

26 October 2018 | 3QFY18 Results Review

Pavilion REIT

Decent earnings for 9MFY18

INVESTMENT HIGHLIGHTS

- **9MFY18 results largely in-line**
- **CNI for the period grew 12.9% yoy as revenue jumped 13.1%**
- **3QFY18 CNI leaped 12.4%yoy to RM62.3m as revenue increased by 16.5%yoy RM141.4m**
- **Maintain NEUTRAL with an unchanged TP of RM1.60**

9MFY18 results largely in-line. Pavilion REIT's 9MFY18 core net income (CNI) of RM188.4m came broadly within ours and consensus' full year estimates, at 72% of full year forecast. 4Q is seasonally strong due to the year-end sales as well as the holiday season.

CNI for the period grew 12.9% yoy as revenue jumped 13.1%.

The higher bottom line of RM188.4m and top line of RM407.9m are mainly due to the contribution from Pavilion Elite, which started since April 2018. The better yoy performance is also attributed to higher rental income from Pavilion Kuala Lumpur after the repositioning exercise as well as higher occupancy rate at the Intermark Mall. Revenue for Pavilion KL grew 7.0% yoy to RM328.5m while The Intermark Mall grew 16.7% to RM21.7m. Revenue from da:mén USJ mall, however, fell 14.7% to RM22.1m. Pavillion Elite contributed RM25.85m to the REIT's topline to-date.

3QFY18 CNI leaped 12.4%yoy to RM62.3m as revenue increased by 16.5%yoy RM141.4m.

Revenue for the quarter was higher due to the contribution of Pavilion Elite, higher rental income from Pavilion KL as well as at Intermark Mall. On the other hand, operating costs increased due to the addition of Pavilion Elite while the REIT also incurred higher borrowing costs, which grew 50.5% mainly due to the drawdown to fund the acquisition.

Qoq, 3QFY18 CNI added 2% to RM62.3m, while gross revenue was by up 5% to RM141.4m.

The better sequential quarter can be attributed to full quarter contribution from Pavilion Elite as well as higher qoq revenue from all its assets. Meanwhile, the average interest cost crept up to 4.7% from 4.6% in the previous quarter.


Due diligence on participation in ownership of Pavilion Bukit Jalil development is on-going.

Recall that Pavilion REIT has accepted the invitation from Malton Bhd on August 13 to participate in the ownership of Pavilion Bukit Jalil where both parties enter into a non-disclosure agreement to start due diligence, discussion on method of participation and negotiation of terms. The project consists of one block of five-storey retail spaces and two levels of basement carpark.

Maintain NEUTRAL

Unchanged Target Price (TP): RM1.60

RETURN STATS	
Price (25 th October 2018)	RM1.57
Target Price	RM1.60
Expected Share Price Return	+1.9%
Expected Dividend Yield	+5.1%
Expected Total Return	+7.0%
STOCK INFO	
KLCI	1,686.59
Bursa / Bloomberg	5212/ PREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,036.71
Market cap. (RM'm)	4,767.63
Price over NA	1.21
52-wk price Range	RM1.32 - RM1.78
Beta (against KLCI)	0.51
3-mth Avg Daily Vol	0.55m
3-mth Avg Daily Value	RM0.89m
Major Shareholders	
Qatar Holdings LLC	35.66%
Lim Siew Choon	27.84%
Tan Kewi Yong	9.28%
EPF	5.04%

Maintain NEUTRAL with an unchanged TP of RM1.60. We make no changes to our assumptions as we deem the results was largely in-line as we expect a stronger 4Q. Although Pavilion REIT has recorded a commendable yoy growth, we believe that the growth is largely priced-in at the moment. With that, we maintain our Neutral recommendation. Our DDM-derived valuation (perpetual growth rate of 1.6% and required rate of return of 7.9%) is unchanged. Dividend yield is estimated at 5.1%. 

INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	413.9	459.7	490.0	538.4	605.9
Net Rental Income	291.5	314.8	322.9	358.0	416.4
Net Investment Income	339.4	400.4	348.4	367.0	428.2
Net Income	282.3	312.1	249.5	262.7	292.0
Core Net Income	240.7	235.3	232.5	262.7	292.0
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	4.7%	4.7%	4.5%	5.1%	5.7%
Core PER (x)	19.4	20.2	20.4	18.1	16.3
NAV per unit (RM)	1.28	1.30	1.30	1.26	1.26
P/NAV (x)	1.23	1.21	1.21	1.24	1.25
Core ROE	6.3%	6.1%	5.9%	6.8%	7.6%
Core ROA	5.1%	4.5%	4.1%	4.4%	4.7%

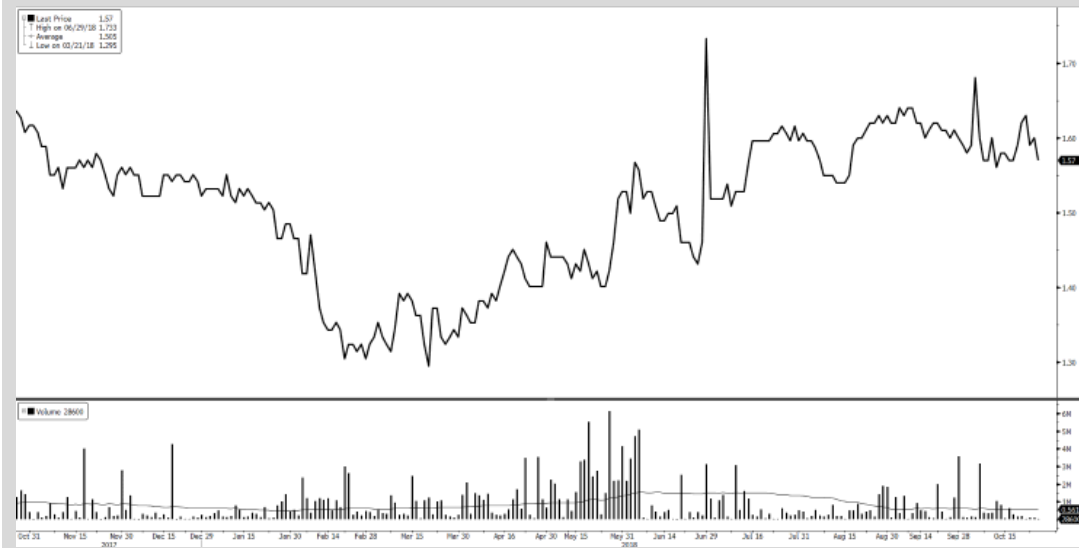
Source: Company, MIDF Research

PAVILION REIT: 3QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	9MFY18	%YoY
Gross Revenue	141.4	16.5%	5%	407.9	13.14%
Net Rental Income	94.2	20.5%	4%	273.8	17.1%
Net Investment Income	97.2	21.1%	4%	282.0	17.4%
Net Income	62.3	12.4%	2%	188.4	12.9%
Core Net Income	62.3	12.4%	2%	188.4	12.9%
Realised EPU (sen)	2.1	12.1%	2%	6.2	12.6%
Core EPU (sen)	2.1	12.1%	2%	6.2	12.6%
Gross DPU (sen)	0.0	N.M.	N.M.	4.3	N.M.

Source: Company, MIDF Research

DAILY PRICE CHART



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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.