

Pavilion REIT

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

Maintain NEUTRAL

Earnings dragged by high property expenses

Unchanged Target Price: RM1.71


KEY INVESTMENT HIGHLIGHTS

- **FY19 earnings within expectation**
- **FY19 earnings weighed by high property expenses**
- **Earnings estimates maintained**
- **Maintain NEUTRAL with an unchanged TP of RM1.71**

FY19 earnings within our expectation. Pavilion REIT's FY19 core net income of RM247.6m came in within our expectation, making up 95% of our full year estimate. A DPU of 4.1sen was announced, bringing total DPU to 8.5sen in FY19 which is equivalent to gross distribution yield of 4.9%.

FY19 earnings weighed by high property expenses. FY19 core net income eased by 2.9%yoy to RM247.6m despite revenue grew 5.5%yoy, mainly owing to high property expenses. Note that property expenses increased by 12.3%yoy in FY19 due to expenses incurred for Pavilion Elite, higher electricity cost, and costs for repairing air conditioning system. Besides, higher marketing and promotional expenses also weighed on earnings. Overall, topline growth was spurred by Pavilion KL which saw its rental income grew 4.8% in FY19.

Earnings estimates maintained. We make no changes to our earnings forecasts. We expect rental income growth to mainly anchor by higher rental from Pavilion KL which should offset the lower contribution from Da:Men USJ. We also expect property expenses to normalize in FY20.

Maintain NEUTRAL with an unchanged TP of RM1.71. 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 4.8%. We maintain our Neutral stance as we believe that unit price upside is limited in the near-term. 

RETURN STATISTICS

Price @ 23 rd January 2020 (RM)	1.73
Expected share price return (%)	-1.2
Expected dividend yield (%)	4.8
Expected total return (%)	3.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.26	-0.41
3 months	-0.57	-3.56
12 months	0.00	7.57

KEY STATISTICS

FBM KLCI	1574.44
Syariah compliant	No
Issue shares (m)	3041.1
Estimated free float (%)	13.0
Market Capitalisation (RM'm)	5257.51
52-wk price range	RM1.68-RM1.92
Beta vs FBM KLCI (x)	0.6
Monthly velocity (%)	11.0
Monthly volatility (%)	4.9
3-mth average daily volume (m)	0.6
3-mth average daily value (RM'm)	1.11
Top Shareholders (%)	
Qatar Investment Authority	33.2
Lim Siew Choon	27.82
Tan Kewi Yong	9.28

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INVESTMENT STATISTICS

FYE Dec (RM m)	FY17	FY18	FY19	FY20F	FY21F
Gross Revenue	490.0	555.0	585.4	613.0	631.2
Net Rental Income	322.9	374.8	375.2	398.7	409.1
Net Investment Income	348.4	419.3	401.5	407.3	417.6
Net Income	249.5	288.7	262.6	275.3	284.7
Core Net Income	232.5	255.1	247.6	275.3	284.7
Realised EPU (sen)	8.24	9.51	8.65	9.06	9.37
Core EPU (sen)	7.68	8.40	8.15	9.06	9.37
Gross DPU (sen)	7.93	8.78	8.50	9.31	9.62
Net DPU (sen)	7.13	7.90	7.65	8.38	8.66
Net Distribution Yield	4.1%	4.6%	4.4%	4.8%	5.0%
Core PER	22.5	20.6	21.2	19.1	18.5
NAV per unit	1.30	1.31	1.31	1.31	1.31
P/NAV	1.33	1.32	1.34	1.34	1.34
Core ROE	5.9%	7.2%	6.5%	7.2%	7.5%
Core ROA	4.1%	4.6%	4.0%	4.5%	4.6%

Source: Company, MIDFR

Pavilion REIT: 4QFY19 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY19	%YoY	%QoQ	FY19	%YoY
Gross Revenue	146.0	-0.7%	1%	585.4	5.47%
Net Rental Income	91.2	-9.6%	0%	375.2	0.1%
Net Investment Income	108.8	-20.7%	16%	401.5	-4.2%
Net Income	74.7	-25.5%	26%	262.6	-9.0%
Core Net Income	59.7	-10.4%	0%	247.6	-2.9%
Realised EPU (sen)	2.5	-25.6%	26%	8.6	-9.1%
Core EPU (sen)	2.0	-10.5%	0%	8.2	-3.0%
Gross DPU (sen)	4.1	-7.7%	N.M.	8.5	-3.2%

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.