

Pavilion REIT

(5212 | PREIT MK) Main | REIT

Earnings Driven by Pavilion Bukit Jalil


KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings below expectations**
- **Higher property expenses**
- **Earnings estimates revised downwards**
- **Maintain BUY with a revised TP of RM1.48**

9MFY23 earnings below our expectation. Pavilion REIT 9MFY23 core net earnings of RM203.5m came in within consensus expectation but below ours, making up 71% and 61% of consensus and our full year estimates respectively. The negative deviation could be due to higher than expected property operating expenses. Meanwhile, no distribution per unit (DPU) was announced in 3QFY23 due to its bi-annual distribution policy.

Higher property expenses. Sequentially, 3QFY23 core net income was higher at RM70.6m (+12.2%qoq), in line with higher gross revenue (+24.5%qoq). The higher earnings were mainly due to contribution from Pavilion Bukit Jalil which was acquired on 1st June 2023. Nevertheless, earnings growth was partly offset by higher property operating expenses (+32%qoq). The higher property operating expenses were due to expenses incurred for new property namely Pavilion Bukit Jalil and higher utilities expenses. On yearly basis, 3QFY23 core net income was higher (+15.4%yoy), bringing cumulative earnings in 9MFY23 higher at RM203.5m (+12.2%yoy). Despite higher earnings in 9MFY23, earnings per unit was flattish (+0.1%yoy) mainly due to dilutive impact from private placement.

Earnings estimates revised downwards. We revise our FY23F/24F/25F earnings forecast by -13.9%/-8.9%/-8.5% to factor in the higher property expenses. Nevertheless, earnings outlook for Pavilion REIT remains positive, mainly underpinning by to positive rental reversion outlook for Pavilion KL Mall. Shopper footfall at Pavilion KL Mall remains strong and should improve further going forward due to higher tourist arrival. Besides, contribution from Pavilion Bukit Jalil will also support earnings growth going forward.

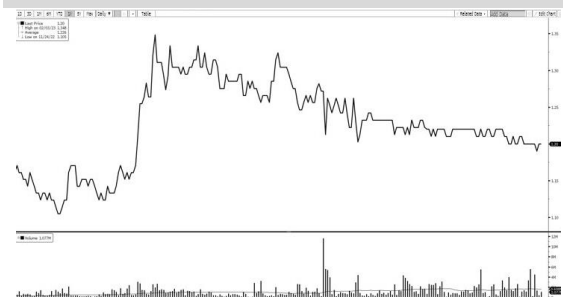
Maintain BUY with a revised TP of RM1.48. Corresponding to the downward revision in earnings and DPU forecast, our **TP** is revised to **RM1.48** from RM1.63. Our TP is based on Dividend Discount Model. We maintain our **BUY** call on Pavilion REIT as we think Pavilion KL Mall and Elite Pavilion Mall which are tourist hotspots will benefit from higher tourist arrival in 2024. We see that the improving shopper footfall will sustain positive rental reversion and underpin earnings growth going forward. Meanwhile, distribution yield is estimated at 6.3%. 

Maintain BUY
Revised Target Price: RM1.48
 (Previously RM1.63)

RETURN STATISTICS

Price @ 26 th Oct 2023 (RM)	1.20
Expected share price return (%)	23.3
Expected dividend yield (%)	6.3
Expected total return (%)	29.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	-1.7
3 months	-1.6	-1.7
12 months	-3.2	-2.3

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	708	763	786
Net Rental Income	450	501	517
Net Investment Income	461	513	528
Core Net Income	286	312	322
Core EPU (sen)	7.84	7.65	7.91
Net DPU (sen)	7.56	7.82	7.65
Dividend Yield	6.30%	6.52%	6.38%

KEY STATISTICS

FBM KLCI	1440.6
Issue shares (m)	3,055.72
Estimated free float (%)	21.14
Market Capitalisation (RM'm)	4,382
52-wk price range	RM1.18–RM1.4
3-mth average daily volume (m)	1.73
3-mth average daily value (RM'm)	2.09
Top Shareholders (%)	
Qatar Investment Authority	27.62
Lim Siew Choon	23.15
Employees Provident Fund Board	10.77
Kewi Yong Puan	7.72
KWAP	5.42

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Pavilion REIT: 3QFY23 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY23	%YoY	%QoQ	FY23	%YoY
Gross Revenue	199.2	38.7%	24.5%	515.6	21.63%
Net Rental Income	121.4	34.5%	20.1%	324.5	21.4%
Net Investment Income	124.4	34.9%	20.2%	332.7	22.4%
Net Income	70.6	15.4%	12.2%	203.5	12.2%
Core Net Income	70.6	15.4%	12.2%	203.5	12.2%
Realised EPU (sen)	1.9	-3.5%	12.1%	5.9	0.1%
Core EPU (sen)	1.9	-3.5%	12.1%	5.9	0.1%
Gross DPU (sen)	0.0	N/A	-100.0%	4.4	8.1%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Gross Revenue	489	570	708	763	786
Net Rental Income	237	364	450	501	517
Net Investment Income	241	522	461	513	528
Net Income	125	398	286	312	322
Core Net Income	126	246	286	312	322
Core EPU (sen)	4.1	8.1	7.8	7.7	7.9
Core PER (x)	29.0	14.9	15.3	15.7	15.2
NAV/unit (RM)	1.27	1.33	1.27	1.27	1.27
P/NAV (x)	0.95	0.90	0.94	0.94	0.94

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment Properties	5,880	6,045	8,219	8,212	8,207
Total non-current assets	5,881	6,046	8,221	8,214	8,209
Cash	312	333	361	343	318
Other Assets	46	105	149	169	330
Total Assets	6,239	6,483	8,730	8,726	8,857
LT Borrowings	1,778	1,394	2,694	2,794	2,914
ST Borrowings	395	800	820	723	750
Other Liability	207	229	365	393	405
Total Liability	2,380	2,423	3,879	3,910	4,069
Unitholders' capital	2,945	2,952	3,960	3,968	3,976
Other Equity	913	1,108	891	848	813
Total Equity	3,858	4,060	4,851	4,816	4,789
Equity + Liability	6,239	6,483	8,730	8,726	8,857

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	125	216	286	312	321
Net cash from operating activities	195	362	462	492	496
Cash flows from investing activities					
Payment to enhance investment prop	-18	-14	-15	-15	-16
Net cash used in investing activities	-7	-8	-6	-5	-7
Cash flows from financing activities					
Net cash from/(used in) financing activities	-211	-274	-429	-504	-514
Net increase/(decrease) in cash and cash equivalents	-23	79	28	-17	-25
Cash and cash equivalent at 1 January	277	254	333	361	343
Cash and cash equivalent at 1 December	254	333	361	343	318

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Net Investment Income margin	49.3%	91.6%	65.1%	67.3%	67.2%
Core net income margin	25.8%	43.3%	40.4%	40.9%	41.0%
ROE	3.3%	6.2%	6.4%	6.4%	6.7%
ROA	2.0%	3.9%	3.8%	3.6%	3.7%

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