

Pavilion REIT

(5212 | PREIT MK) Main | REIT

Maintain BUY

Acquisitions of Banyan Tree KL and Pavilion Hotel KL

Unchanged Target Price: RM1.69

KEY INVESTMENT HIGHLIGHTS

- **Acquisitions of Banyan Tree KL and Pavilion Hotel KL**
- **Private placement to fund the acquisitions**
- **Diversification into hotel segment**
- **Earnings accretive but EPU will be diluted post placement**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.69**

Acquisitions of Banyan Tree KL and Pavilion Hotel KL. Pavilion REIT announced that it has entered into a conditional sale and purchase agreement for the acquisition of Banyan Tree KL for RM140m and Pavilion Hotel KL for RM340m. That brought total purchase consideration to RM480m. Pavilion REIT also proposed to undertake placement of new units in Pavilion REIT to raise gross proceeds of a minimum RM264m and a maximum of RM552m at an issue price to be determined by way of bookbuilding. Pavilion REIT also proposed issuance of consideration units in Pavilion REIT to part settle RM246.5m of the purchase consideration in the event Pavilion REIT elects not to implement the proposed placement.

Diversification into hotel segment. The proposed acquisitions of Banyan Tree KL and Pavilion Hotel KL mark the diversification of Pavilion REIT asset portfolio into hotel segment. Note that 99% of net property income of Pavilion REIT was contributed by retail assets. We view the diversification into hotel segment positively considering the recovery of hotel industry in Malaysia which is driven by higher tourist arrivals. Both Banyan Tree KL and Pavilion Hotel KL are five-star hotels with decent occupancy rates of 83% and 82% respectively. The proposed leases of the hotels are for a term of 10 years with an option to renew them for a term of 10 years. The fixed annual rental payments for the hotels are RM33.5m, translating into a gross yield of 7% which is deemed attractive.

Gearing based on different scenarios. Gearing of Pavilion REIT is expected to remain at 0.42x post-acquisition assuming issuance of consideration units in Pavilion REIT to vendors while the remaining purchase consideration to be funded via bank borrowings. On the other hand, gearing is expected to reduce to 0.39x from 0.42x based on scenario of placement of shares (maximum placement scenario of 386m shares issue at illustrative issue price of RM1.43 per unit) as Pavilion REIT earmarked RM80m from placement proceeds for bank borrowings aside from utilising the proceeds for the acquisitions. Meanwhile, under scenario of minimum placement (184.6m shares issue at illustrative issue price of RM1.43 per unit) gearing of Pavilion REIT is expected to remain flattish at 0.42x.

RETURN STATISTICS

| | |
|---------------------------------------|-------|
| Price @ 5 th Dec 2024 (RM) | 1.51 |
| Expected share price return (%) | +11.9 |
| Expected dividend yield (%) | +5.4 |
| Expected total return (%) | +17.3 |

SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month | -0.7 | 0.5 |
| 3 months | 4.9 | 8.0 |
| 12 months | 26.9 | 13.6 |

INVESTMENT STATISTICS


| FYE Dec | 2024E | 2024F | 2025F |
|-----------------------|-------|-------|-------|
| Revenue | 763 | 786 | 808 |
| Net Rental Income | 501 | 517 | 532 |
| Net Investment Income | 516 | 530 | 544 |
| Core Net Income | 310 | 321 | 335 |
| Core EPU (sen) | 7.61 | 7.89 | 8.23 |
| Net DPU (sen) | 8.15 | 8.19 | 8.24 |
| Dividend Yield | 5.4% | 5.4% | 5.5% |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,615.64 |
| Issue shares (m) | 3,652 |
| Estimated free float (%) | 31.94 |
| Market Capitalisation (RM'm) | 5,527 |
| 52-wk price range | RM1.17-RM1.59 |
| 3-mth average daily volume (m) | 2.03 |
| 3-mth average daily value (RM'm) | 3.02 |
| Top Shareholders (%) | |
| Qatar Investment Authority | |
| Lim Siew Choon | 27.56 |
| Employees Provident Fund Board | 23.09 |
| Puan Yong Kewi | 12.41 |

