

26 January 2018 | 4QFY17 Results Review

## Pavilion REIT

*Steady growth expected in FY18*

**Maintain NEUTRAL**

**Revised Target Price (TP): RM1.68**  
(previously RM1.70)

### INVESTMENT HIGHLIGHTS

- **FY17 earnings in-line with our expectation**
- **Core net income fell -2% due to higher expenses**
- **Higher borrowing cost to have to have an impact of -1.1% on FY18 EPU estimates**
- **Maintain Neutral with a lower TP of RM1.68 (from RM1.70 previously)**


**FY17 earnings in-line with our expectation.** Pavilion REIT's full year core net income (CNI) of RM230.3m met our expectation, making up 101% of our FY17 earnings forecast and 95% of consensus'. The interim DPU of 4.3 sen brought total DPU to 8.2 sen, which is within expectation.

**Core net income fell -2% due to higher expenses.** Although revenue increased by 6.6% yoy due to higher NPI, Pavilion REIT's CNI slipped by 2% to RM230.3m due to higher property and non-property expenses. The higher yoy revenue is largely attributed to higher rent from Pavilion Kuala Lumpur after its tenant reconfiguration. The higher income is also helped by electricity collection fees from da:mén USJ mall.

**Higher borrowing cost to have to have an impact of -1.1% on FY18 EPU estimates.** Following the announcement of the 25 bps rate hike by Bank Negara, we have imputed higher borrowing cost as 79% of Pavilion REIT's loans are based on floating rates. Other than that, we keep our other assumptions unchanged. Our estimates have not taken into consideration of the income from Pavilion Elite, which is expected to be completed in 1HFY18.

**Rental rates expected to hold up well.** Among its assets, Pavilion REIT has 51% of tenant up for agreement renewal at da:mén USJ mall. The major tenants such as Jaya Grocer, Al Hannan Events and The Canteen will continue the tenancy agreement. We expect a flat rental reversion for da:mén USJ mall due to the competition among neighbourhood malls. As for Pavilion KL, tenancy expiry based on NLA is estimated at 14% in FY18, 20% for The Intermark Mall and 37% for Pavilion Tower, which should be manageable. We expect a mid single-digit rental reversion for Pavilion KL and lower single-digit rental reversion for the other assets.

RETURN STATS	
Price (25 January 2018)	RM1.55
Target Price	RM1.68
Expected Share Price Return	9.0%
Expected Dividend Yield	5.1%
<b>Expected Total Return</b>	<b>14.1%</b>
STOCK INFO	
KLCI	1,845.86
Bursa / Bloomberg	5212/ PREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,030.09
Market cap. (RM'm)	4,696.65
Price over NA	1.95
52-wk price Range	RM1.55 - RM1.95
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	0.53m
3-mth Avg Daily Value	RM0.87m
Major Shareholders	
Qatar Holdings LLC	35.74%
Lim Siew Choon	27.90%
Tan Kewi Yong	9.30%
KWAP	6.42%

**Maintain Neutral with a lower TP of RM1.68 (previously RM1.70).** We have adjusted the TP for Pavilion REIT to RM1.68 from RM1.70 based on the dividend discount model following the key interest rate hike, which will lead to higher borrowing costs. Our other assumptions are intact. We reiterate our neutral stance as we anticipate a slow and steady growth ahead. We have also introduced our FY19F numbers. Dividend yield of 5.1% is expected for FY18F. 

## INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Gross Revenue	414	460	490	523	559
Net Rental Income	292	315	323	348	375
Net Investment Income	339	400	348	357	382
Net Income	282	312	250	257	282
Core Net Income	241	235	233	257	282
Realised EPU (sen)	9.40	10.35	8.27	8.53	9.34
Core EPU (sen)	8.00	7.80	7.71	8.53	9.34
Gross DPU (sen)	8.23	8.24	7.95	8.78	9.59
Net DPU (sen)	7.40	7.42	7.16	7.90	8.63
Net Distribution Yield (%)	4.8%	4.8%	4.6%	5.1%	5.6%
Core PER (x)	19.4	19.9	20.1	18.2	16.6
NAV per unit (RM)	1.28	1.30	1.31	1.31	1.31
P/NAV (x)	1.21	1.19	1.19	1.19	1.19
Core ROE	6.3%	6.1%	5.9%	6.5%	7.2%
Core ROA	5.1%	4.5%	4.2%	4.6%	5.1%

