

Pavilion REIT

(5212 | PREIT MK) Main | REIT

Resilient Earnings

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings deemed within expectation**
- **Expect strong earnings in 2HFY23 due to contribution from Pavilion Bukit Jalil**
- **Earnings estimates maintained**
- **Maintain BUY with an unchanged TP of RM1.63**

1HFY23 earnings deemed within expectation. Pavilion REIT 1HFY23 core net income of RM132.9m deemed within our expectation despite only made up 40% of our full year forecast as we expect earnings to pick up in 2HFY23 due to contribution from Pavilion Bukit Jalil. Meanwhile, distribution per unit (DPU) for 1HFY23 stood at 4.41sen, higher than 4.08sen DPU in 1HFY22.

Expect strong earnings in 2HFY23. Sequentially, 2QFY23 core net income was lower at RM62.9m (-10.2%qoq) despite higher topline (+2.3%qoq) as earnings were dragged by higher property expenses as a result of higher expenses for utilities and maintenance. On yearly basis, 2QFY23 core net income was higher (+14.4%yoy), bringing 1HFY23 cumulative core net income to RM132.9m (+10.6%yoy). The higher earnings were mainly contributed by higher contribution from Pavilion KL Mall. Nevertheless, earnings were partly weighed by higher utilities expenses and borrowing cost. Pavilion REIT incurred higher utilities expenses due to increase of electricity tariff surcharge. Meanwhile, we expect stronger earnings in 2HFY23 mainly due to contribution from Pavilion Bukit Jalil which was acquired in 2QFY23.

Earnings estimates maintained. We maintain our earnings forecast for FY23F/24F/25F. We remain positive on earnings outlook for Pavilion REIT as earnings will be driven mainly by higher rental income from Pavilion KL Mall. We expect rental reversion for Pavilion KL Mall to be positive going forward due to high shopper traffic and healthy tenant sales. Besides, earnings contribution from Pavilion Bukit Jalil should drive earnings growth going forward as rental reversion Pavilion Bukit Jalil is expected to be positive. Meanwhile, occupancy rate of Pavilion Bukit Jalil is healthy at 83.6% in 2QFY23.

Maintain BUY with unchanged TP of RM1.63. We maintain our **TP** for Pavilion REIT at **RM1.63**, based on Dividend Discount Model. We favour Pavilion REIT as we see that Pavilion KL Mall and Elite Pavilion Mall which are tourist hotspots will remain doing well in the near to long term. That will underpin sustainable income growth and DPU growth going forward. Hence, we maintain our **BUY** call on Pavilion REIT. Meanwhile, distribution yield is estimated at 6.3%.

Maintain BUY
Unchanged Target Price: RM1.63

RETURN STATISTICS

Price @ 27 th July 2023 (RM)	1.22
Expected share price return (%)	33.6
Expected dividend yield (%)	6.3
Expected total return (%)	39.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	-6.0
3 months	-1.6	-12.3
12 months	-7.6	-6.3

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	650	744	763
Net Rental Income	438	530	543
Net Investment Income	449	543	558
Core Net Income	333	340	351
Core EPU (sen)	8.17	8.36	8.63
Net DPU (sen)	7.74	7.82	7.95
Dividend Yield	6.34%	6.41%	6.52%

KEY STATISTICS

FBM KLCI	1451.27
Issue shares (m)	3,055.72
Estimated free float (%)	21.22
Market Capitalisation (RM'm)	4,451.68
52-wk price range	RM1.18–RM1.5
3-mth average daily volume (m)	1.42
3-mth average daily value (RM'm)	1.80
Top Shareholders (%)	
Qatar Investment Authority	27.65
Lim Siew Choon	23.17
Employees Provident Fund Board	10.62
Kewi Yong Puan	7.72
KWAP	5.42

Analyst

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Pavilion REIT: 2QFY23 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	160.0	13.1%	2.3%	316.4	12.88%
Net Rental Income	101.0	21.5%	-1.1%	203.1	14.7%
Net Investment Income	103.5	22.8%	-1.2%	208.3	16.1%
Net Income	62.9	14.4%	-10.2%	132.9	10.6%
Core Net Income	62.9	14.4%	-10.2%	132.9	10.6%
Realised EPU (sen)	1.7	-4.3%	-24.7%	4.0	1.9%
Core EPU (sen)	1.7	-4.3%	-24.7%	4.0	1.9%
Gross DPU (sen)	4.4	8.1%	N/A	4.4	8.1%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Gross Revenue	489	570	650	744	763
Net Rental Income	237	364	438	530	543
Net Investment Income	241	522	449	543	558
Net Income	125	398	333	340	351
Core Net Income	126	246	333	340	351
Core EPU (sen)	4.1	8.1	8.2	8.4	8.6
Core PER (x)	29.5	15.1	14.9	14.6	14.1
NAV/unit (RM)	1.27	1.33	1.27	1.27	1.27
P/NAV (x)	0.96	0.92	0.96	0.96	0.96
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment Properties	5880	6045	8219	8212	8207
Total non-current assets	5881	6046	8221	8214	8209
Cash	312	333	387	475	531
Other Assets	46	105	95	53	147
Total Assets	6239	6483	8703	8743	8887
LT Borrowings	1778	1394	2694	2794	2914
ST Borrowings	395	800	820	723	750
Other Liability	207	229	335	383	393
Total Liability	2380	2423	3849	3900	4057
Unitholders' capital	2945	2952	3960	3968	3976
Other Equity	913	1108	894	874	854
Total Equity	3858	4060	4854	4842	4830
Equity + Liability	6239	6483	8703	8743	8887
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	125	216	333	340	350
Net cash from operating activities	195	362	484	536	519
Cash flows from investing activities					
Payment to enhance investment prop	-18	-14	-15	-15	-16
Net cash used in investing activities	-7	-8	-6	-4	-2
Cash flows from financing activities					
Net cash from/(used in) financing activities	-211	-274	-424	-445	-460
Net increase/(decrease) in cash and cash equivalents	-23	79	54	87	57
Cash and cash equivalent at 1 January	277	254	333	387	475
Cash and cash equivalent at 1 December	254	333	387	475	531
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Net Investment Income margin	49.3%	91.6%	69.1%	72.9%	73.2%
Core net income margin	25.8%	43.3%	51.2%	45.8%	46.0%
ROE	3.3%	6.2%	7.5%	7.0%	7.3%
ROA	2.0%	3.9%	4.4%	3.9%	4.0%

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology