

# Pavilion REIT

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

## Hopeful for silver lining ahead

### KEY INVESTMENT HIGHLIGHTS

- **1HFY20 earnings below expectation**
- **2QFY20 CNI plunged by 83.1%yoy to RM10.0m**
- **2HFY20 may fare better than 1HFY20**
- **Earnings estimates for FY20E revised further by -25%**
- **Upgrade to Trading Buy with an unchanged TP of RM1.73**

**1HFY20 earnings below expectation.** Pavilion REIT's 1HFY20 core net income (CNI) of RM44.6m was below our and consensus' full year estimates at 27.7% and 25.4% respectively. The negative deviation can be attributed to higher than expected rental rebates offered to its tenants. An interim dividend of 1.61sen was announced, representing more than 100% of payout ratio. The REIT manager proposed to pay 100% of its distributable income for FY20.

**2QFY20 CNI plunged by 83.1%yoy to RM10.0m** as revenue fell by -39.8%yoy to RM86.7m. This was mainly due to more rental rebates offered to some of its tenants. On the other hand, operating costs did not come down as much while other operating expenses increased by +20%. Interest income almost halved to RM1.5m. Compared to 1QFY20, revenue declined by -25.5%qoq while core net income (CNI) tumbled by -71.1%qoq.

**1HFY20 CNI was down by 24.7%yoy to RM44.6m** as revenue slid -41.0%yoy to RM203.1m. During the period, net property income (NPI) for Pavilion KL was down by -42.6%yoy to RM93.4m, Intermark Mall NPI -24.6% to RM5.5m and Pavilion Elite -59.8% to RM7.6m. DA MEN Mall NPI turned negative at -RM5.2m from RM0.02m a year ago.

**2HFY20 may fare better than 1HFY20.** Looking past the current quarter, which we think may be the trough if the Covid-19 situation in the country remains under control, we opine that the outlook in 2HFY20 should be brighter. Shopper traffic is understood to have recovered to about 60%-70% of pre-MCO level, with the rest being filled up by tourists previously. We think that occupancy rate at Pavilion KL should stabilise at around 95% due to its prime location and market position as premium lifestyle mall with a variety of major international brands. Sooner than expected reopening of international borders should lend some upside to Pavilion KL's shopper traffic as ~30% of its footfall are tourists.

**Earnings estimates for FY20E revised further by -25%.** We cut our FY20E forecast further to RM120.8m but we keep our FY21F CNI unchanged as we think that a gradual recovery in income is likely.

## Upgrade to TRADING BUY

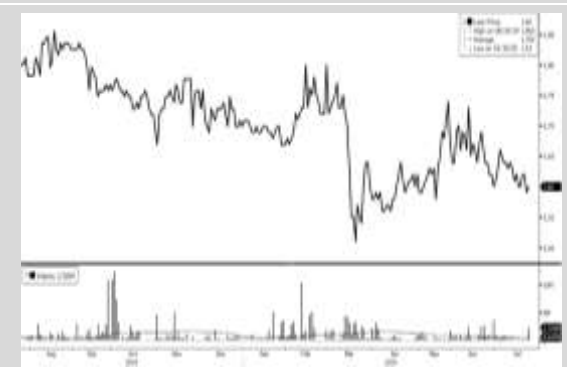
(Previously NEUTRAL)

**Unchanged Target Price: RM1.73**

### RETURN STATISTICS

Price @ 23 <sup>rd</sup> July 2020 (RM)	1.60
Expected share price return (%)	8.1
Expected dividend yield (%)	4.4
<b>Expected total return (%)</b>	<b>12.5</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-3.6	-9.6
3 months	0.0	-14.0
12 months	-14.9	-12.3

### KEY STATISTICS

FBM KLCI	1,606.42
Syariah compliant	No
Issue shares (m)	3,041.09
Estimated free float (%)	12.14
Market Capitalisation (RM'm)	4,869.33
52-wk price range	RM1.35-1.91
Beta vs FBM KLCI (x)	0.60
Monthly velocity (%)	11.02
Monthly volatility (%)	4.95
3-mth average daily volume (m)	0.61
3-mth average daily value (RM'm)	1.01
Top Shareholders (%)	
Qatar Investment Authority	35.63
Lim Siew Choon	27.82
Tan Kewi Yong	9.28

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**Upgrade to TRADING BUY with an unchanged TP of RM1.73.** We upgrade the stock to **TRADING BUY** from NEUTRAL previously as the correction has presented an opportunity for an upside to capital gain. Coupling that is management's commitment to pay out 100% of its distributable income for the year. We maintain our DDM valuation method and the required rate of return at 7.6%. Meanwhile, terminal growth rate is maintained at 2%. Dividend yield is estimated at 4.4%. 

## INVESTMENT STATISTICS

FYE Dec (RM m)	FY18	FY19	FY20E	FY21F	FY22F
Gross Revenue	555.0	585.4	495.3	552.4	628.4
Net Rental Income	374.8	375.2	281.0	330.2	397.4
Net Investment Income	419.3	401.5	289.3	337.4	404.9
Net Income	288.7	262.6	120.8	206.8	271.8
Core Net Income	255.1	247.6	120.8	206.8	271.8
Realised EPU (sen)	9.51	8.65	3.98	6.81	8.95
Core EPU (sen)	8.40	8.15	3.98	6.81	8.95
Gross DPU (sen)	8.78	8.50	4.22	7.05	9.19
Net DPU (sen)	7.90	7.65	3.80	6.35	8.27
Net Distribution Yield	4.9%	4.8%	2.4%	4.0%	5.2%
Core PER	19.0	19.6	40.2	23.5	17.9
NAV per unit	1.31	1.31	1.31	1.31	1.31
P/NAV	1.22	1.34	1.34	1.34	1.34
Core ROE	7.2%	6.5%	3.2%	5.5%	7.2%
Core ROA	4.6%	4.0%	2.0%	3.4%	4.4%

Source: Company, MIDFR

## Pavilion REIT: 2QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY20	%YoY	%QoQ	6MFY20	%YoY
Gross Revenue	86.7	-39.8%	-25%	203.1	40.95%
Net Rental Income	39.1	-57.2%	-40%	104.2	14.1%
Net Investment Income	40.6	-57.0%	-40%	108.1	14.5%
Net Income	10.0	-83.1%	-71%	44.6	-24.7%
Core Net Income	10.0	-83.1%	-71%	44.6	-24.7%
Realised EPU (sen)	0.3	-83.2%	-71%	1.5	-24.9%
Core EPU (sen)	0.3	-83.2%	-71%	1.5	-24.9%
Gross DPU (sen)	1.6	-63.4%	N.M.	1.6	-63.4%

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.