

02 April 2018 | Corporate Update

Pavilion REIT

Placement to fund Pavilion Elite called off

Maintain NEUTRAL

Revised Target Price (TP): RM1.41
(previously RM1.68)

INVESTMENT HIGHLIGHTS

- **Placement of 218m new units is cancelled**
- **Gearing expected to increase to 33% from 26%**
- **Higher borrowing cost to partially offset contribution from Pavilion Elite**
- **Maintain Neutral with a lower TP of RM1.41 (from RM1.68 previously)**


Placement of 218m new units is cancelled. The manager of Pavilion REIT has announced not to proceed with the previous proposal to issue 218 million new units, which represents 7.2% of the REIT's existing number of units. The decision came about following the decline in Pavilion REIT's unit price since the proposal of the corporate exercise.

Gearing expected to increase to 33% from 26%. Following the cancellation of the placement, the initial RM371m that was planned to be raised through placement will be funded through debt. Hence, we expect Pavilion REIT's gearing level to rise to 33% from 26%.

Higher borrowing cost to partially offset contribution from Pavilion Elite. The proposed acquisition of Pavilion Elite has become unconditional following the issuance of the new title for the asset. Considering that the acquisition will be funded fully through debt, we expect the exercise to be completed by 2HFY18. While we expect Pavilion Elite to contribute about 4% to Pavilion REIT's full year revenue, we estimate that the higher borrowing cost to partially offset the positive earnings contribution.

Earnings revised due to inclusion of Pavilion Elite and higher interest cost. We have also factored in lower rental reversion rates in view of the increasingly challenging market. More importantly, we estimate that the higher borrowing cost to affect its FY19F earnings by -10% to RM255m. Earnings estimate for FY18F was lowered to by -2% to RM252m in anticipation of lower rental reversion albeit the inclusion of Pavilion Elite.

RETURN STATS	
Price (30 March 2018)	RM1.37
Target Price	RM1.41
Expected Share Price Return	2.9%
Expected Dividend Yield	5.6%
Expected Total Return	8.5%
STOCK INFO	
KLCI	1,863.46
Bursa / Bloomberg	5212/ PREIT MK
Board / Sector	Main / REITs
Syariah Compliant	No
Issued shares (mil)	3,034.50
Market cap. (RM'm)	4,157.27
Price over NA	1.05
52-wk price Range	RM1.32 - RM1.78
Beta (against KLCI)	0.73
3-mth Avg Daily Vol	0.67m
3-mth Avg Daily Value	RM0.96m
Major Shareholders	
Qatar Holdings LLC	35.69%
Lim Siew Choon	27.86%
Tan Kewi Yong	9.29%
KWAP	6.41%

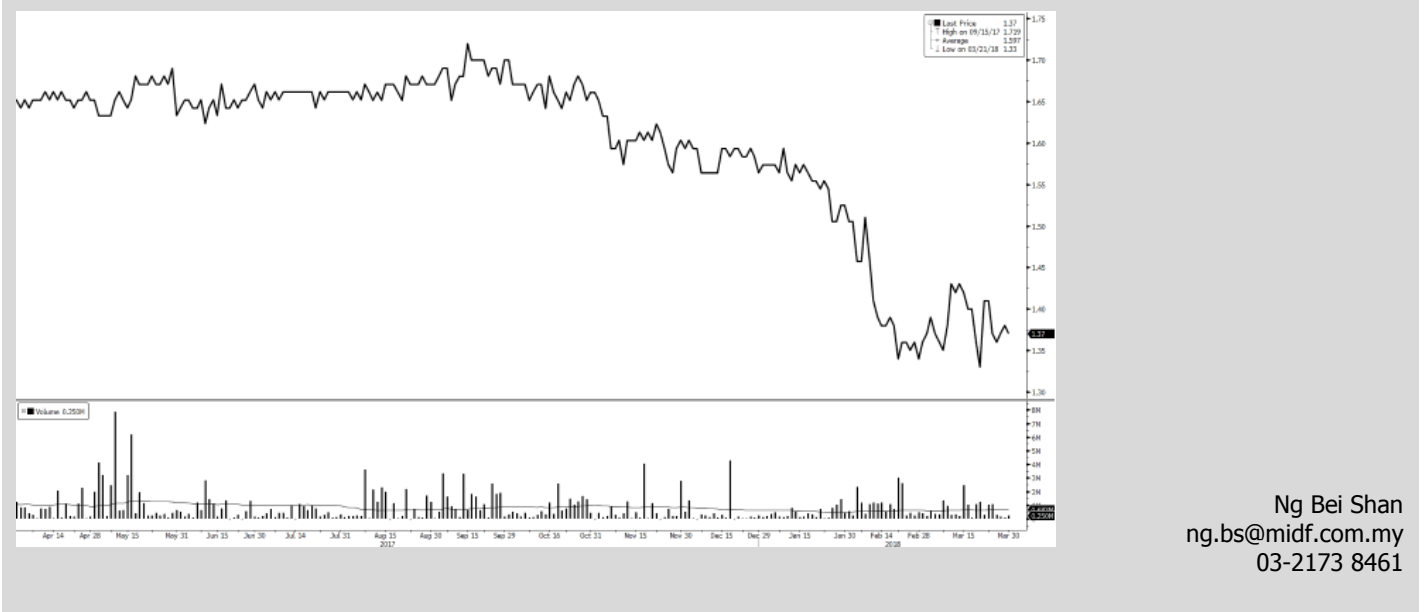
Maintain NEUTRAL with a lower TP of RM1.41 (from RM1.68 previously). Our TP is lowered due to lower earnings estimate resulting from higher borrowing costs as well as higher required rate of return. Our TP is derived from the DDM method with required a rate of return of 7.9% and a terminal growth rate of 1.6%. Although we think that the will growth for the REIT will moderate in the near to medium term, we believe that Pavilion REIT may still present growth opportunities from potential new asset injection in the long-term that can potentially drive growth. Meanwhile, dividend yield is expected at 5.6% for FY18F. 

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	5.4%	5.4%	5.2%	5.6%	5.7%
Core PER (x)	19.4	17.6	17.8	16.5	16.3
NAV per unit (RM)	1.28	1.30	1.30	1.26	1.26
P/NAV (x)	1.07	1.06	1.05	1.08	1.09
Core ROE	6.3%	6.1%	5.9%	6.5%	6.7%
Core ROA	5.1%	4.5%	4.1%	4.2%	4.1%

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.