Corporate Update| Wednesday, 23 November 2022

Pavilion REIT

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

***Maintain* BUY**

Acquisition of Pavilion Bukit Jalil

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

KEY INVESTMENT HIGHLIGHTS

- **Acquisition of Pavilion Bukit Jalil**
- **Neutral on the acquisition**
- **Earnings accretive**
- **Maintain BUY with an unchanged TP of RM1.56**

Acquisition of Pavilion Bukit Jalil. Pavilion REIT announced that it has entered into a conditional sale and purchase agreement (SPA) with Regal Path Sdn Bhd for the acquisition of Pavilion Bukit Jalil for an aggregate purchase consideration of RM2.2b. Pavilion REIT also proposed private placement of Pavilion REIT units in two tranches to raise up to RM1.27b to fund the acquisition. The proposed acquisition is expected to complete in 2QCY23.

Neutral on the acquisition. Pavilion Bukit Jalil is a shopping mall located at Bukit Jalil. The mall was completed in 2021 with NLA of 1.8m square feet and 78% occupancy rate. The acquisition price of RM2.2b is close to the latest audited net book value of RM2.18b. We are neutral on the asset acquisition as it is in line with Pavilion REIT's strategy to expand retail asset portfolio. Meanwhile, gross acquisition yield is estimated at >7% which we deemed attractive as SPA is conditional upon at least 80% of the NLA of Pavilion Bukit Jalil have commenced rental billing with monthly rental rate of not less than RM9.50 per square feet. Note that balance purchase consideration of RM400m to be paid subject to Pavilion Bukit Jalil achieved a net property income of at least RM146m on an annualized basis.

Earnings accretive. Purchase consideration of RM2.2b is expected to fund by RM1.27b proceed raised from private placement and bank borrowings/internally generated funds. Assuming Pavilion REIT raised RM1b bank borrowings to fund the acquisition, gearing of Pavilion REIT is expected to increase to 0.38x from 0.35x. Meanwhile, the acquisition is expected to be earnings and EPU accretive. We estimate FY23 earnings and EPU to increase by 37.9% and 3.3% on annualized basis post acquisition and private placement.

Maintain BUY with an unchanged TP of RM1.56. We make no changes to our earnings forecast for FY22/23F pending completion of the acquisition and private placement. We maintain our **TP** at **RM1.56**, based on Dividend Discount Model (DDM) valuation. We maintain our **BUY** call on Pavilion REIT as we see improving outlook for its retail assets namely Pavilion KL, Elite Pavilion Mall and Intermark mall following reopening of economy which support recovery in shopper footfall. Meanwhile, distribution yield is estimated at 5.8%.

RETURN STATISTICS	
Price @ 22 November 2022 (RM)	1.20
Expected share price return (%)	30.0
Expected dividend yield (%)	5.8
Expected total return (%)	35.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.2	-2.9
3 months	-4.8	-5.8
12 months	-8.4	-3.2

KEY STATISTICS	
FBM KLCI	1,441.29
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)	3,666.87
52-wk price range	RM1.19-1.41
Beta vs FBM KLCI (x)	0.42
3-mth average daily volume (m)	0.36
3-mth average daily value (RM'm)	0.45
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	6.4%	3.1%	3.3%	5.8%	6.0%
Core PER	14.7	31.3	29.0	16.1	15.4
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

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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