

Pavilion REIT

(5212 | PREIT MK) Main | REIT

Ended FY23 on A Positive Note


KEY INVESTMENT HIGHLIGHTS

- **FY23 earnings within expectations**
- **Ended FY23 on a positive note**
- **Earnings estimates maintained**
- **Maintain BUY with an unchanged TP of RM1.48**

FY23 earnings within expectations. Pavilion REIT FY23 core net income of RM285.3m came in within expectations, making up 100% of ours and consensus estimates. Note that we have excluded fair value gain on investment properties in our core net income calculations. Meanwhile, Pavilion REIT announced distribution per unit (DPU) of 4.6sen in 4QFY23, bringing total DPU to 9.01sen in FY23 which translates into attractive gross yield of 7.3%.

Ended FY23 on a positive note. Sequentially, 4QFY23 core net income was higher at RM81.7m (+15.8%qoq), in line with higher topline (+4.5%qoq). The higher sequential earnings were mainly due to better contribution from Pavilion KL Mall and Elite Pavilion Mall as a result of year-end shopping spree. Besides, the earnings growth was also partly attributed to lower property operating expenses. On yearly basis, 4QFY23 core net income was higher (+25.7%yoy), bringing full year core earnings to RM285.3m (+15.8%yoy). The higher earnings were attributed to contribution from Pavilion Bukit Jalil which was acquired on 1st June 2023. Besides, earnings growth was also supported by positive rental reversion at Pavilion KL Mall and Elite Pavilion Mall which saw improvement in shopper footfall and tenant sales. Nevertheless, core earnings per unit (EPU) recorded marginal growth of 1.4% due to dilutive impact from private placement.

Earnings estimates maintained. We maintain our earnings forecast for FY24F/FY25F. We also introduce our earnings forecast for FY26F. We remain positive on earnings outlook for Pavilion REIT as we see that its Pavilion KL Mall and Elite Pavilion Mall will continue to benefit from higher tourist arrival. Besides, tenancy lease renewal of Pavilion Bukit Jalil by end of this year should record positive rental reversion as shopper footfall remains encouraging.

Maintain BUY with an unchanged TP of RM1.48. We maintain our **TP** for Pavilion REIT at **RM1.48**, based on Dividend Discount Model. We like Pavilion REIT as its flagship malls in KL will continue to benefit from higher tourist arrival. Rental reversion outlook for most of its malls is positive and hence will drive earnings growth in the near-term. Besides, net distribution yield is attractive at 6.5%. Hence, we maintain our **BUY** call on Pavilion REIT. 

Maintain BUY
Unchanged Target Price: RM1.48

RETURN STATISTICS

| | |
|--|--------------|
| Price @ 24 th Jan 2024 (RM) | 1.24 |
| Expected share price return (%) | +19.4 |
| Expected dividend yield (%) | +6.5 |
| Expected total return (%) | +25.9 |

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 | 2024E | 2024F | 2025F |
|-----------------------|-------|-------|-------|
| Revenue | 763 | 786 | 808 |
| Net Rental Income | 501 | 517 | 532 |
| Net Investment Income | 516 | 530 | 544 |
| Core Net Income | 310 | 321 | 335 |
| Core EPU (sen) | 7.61 | 7.89 | 8.23 |
| Net DPU (sen) | 8.15 | 8.10 | 8.19 |
| Dividend Yield | 6.5% | 6.5% | 6.6% |

KEY STATISTICS

| | |
|----------------------------------|--------------|
| FBM KLCI | 1504.10 |
| Issue shares (m) | 3,652.34 |
| Estimated free float (%) | 20.91 |
| Market Capitalisation (RM'm) | 4,528.90 |
| 52-wk price range | RM1.18–RM1.4 |
| 3-mth average daily volume (m) | 1.83 |
| 3-mth average daily value (RM'm) | 2.24 |
| Top Shareholders (%) | |
| Qatar Investment Authority | 27.62 |
| Lim Siew Choon | 23.15 |
| Employees Provident Fund Board | 10.99 |
| Kewi Yong Puan | 7.72 |
| KWAP | 5.42 |

