

Pavilion REIT

(5212 | PREIT MK) Real Estate | Real Estate Investment Trust

Maintain NEUTRAL

Negatively impacted by the pandemic

Revised Target Price: RM1.73
(Previously RM1.71)

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 earnings below expectation**
- **NPI for all properties came down**
- **Earnings estimates cut by 41.5%/27.3% for FY20F/FY21F**
- **Maintain NEUTRAL with a revised TP of RM1.73**

1QFY20 earnings below expectation. Pavilion REIT's 1QFY20 core net income (CNI) of RM34.6m was below our and consensus' full year estimates at 12.6% and 13.8% respectively. The negative deviation was attributed to lower than expected revenue as well as higher than expected expenses. As expected, no dividend was announced for the quarter.

1QFY20 CNI plunged by 50%yoy to RM34.6m while revenue fell by -22.9%yoy to RM116.4m. This was mainly due to lower rental income as a result of the 14 days rent free period offered to non-essential services tenants during the Movement Control Order (MCO). The REIT manager also recorded lower income from percentage rent and advertising revenue. At the same time, operating expenses increased by +4% or RM1.9m compared to 1Q19 mainly due to the contribution of face masks to the Malaysian Government and higher promotional costs incurred for the Chinese New Year campaigns. 2QFY20 is expected to be more challenging due to the extended MCO period until May.

NPI for all properties came down. Net property income (NPI) for Pavilion KL Mall dropped by -34.5%yoy to RM56.4m, Elite Pavilion Mall NPI was down by -23.0%yoy to RM6.7m, Intermark Mall NPI was erased by -37.2%yoy to RM2.7m and Pavilion Tower declined by -34.0%yoy to RM1.3m. Meanwhile, DA MEN mall saw NPI slipping into the negative territory at -RM2.0m.

Challenging outlook ahead. We expect the challenging operating outlook to persist in the next few months. This is mainly due to the cautious consumer sentiment and a shift in spending habit. The REIT manager is committed in helping eligible tenants to navigate through the challenging business environment with sustainable initiatives. On top of that, savings from electricity bills will be passed on to eligible tenants. The outlook for Pavilion KL Mall's high-end retailers may be bleak due to consumers' tightened budget and possibility of cutting back on luxury spending. Entering recovery MCO, inter-state traveling is allowed but international traveling is still controlled. It is reported that circa 30% of the footfall in certain shopping centre in Bukit Bintang is made up of tourists. We believe that the high-end retail segment relies on tourist spending to a certain extent. However, local affluent shoppers may have to shop domestically due to travel restrictions, potentially cushioning the loss of demand from international tourists.

RETURN STATISTICS

Price @ 11 th June 2020 (RM)	1.66
Expected share price return (%)	4.2
Expected dividend yield (%)	3.8
Expected total return (%)	8.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.5	-9.2
3 months	5.1	-12.0
12 months	-7.8	-2.2


KEY STATISTICS

FBM KLCI	1,557.25
Syariah compliant	No
Issue shares (m)	3041.09
Estimated free float (%)	12.29
Market Capitalisation (RM'm)	5051.93
52-wk price range	RM1.35 - RM1.82
Beta vs FBM KLCI (x)	0.64
Monthly velocity (%)	0.00
Monthly volatility (%)	4.95
3-mth average daily volume (m)	0.93
3-mth average daily value (RM'm)	1.50
Top Shareholders (%)	
Qatar Investment Authority	33.15
Lim Siew Choon	27.78
Employees Provident Fund Board	9.49

Analyst(s)
Ng **BEI SHAN**
ng.bs@midf.com.my
03 -2173 8461

As for DA MEN mall, we expect the REIT manager to continue to focus on maintaining a decent occupancy rate. We expect challenges for DA MEN mall as retailers are likely to pull out from neighbourhood malls and focus on more popular malls. We also think that neighbourhood malls may not have strong negotiating power for a desirable rental rates if they choose to retain the tenants. Meanwhile, we expect operations at Intermark Mall to stabilize once most of the workforce return to their offices, thus creating natural footfall. Nonetheless, traffic will be affected by social distancing.

Earnings estimates cut by 41.5%/27.3% for FY20E/FY21F. We have lowered our rental reversion assumptions and occupancy rate assumptions as we take into consideration of the challenging retail brick-and-mortar business environment. Looking pass the next few quarters, we think that Pavilion KL Mall will regain its lost footfall from tourists when the pandemic improves as it is still a prime mall with exclusive and high-end tenant mix.

Maintain NEUTRAL with an adjusted TP of RM1.73 (previously RM1.71). We roll our base year to FY21 while our required rate of return is tweaked to 7.1% from 7.6% in-line with the lower MGS yield assumption. We expect near-term challenges to affect the REITs performance but looking pass that, we think that brick and mortar will still be a crucial format for luxury shopping such as that in Pavilion KL mall. We maintain our **NEUTRAL** recommendation due to the unexciting near-term outlook and limited upside to the unit price. Dividend yield is expected at 3.8%. 

INVESTMENT STATISTICS

FYE Dec (RM m)	FY17	FY18	FY19	FY20E	FY21F
Gross Revenue	490.0	555.0	585.4	495.3	552.4
Net Rental Income	322.9	374.8	375.2	281.0	330.2
Net Investment Income	348.4	419.3	401.5	289.3	337.3
Net Income	249.5	288.7	262.6	160.8	206.8
Core Net Income	232.5	255.1	247.6	160.8	206.8
Realised EPU (sen)	8.24	9.51	8.65	5.29	6.81
Core EPU (sen)	7.68	8.40	8.15	5.29	6.81
Gross DPU (sen)	7.93	8.78	8.50	5.54	7.05
Net DPU (sen)	7.13	7.90	7.65	4.98	6.35
Net Distribution Yield	4.3%	4.8%	4.6%	3.0%	3.8%
Core PER	21.6	19.8	20.4	31.4	24.4
NAV per unit	1.30	1.31	1.31	1.31	1.31
P/NAV	1.28	1.27	1.34	1.34	1.34
Core ROE	5.9%	7.2%	6.5%	4.2%	5.5%
Core ROA	4.1%	4.6%	4.0%	2.6%	3.4%

Source: Company, MIDFR

Pavilion REIT: 1QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY20	%YoY	%QoQ	3MFY20	%YoY
Gross Revenue	116.4	-22.9%	-20.2%	116.4	-22.9%
Net Rental Income	65.1	-35.8%	-28.6%	65.1	-35.8%
Net Investment Income	67.5	-35.4%	-38.0%	67.5	-35.4%
Net Income	34.6	-50.0%	-53.7%	34.6	-50.0%
Core Net Income	34.6	-50.0%	-42.1%	34.6	-50.0%
Realised EPU (sen)	1.14	-50.1%	-53.8%	1.14	-50.1%
Core EPU (sen)	1.14	-50.1%	-42.1%	1.14	-50.1%
Gross DPU (sen)	0.0	N.M.	N.M.	0.0	N.M.

Source: Company, 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.