Pavilion REIT

(5212 | PREIT MK) Main | REIT

Strong Performance of Pavilion KL Mall

***Maintain* BUY**

***Unchanged* Target Price: RM1.63**

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings within expectations**
- **Strong performance of Pavilion KL Mall**
- **Earnings estimates maintained**
- **Maintain BUY with an unchanged TP of RM1.63**

RETURN STATISTICS	
Price @ 20th April 2023 (RM)	1.30
Expected share price return (%)	25.4
Expected dividend yield (%)	6.0
Expected total return (%)	**31.4**

1QFY23 earnings within expectations. Pavilion REIT 1QFY23 core net income of RM70.1m came in within expectations, making up 21% and 25% of our and consensus full year estimates respectively. No distribution per unit (DPU) was announced in 1QFY23 due to its bi-annual distribution policy.

Strong performance of Pavilion KL Mall. Sequentially, 1QFY23 core net income was higher at RM70.1m (+7.7%qoq) in line with higher topline (+7.3%qoq). The higher sequential earnings were driven mainly by higher income contribution from Pavilion KL Mall. Note that net property income of Pavilion KL Mall was higher at RM91.4m (+10%qoq). That offset the higher maintenance and other operating expenses in 1QFY23. On yearly basis, 1QFY23 core net income grew by 7.4%yoy mainly due to higher rental income from Pavilion KL Mall. Nevertheless, earnings growth was partly dragged by higher utilities expenses (+27.6%yoy) and higher borrowings cost (+19%yoy). The higher utilities expenses were due to increase of electricity tariff surcharge by government while the higher borrowings cost was due to increase in financing cost following OPR hikes in 2022.

Earnings estimates maintained. We make no changes to our earnings forecast for FY23F/24F/25F. We see better earnings outlook for Pavilion REIT as its flagship Pavilion KL mall which is a tourist hotspot will benefit from higher tourist arrival. That will support tenant sales growth and positive rental reversion outlook. Besides, earnings outlook will also support by acquisition of Pavilion Bukit Jalil.

Maintain BUY with unchanged TP of RM1.63. We maintain our **TP** for Pavilion REIT at **RM1.63**, based on Dividend Discount Model. We remain positive on Pavilion REIT as shopper footfall at Pavilion KL Mall and Elite Pavilion Mall is expected to recover further due to higher tourist arrival. That will underpin positive earnings outlook going forward. Hence, we maintain our **BUY** call on Pavilion REIT. Meanwhile, distribution yield is estimated at 6%.

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.3	-3.3
3 months	-3.0	2.4
12 months	2.4	15.0

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	650	744	763
Net Rental Income	438	530	543
Net Investment Income	449	543	558
Core Net Income	333	340	351
Core EPU (sen)	8.17	8.36	8.63
Net DPU (sen)	7.74	7.82	7.95
Dividend Yield	5.95%	6.02%	6.12%

KEY STATISTICS	
FBM KLCI	1422.11
Issue shares (m)	3,055.72
Estimated free float (%)	9.20
Market Capitalisation (RM'm)	3,976.38
52-wk price range	RM1.18–RM1.5
3-mth average daily volume (m)	0.96
3-mth average daily value (RM'm)	1.30
Top Shareholders (%)	
Qatar Investment Authority	32.98
Lim Siew Choon	27.64
Employees Provident Fund Board	9.93
Kewi Yong Puan	9.22
KWAP	6.03

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Pavilion REIT: 1QFY23 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY23	*%YoY*	*%QoQ*	FY23	*%YoY*
Gross Revenue	156.4	*12.7%*	*7.3%*	156.4	*12.71%*
Net Rental Income	102.1	*8.6%*	*5.4%*	102.1	*8.6%*
Net Investment Income	104.8	*10.1%*	*-58.1%*	104.8	*10.1%*
Net Income	70.1	*7.4%*	*-67.6%*	70.1	*7.4%*
Core Net Income	70.1	*7.4%*	*7.7%*	70.1	*7.4%*
Realised EPU (sen)	2.3	*7.2%*	*-67.7%*	2.3	*7.2%*
Core EPU (sen)	2.3	*7.2%*	*7.6%*	2.3	*7.2%*
Gross DPU (sen)	0.0	*N/A*	*N/A*	0.0	*N/A*

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Gross Revenue	489	570	650	744	763
Net Rental Income	237	364	438	530	543
Net Investment Income	241	522	449	543	558
Net Income	125	398	333	340	351
Core Net Income	126	246	333	340	351
Core EPU (sen)	4.1	8.1	8.2	8.4	8.6
Core PER (x)	31.5	16.1	15.9	15.5	15.1
NAV/unit (RM)	1.27	1.33	1.27	1.27	1.27
P/NAV (x)	1.03	0.98	1.02	1.02	1.02

Balance Sheet (RM'm)	2021A	2022A	2023E	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**

Cash Flow (RM'm)	2021A	2022A	2023E	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

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Net Investment Income margin	49.3%	91.6%	69.1%	72.9%	73.2%
Core net income margin	25.8%	43.3%	51.2%	45.8%	46.0%
ROE	3.3%	6.2%	7.5%	7.0%	7.3%
ROA	2.0%	3.9%	4.4%	3.9%	4.0%

Source: Bloomberg, 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