Analyst

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Maintain BUY with an unchanged TP of RM1.69. The acquisition is earnings accretive as earnings contribution from Banyan Tree KL and Pavilion Hotel KL are expected to lift FY26 earnings by 10.6%. Nevertheless, earnings per unit (EPU) is expected to dilute by ~9% post placement of shares (based on maximum scenario). Nevertheless, we maintain our earnings forecast pending completion of the acquisitions. We also maintain our **TP** for Pavilion REIT at **RM1.69**, based on Dividend Discount Model. We maintain our **BUY** call on Pavilion REIT as we continue to see better earnings outlook for Pavilion REIT, driven by stable contribution from Pavilion KL Mall on the back of positive rental reversion and strong shopper footfall. Besides, the growing contribution from Pavilion Bukit Jalil provides upside to the earnings growth. Meanwhile, net distribution yield remains attractive at 5.4%. 

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Gross Revenue | 570 | 724 | 763 | 786 | 808 |
| Net Rental Income | 364 | 459 | 501 | 517 | 532 |
| Net Investment Income | 522 | 617 | 516 | 530 | 544 |
| Net Income | 398 | 432 | 310 | 321 | 336 |
| Core Net Income | 246 | 285 | 310 | 321 | 335 |
| Core EPU (sen) | 8.1 | 7.8 | 7.6 | 7.9 | 8.2 |
| Core PER (x) | 18.7 | 19.3 | 19.8 | 19.1 | 18.3 |
| NAV/unit (RM) | 1.33 | 1.27 | 1.27 | 1.27 | 2.27 |
| P/NAV (x) | 1.14 | 1.19 | 1.19 | 1.19 | 0.67 |

| Balance Sheet (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Investment Properties | 6,045 | 8,390 | 8,405 | 8,421 | 8,439 |
| Total non-current assets | 6,046 | 8,393 | 8,407 | 8,423 | 8,441 |
| Cash | 333 | 456 | 430 | 405 | 353 |
| Other Assets | 105 | 150 | 95 | 211 | 215 |
| Total Assets | 6,483 | 8,998 | 8,932 | 9,039 | 9,009 |
| LT Borrowings | 1,394 | 3,291 | 3,390 | 3,457 | 3,388 |
| ST Borrowings | 800 | 100 | 235 | 270 | 330 |
| Other Liability | 229 | 676 | 393 | 405 | 416 |
| Total Liability | 2,423 | 4,067 | 4,017 | 4,132 | 4,135 |
| Unitholders' capital | 2,952 | 3,662 | 3,670 | 3,678 | 3,686 |
| Other Equity | 1,108 | 1,269 | 1,244 | 1,229 | 1,188 |
| Total Equity | 4,060 | 4,931 | 4,915 | 4,907 | 4,874 |
| Equity + Liability | 6,483 | 8,998 | 8,932 | 9,039 | 9,009 |

| Cash Flow (RM'm) | 2022A | 2023A | 2024E | 2025F | 2026F |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash flows from operating activities | | | | | |
| Net income before taxation | 216 | 432 | 310 | 321 | 336 |
| Net cash from operating activities | 362 | 475 | 485 | 496 | 513 |
| Cash flows from investing activities | | | | | |
| Payment to enhance investment prop | -14 | -11 | -15 | -16 | -17 |
| Net cash used in investing activities | -8 | -1847 | -2 | -4 | -7 |
| Cash flows from financing activities | | | | | |
| Net cash from/(used in) financing activities | -274 | 1494 | -508 | -517 | -558 |
| Net increase/(decrease) in cash and cash equivalents | 79 | 123 | -25 | -25 | -52 |
| Cash and cash equivalent at 1 January | 254 | 333 | 456 | 430 | 405 |
| Cash and cash equivalent at 1 December | 333 | 456 | 430 | 405 | 353 |

| Profitability Margins | 2022A | 2023A | 2024E | 2025F | 2026F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Investment Income margin | 49.3% | 91.6% | 65.1% | 67.3% | 67.2% |
| Core net income margin | 25.8% | 43.3% | 40.4% | 40.9% | 41.0% |
| ROE | 3.3% | 6.2% | 6.4% | 6.4% | 6.7% |
| ROA | 2.0% | 3.9% | 3.8% | 3.6% | 3.7% |

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 <i>rise</i> 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 <i>fall</i> 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