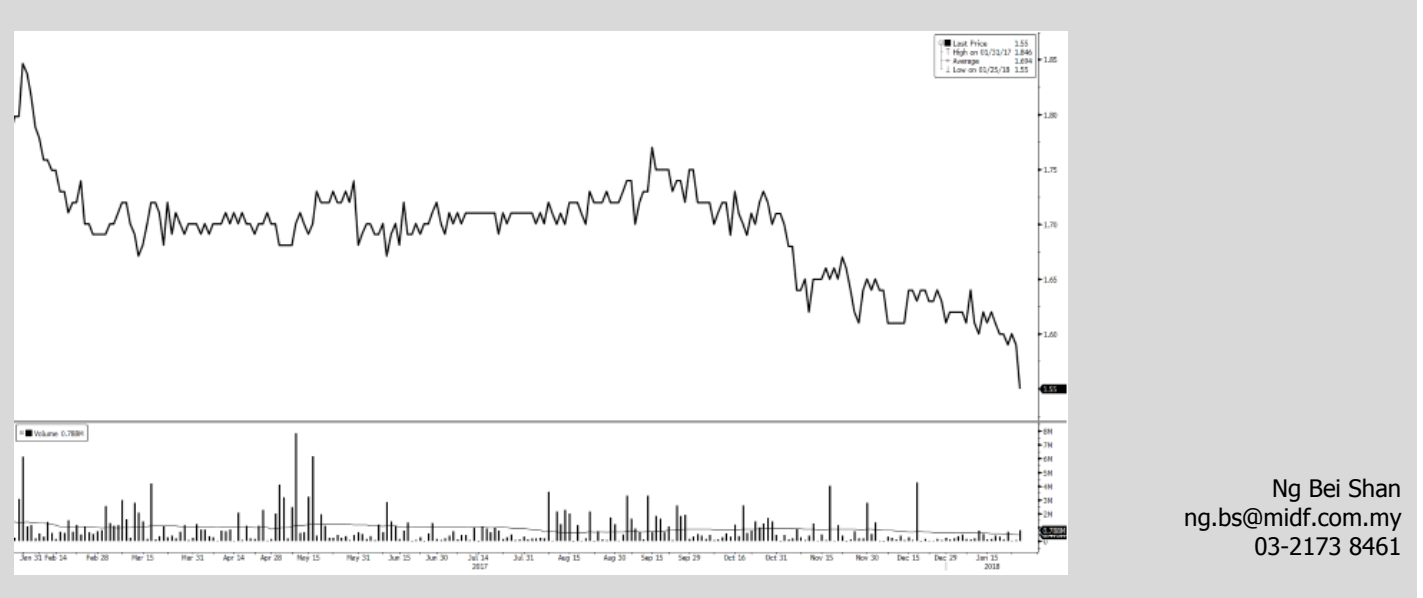
Source: Company, MIDF Research

## Pavilion REIT: 4QFY17 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY17	%YoY	%QoQ	FY17	%YoY
Gross Revenue	129.4	10.2%	7%	490.0	6.59%
Net Rental Income	89.1	15.7%	14%	322.9	2.6%
Net Investment Income	108.2	-30.7%	35%	348.4	-13.0%
Net Income	82.6	-37.3%	49%	249.4	-20.1%
Core Net Income	63.5	15.7%	15%	230.3	-2.1%
Realised EPU (sen)	2.7	-37.4%	49%	8.2	-20.2%
Core EPU (sen)	2.1	15.5%	14%	7.6	-2.3%
Gross DPU (sen)	4.3	5%	NM	8.2	0.0%

Source: Company, MIDF Research

## DAILY PRICE CHART



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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.