Pavilion REIT

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

***Maintain* BUY**

Strong earnings recovery

***Unchanged* Target Price: RM1.56**

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 earnings within expectations**
- **Strong earnings recovery**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.56**

1HFY22 earnings within expectations. Pavilion REIT's 1HFY22 core net income of RM120.2m came in within expectations, making up 53% and 54% of our and consensus full year estimates respectively. Distribution per unit of 4.08sen (ex-date: 10th Aug 2022) was announced for 1HFY22.

Strong earnings recovery. Sequentially, gross revenue was marginally higher (+2%qoq) due to higher rental income. Nevertheless, core net income was lower at RM55m (-15.7%qoq) due to higher utility cost and higher operating expenses. On yearly basis, 2QFY22 core net income surged to RM55m (+169.4%yoy), bringing 1HFY22 cumulative core net income to RM120.2m (+132.7%yoy). The strong earnings recovery was mainly due to lower rental assistance to tenants and recovery in rental income following improvement in shopper footfall. Notably, net profit income of Pavilion KL and Elite Pavilion Mall grew 57%yoy and 198%yoy respectively as footfall at the malls recovered strongly following reopening of all economic sectors.

Earnings forecast maintained. We maintain our earnings forecast for FY22/23F. We remain positive on earnings outlook for Pavilion REIT as rental income is expected to recover in FY22/23F following the recovery in shopper footfall and reopening of country borders. Besides, earnings outlook is also expected to underpin by improving rental reversion outlook as tenant sales improve.

Maintain BUY with an unchanged TP of RM1.56. We maintain our **TP** at **RM1.56**, based on Dividend Discount Model (DDM) valuation. We see shopper footfall of Pavilion KL and Elite Pavilion Mall should continue supported by reopening of economy and higher tourist arrival following reopening of country borders. That would translate into better rental reversion outlook and support earnings growth going forward. Hence, we maintain our **BUY** call on Pavilion REIT. Meanwhile, distribution yield is estimated at 5.2%.

RETURN STATISTICS	
Price @ 28 July 2022 (RM)	1.33
Expected share price return (%)	17.3
Expected dividend yield (%)	5.2
Expected total return (%)	22.5

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.5	-1.0
3 months	0.8	9.6
12 months	-3.6	-2.1

KEY STATISTICS	
FBM KLCI	1,491.20
Syariah compliant	No
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	3,050.06
Estimated free float (%)	11.47
Market Capitalisation (RM'm)	4,060.24
52-wk price range	RM1.19-1.44
Beta vs FBM KLCI (x)	0.48
Monthly velocity (%)	2.85
Monthly volatility (%)	10.21
3-mth average daily volume (m)	0.76
3-mth average daily value (RM'm)	1.02
Top Shareholders (%)	
Qatar Investment Authority	33.05
Lim Siew Choon	27.69
Employees Provident Fund Board	10.05
Tan Puan Kewi Yong	9.23
KWAP	6.07

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INVESTMENT STATISTICS

FYE Dec (RM m)	FY19	FY20	FY21	FY22F	FY22F
Gross Revenue	585.4	439.9	488.6	547.7	565.7
Net Rental Income	375.2	233.5	236.6	342.7	354.3
Net Investment Income	401.5	169.6	240.7	346.7	358.7
Net Income	262.6	46.3	112.9	227.3	237.4
Core Net Income	247.6	116.7	125.9	227.3	237.4
Realised EPU (sen)	8.65	1.52	3.71	7.46	7.80
Core EPU (sen)	8.15	3.83	4.13	7.46	7.80
Gross DPU (sen)	8.50	4.13	4.41	7.71	8.04
Net DPU (sen)	7.65	3.72	3.97	6.94	7.24
Net Distribution Yield	5.8%	2.8%	3.0%	5.2%	5.4%
Core PER	16.3	34.7	32.2	17.8	17.1
NAV per unit	1.31	1.31	1.31	1.31	1.31
P/NAV	1.34	1.34	1.34	1.34	1.34
Core ROE	6.5%	3.0%	3.3%	6.2%	6.5%
Core ROA	4.0%	1.9%	2.1%	3.8%	3.9%

Source: Company, MIDFR

Pavilion REIT: 2QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY22	%YoY	%QoQ	FY22	%YoY
Gross Revenue	141.5	13.4%	2.0%	280.3	11.66%
Net Rental Income	83.1	74.5%	-11.6%	177.1	66.3%
Net Investment Income	84.3	72.7%	-11.5%	179.5	64.8%
Net Income	55.0	169.4%	-15.7%	120.2	132.7%
Core Net Income	55.0	169.4%	-15.7%	120.2	132.7%
Realised EPU (sen)	1.8	168.9%	-15.7%	3.9	132.3%
Core EPU (sen)	1.8	168.9%	-15.7%	3.9	132.3%
Gross DPU (sen)	4.1	123.0%	N.M.	4.1	123.0%

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 *rise* 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 *fall* 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