Analyst

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Pavilion REIT: 4QFY23 Results Summary

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results | | | Cumulative | |
|---|-------------------|--------|--------|------------|--------|
| | 4QFY23 | %YoY | %QoQ | FY23 | %YoY |
| Gross Revenue | 208.2 | 42.8% | 4.5% | 723.8 | 27.05% |
| Net Rental Income | 134.6 | 39.0% | 11.0% | 459.1 | 26.1% |
| Net Investment Income | 284.4 | 13.6% | 128.6% | 617.1 | 18.2% |
| Net Income | 228.3 | 5.5% | 223.4% | 431.8 | 8.5% |
| Core Net Income | 81.7 | 25.7% | 15.8% | 285.3 | 15.8% |
| Realised EPU (sen) | 6.2 | -11.8% | 223.4% | 12.2 | -6.3% |
| Core EPU (sen) | 2.2 | 5.1% | 15.8% | 8.2 | 1.4% |
| Gross DPU (sen) | 4.6 | 7.2% | N/A | 9.0 | 7.6% |

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Gross Revenue | 570 | 724 | 763 | 786 | 808 |
| Net Rental Income | 364 | 459 | 501 | 517 | 532 |
| Net Investment Income | 522 | 617 | 516 | 530 | 544 |
| Net Income | 398 | 432 | 310 | 321 | 336 |
| Core Net Income | 246 | 285 | 310 | 321 | 335 |
| Core EPU (sen) | 8.1 | 7.8 | 7.6 | 7.9 | 8.2 |
| Core PER (x) | 15.4 | 15.9 | 16.3 | 15.7 | 15.1 |
| NAV/unit (RM) | 1.33 | 1.27 | 1.27 | 1.27 | 2.27 |
| P/NAV (x) | 0.93 | 0.98 | 0.98 | 0.98 | 0.55 |

| Balance Sheet (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Investment Properties | 6,045 | 8,390 | 8,405 | 8,421 | 8,439 |
| Total non-current assets | 6,046 | 8,393 | 8,407 | 8,423 | 8,441 |
| Cash | 333 | 456 | 430 | 405 | 353 |
| Other Assets | 105 | 150 | 95 | 211 | 215 |
| Total Assets | 6,483 | 8,998 | 8,932 | 9,039 | 9,009 |
| LT Borrowings | 1,394 | 3,291 | 3,390 | 3,457 | 3,388 |
| ST Borrowings | 800 | 100 | 235 | 270 | 330 |
| Other Liability | 229 | 676 | 393 | 405 | 416 |
| Total Liability | 2,423 | 4,067 | 4,017 | 4,132 | 4,135 |
| Unitholders' capital | 2,952 | 3,662 | 3,670 | 3,678 | 3,686 |
| Other Equity | 1,108 | 1,269 | 1,244 | 1,229 | 1,188 |
| Total Equity | 4,060 | 4,931 | 4,915 | 4,907 | 4,874 |
| Equity + Liability | 6,483 | 8,998 | 8,932 | 9,039 | 9,009 |

| Cash Flow (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash flows from operating activities | | | | | |
| Net income before taxation | 216 | 432 | 310 | 321 | 336 |
| Net cash from operating activities | 362 | 475 | 485 | 496 | 513 |
| Cash flows from investing activities | | | | | |
| Payment to enhance investment prop | -14 | -11 | -15 | -16 | -17 |
| Net cash used in investing activities | -8 | -1847 | -2 | -4 | -7 |
| Cash flows from financing activities | | | | | |
| Net cash from/(used in) financing activities | -274 | 1494 | -508 | -517 | -558 |
| Net increase/(decrease) in cash and cash equivalents | 79 | 123 | -25 | -25 | -52 |
| Cash and cash equivalent at 1 January | 254 | 333 | 456 | 430 | 405 |
| Cash and cash equivalent at 1 December | 333 | 456 | 430 | 405 | 353 |

| Profitability Margins | 2022A | 2023A | 2024E | 2025F | 2026F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| 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