Pavilion REIT

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

Maintain BUY

Positive outlook

***Revised* Target Price: RM1.63**

Previously RM1.56

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings slightly above our expectation**
- **Strong earnings recovery**
- **Earnings forecast revised upwards**
- **Maintain BUY with a revised TP of RM1.63**

FY22 earnings slightly above our expectation. Pavilion REIT's FY22 core net income of RM246.4m came in within consensus expectation but slightly above ours, making up 105% and 108% of consensus and our estimates respectively. The positive deviation could be attributed to the lower than maintenance expenses in 4QFY22. Meanwhile, distribution per unit (DPU) of 4.29sen was announced for 4QFY22, bringing total DPU to 8.37sen in FY22 and translates into gross yield of 6.2%.

Strong earnings recovery. Sequentially, 4QFY22 core net income was higher at RM65m (+6.3%qoq) mainly due to lower maintenance expenses (-26%qoq). On yearly basis, 4QFY22 core net income grew to RM65m (+20%yoy), bringing cumulative core net income to RM246.4 (+95.8%yoy) in FY22. The earnings recovery in FY22 were mainly underpinned by recovery in rental income from its shopping mall following reopening of economy and international borders. Notably, net property income (NPI) of Pavilion KL Mall jumped to RM233.2m (+62.9%yoy) while NPI of Elite Pavilion Mall surged to RM30.3m (+234%yoy) due to higher footfall and higher tourist arrival.

Earnings forecast revised upwards. We revise our FY23F core net earnings and EPU forecast by +40%% and +4.7% respectively after factoring in the lower maintenance expenses and contribution from Pavilion Bukit Jalil as well as placement exercise. We expect Pavilion Bukit Jalil to contribute positively to FY23 earnings post completion of acquisition. Meanwhile, we expect positive earnings outlook for Pavilion REIT as rental reversion is anticipated to be in positive territory.

Maintain BUY with a revised TP of RM1.63. Corresponding to the upward revision in earnings, our **TP** is revised from RM1.56 to **RM1.63**. Our TP is based on Dividend Discount Model (DDM) valuation. We continue to see positive earnings outlook for Pavilion REIT as the higher tourist arrival particularly from China is expected to increase shopper footfall and improve tenant sales at Pavilion KL Mall and Elite Pavilion Mall. Hence, we maintain our **BUY** call on Pavilion REIT. Meanwhile, net distribution yield is estimated at 5.7%.

RETURN STATISTICS	
Price @ 31 January 2023 (RM)	1.35
Expected share price return (%)	20.7
Expected dividend yield (%)	5.7
Expected total return (%)	26.4

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	11.6	11.5
3 months	11.6	5.3
12 months	7.1	8.8

KEY STATISTICS	
FBM KLCI	1,485.50
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)	4,125
52-wk price range	RM1.18-1.41
Beta vs FBM KLCI (x)	0.35
3-mth average daily volume (m)	0.81
3-mth average daily value (RM'm)	1.00
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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Pavilion REIT: 4QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY22	%YoY	%QoQ	FY22	%YoY
Gross Revenue	145.8	17.3%	1.5%	569.7	16.60%
Net Rental Income	96.9	17.2%	7.4%	364.2	53.9%
Net Investment Income	250.4	201.2%	171.5%	522.1	116.9%
Net Income	216.4	304.0%	253.8%	397.8	217.6%
Core Net Income	65.0	20.0%	6.3%	246.4	95.8%
Realised EPU (sen)	7.1	303.0%	253.8%	13.0	216.9%
Core EPU (sen)	2.1	19.7%	6.3%	8.1	95.4%
Gross DPU (sen)	4.3	66.3%	N/A	8.4	89.8%

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Gross Revenue	488.6	569.7	649.7	744.2	763.3
Net Rental Income	236.6	364.2	438.2	529.8	542.8
Net Investment Income	240.7	522.1	449.2	542.6	558.5
Net Income	125.2	397.8	332.8	340.5	351.3
Core Net Income	125.9	246.4	332.8	340.5	351.3
Realised EPU (sen)	4.11	13.02	8.17	8.36	8.63
Core EPU (sen)	4.13	8.06	8.17	8.36	8.63
Gross DPU (sen)	4.41	8.37	8.60	8.54	8.83
Net DPU (sen)	3.97	7.53	7.74	7.82	7.95
Net Distribution Yield	2.9%	5.6%	5.7%	5.8%	5.9%
Core PER	32.7	16.7	16.5	16.1	15.6
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	3.3%	6.2%	7.5%	7.0%	7.3%
Core ROA	2.0%	3.9%	4.4%	3.9%	4.0%

Source: Company, MIDFR

Pavilion REIT: Balance Sheet

FY Dec (RM m)	2021	2022	2023F	2024F	2025F
Investment Properties	5880	6045	8219	8212	8207
Total non-current assets	**5881**	**6046**	**8221**	**8214**	**8209**
Cash	312	333	387	475	531
Other Assets	46	105	95	53	147
Total Assets	**6239**	**6483**	**8703**	**8743**	**8887**
LT Borrowings	1778	1394	2694	2794	2914
ST Borrowings	395	800	820	723	750
Other Liability	207	229	335	383	393
Total Liability	**2380**	**2423**	**3849**	**3900**	**4057**
Unitholders' capital	2945	2952	3960	3968	3976
Other Equity	913	1108	894	874	854
Total Equity	**3858**	**4060**	**4854**	**4842**	**4830**
Equity + Liability	**6239**	**6483**	**8703**	**8743**	**8887**

Source: Company, MIDFR

Pavilion REIT: Cash Flow Statement

FY Dec (RM m)	2021	2022	2023F	2024F	2025F
Cash flows from operating activities					
Net income before taxation	125	216	333	340	350
Net cash from operating activities	195	362	484	536	519
Cash flows from investing activities					
Payment to enhance investment prop	-18	-14	-15	-15	-16
Net cash used in investing activities	-7	-8	-6	-4	-2
Cash flows from financing activities					
Net cash from/(used in) financing activities	**-211**	**-274**	**-424**	**-445**	**-460**
Net increase/(decrease) in cash and cash equivalents	-23	79	54	87	57
Cash and cash equivalent at 1 January	277	254	333	387	475
Cash and cash equivalent at 1 December	254	333	387	475	531

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