sen)	2.0	11.5%	-7%	4.2	12.9%
Core EPU (sen)	2.0	11.5%	-7%	4.2	12.9%
Gross DPU (sen)	4.3	9.6%	N.M.	6.5	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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 (Bank Pelaburan)  
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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.