Pavilion REIT

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

***Maintain* BUY**

Solid earnings

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

KEY INVESTMENT HIGHLIGHTS

- **9MFY22 earnings within expectations**
- **Solid earnings in 9MFY22**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.56**

9MFY22 earnings within expectations. Pavilion REIT's 9MFY22 core net income of RM181.4m came in within expectations, making up 80% of our and consensus full year estimates. As expected, no distribution per unit (DPU) was announced for 3QFY22 due to its bi-annual distribution policy.

Solid earnings in 9MFY22. Sequentially, 3QFY22 core net income was higher at RM61.2m (+11.3%qoq) mainly due to higher rental revenue and lower rental rebate to tenants which cushioned the higher maintenance expenses and higher borrowing cost. On yearly basis, 3QFY22 core net income tripled to RM61.2m, bringing 9MFY22 core net income to RM181.4m (+153.1%yoy). The solid earnings growth was underpinned by recovery in retail backdrop following reopening of economy. Rental income recovered due to lower rental assistance to tenants and higher shopper footfall. Pavilion KL and Elite Pavilion Mall recorded strong recovery in net property income of +62.9%yoy and +235%yoy due to higher footfall and higher tourist arrival.

Earnings forecast maintained. We make no changes to our earnings forecast for FY22/23F. We expect earnings of Pavilion REIT to remain strong in the coming quarters due to improving rental reversion outlook. We estimate rental reversion to return to positive territory due to recovery in shopper footfall and improving tenant sales.

Maintain BUY with an unchanged TP of RM1.56. We maintain our **TP** at **RM1.56**, based on Dividend Discount Model (DDM) valuation. We maintain our **BUY** call on Pavilion REIT as its retail assets particularly Pavilion KL, Elite Pavilion Mall and Intermark mall should continue to post earnings growth going forward due to improving rental reversion outlook in FY23. Meanwhile, distribution yield is estimated at 5.6%.

RETURN STATISTICS	
Price @ 27 October 2022 (RM)	1.25
Expected share price return (%)	24.8
Expected dividend yield (%)	5.6
Expected total return (%)	30.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	-2.2
3 months	-0.8	-4.3
12 months	-12.0	-4.2

KEY STATISTICS	
FBM KLCI	1,454.09
Syariah compliant	No
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	3,050.06
Estimated free float (%)	11.54
Market Capitalisation (RM'm)	3,819
52-wk price range	RM1.19-1.44
Beta vs FBM KLCI (x)	0.49
3-mth average daily volume (m)	0.33
3-mth average daily value (RM'm)	0.43
Top Shareholders (%)	
Qatar Investment Authority	33.02
Lim Siew Choon	27.67
Employees Provident Fund Board	10.06
Tan Puan Kewi Yong	9.22
KWAP	6.05

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INVESTMENT STATISTICS

FYE Dec (RM m)	FY19	FY20	FY21	FY22F	FY23F
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	6.1%	3.0%	3.2%	5.6%	5.8%
Core PER	15.3	32.6	30.2	16.7	16.0
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: 3QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY22	%YoY	%QoQ	FY22	%YoY
Gross Revenue	143.6	26.7%	1.5%	423.9	16.35%
Net Rental Income	90.2	90.1%	8.6%	267.3	73.7%
Net Investment Income	92.2	89.6%	9.4%	271.7	72.5%
Net Income	61.2	205.7%	11.3%	181.4	153.1%
Core Net Income	61.2	205.7%	11.3%	181.4	153.1%
Realised EPU (sen)	2.0	204.9%	11.2%	5.9	152.6%
Core EPU (sen)	2.0	204.9%	11.2%	5.9	152.6%
Gross DPU (sen)	0.0	N/A	N/A	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