

30 April 2021

# Pavilion REIT

## 1QFY21 Broadly Within

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1QFY21 realised net income (RNI) of RM31.3m came in broadly within our and consensus expectations, at 18% and 17%, respectively. We expect to see a rebound pick-up in tenant sales with the opening up of the economy. No dividends, as expected. Maintain FY21-22E CNP of RM177-200m. Maintain MARKET PERFORM with a slightly higher TP of RM1.40 (from RM1.30) as we roll forward the valuation base to FY22E. Our valuations are slightly conservative given the fluidity of the Covid-19 situation, especially in the near term.

1QFY21 realised net income (RNI) of RM31.3m came in broadly within our and consensus expectations, at 18% and 17%, respectively, as we expect 2HFY21 to see a pick-up in rental income and tenant sales with the opening up of the economy and roll-out of Covid-19 vaccinations. No dividend, as expected.

**Results' highlights.** YoY, top-line was down by 6% on weakness from all assets due to MCO 2.0 from 13<sup>th</sup> Jan to 4<sup>th</sup> March 2021, while MCO 1.0 in FY20 only began in mid-March 2020 which affected tenants and occupancy. All in, RNI was down by 10%. QoQ, top-line was down by 4% due to similar reasons mentioned above, while operating cost was higher due to steeper operating expenses (+8%) resulting in RNI declining by 22%. Gearing remained stable at 0.35x.

**Outlook.** FY21 will see up to 20% of portfolio NLA expiring. We had expected 1QFY21 to be challenging due to MCO 2.0 amid the pandemic. Going forward, we expect to see improvements in 2HFY21 with potential easing of MCO amid proper vaccine roll-outs with noticeable pick-up in footfalls as shoppers adapt to the new normal.

**Maintain FY21-22E CNP of RM177-200m** on mildly negative reversions in FY21, and positive low single-digit reversions in FY22 from potential absence of rental rebates on assumption that the Covid-19 situation would be resolved by then. Our FY21-22E GDPU of 6.1-6.9 sen (NDPU of 5.5-6.2 sen) imply gross yield of 4.4-4.9% (net yield of 3.9-4.4%).

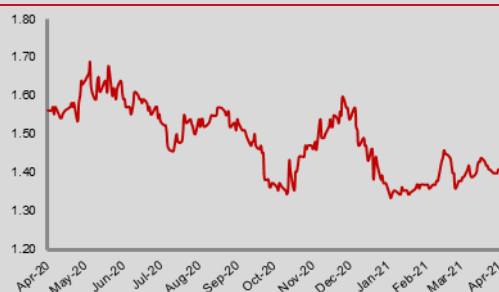
**Maintain MARKET PERFORM on a slightly higher TP of RM1.40 (from RM1.30).** Our TP is higher as we roll forward our valuations to FY22E GDPS/NDPS of 6.9 sen/ 6.2 sen and +1.6ppt (at +0.5SD) to our 10-year MGS target yield of 3.30%. Given the challenging near-term Covid-19 situation that may affect pure retail especially those with struggling assets in the near term, we applied a wider spread to account for such potential risks, while more stable MREITs are based on average SD. As such, we are comfortable with our conservative earnings estimates and valuations and will continue to monitor the fluidity of the pandemic as it progresses.

**Risks to our call include:** (i) bond yield compression, vs. our target 10-year MGS yield, and (ii) strengthening rental income.

# MARKET PERFORM ↔

Price : RM1.40  
Target Price : RM1.40 ↑

### Share Price Performance



KLCI 1,608.50  
YTD KLCI chg -1.1%  
YTD stock price chg -6.7%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker PREIT MK Equity  
Market Cap (RM m) 4,266.8  
Shares outstanding 3,047.7  
52-week range (H) 1.78  
52-week range (L) 1.34  
3-mth avg daily vol: 1,451,618  
Free Float 13%  
Beta 0.6

### Major Shareholders

Qatar Investment Authority 33.1%  
Lim Siew Choon 27.7%  
Employees Provident Fund 9.6%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	450.2	491.2	530.2
EBIT	233.5	275.1	298.6
PBT	46.3	177.0	200.2
<b>Net Profit</b>	<b>46.3</b>	<b>177.0</b>	<b>200.2</b>
<b>Core NP (RNI)</b>	<b>116.7</b>	<b>177.0</b>	<b>200.2</b>
Consensus (CNP)	n.a.	179.4	223.8
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	3.8	5.8	6.6
Core EPS growth (%)	-53	51	13
NDPS (sen)	3.7	5.5	6.2
BV/Share (RM)	1.24	1.27	1.31
Core PER (x)	36.5	24.1	21.4
Gearing (%)	0.35	0.35	0.35
N.Dividend Yield (%)	2.7	3.9	4.4

\*Core Net Profit refers to RNI

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<b>Results Highlights</b>					
<b>FYE Dec (RM m)</b>	<b>1Q21</b>	<b>4Q20</b>	<b>QoQ</b>	<b>1Q20</b>	<b>YoY</b>
Gross Rental Income	126.2	130.8	-4%	134.3	-6%
Operating Costs	-67.4	-62.3	8%	-69.2	-3%
<b>Net Rental Income (NPI)</b>	<b>58.8</b>	<b>68.5</b>	-14%	<b>65.1</b>	-10%
Interest Income	1.2	1.3	-3%	2.4	-48%
<b>Total Trust Income (Net Investment Income)</b>	<b>60.1</b>	<b>69.7</b>	-14%	<b>67.5</b>	-11%
Expenditure	-6.7	-6.9	-3%	-7.1	-5%
Financing Costs	-22.1	-22.8	-3%	-25.8	-15%
Fair Value Adjustments	0.0	-70.3	-100%	0.0	n.a.
Gain on disposal of investment property	0.0	0.0	n.a.	0.0	n.a.
<b>Pretax Income</b>	<b>31.3</b>	<b>-30.3</b>	-203%	<b>34.6</b>	-10%
Taxation	0.0	0.0	n.a.	0.0	n.a.
<b>Income after Tax</b>	<b>31.3</b>	<b>-30.3</b>	-203%	<b>34.6</b>	-10%
<b>Distribution Income</b>	<b>33.5</b>	<b>42.4</b>	-21%	<b>36.9</b>	-9%
<b>Realized Net Income</b>	<b>31.3</b>	<b>40.0</b>	-22%	<b>34.6</b>	-10%
EPU (sen)	1.03	-1.00	n.m.	1.14	-10%
GDPU (sen)	1.10	1.39	-21%	1.21	-9%
NAV/unit (RM)	1.24	1.24		1.27	
Gearing (x)	0.35	0.35		0.34	
NPI Margins	46.6%	52.3%		48.5%	
RNI Margins	24.8%	30.6%		25.8%	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)		
<b>STOCKS UNDER COVERAGE</b>																		
AXIS REIT	1.97	2,849.6	Y	12/2021	3.6%	2.5%	11.9%	1.6%	21.9	19.7	19.7	1.5	1.5	6.2%	4.4%	2.30	OP	
CAPITALAND MALAYSIA MALL TRUST	0.645	1,358.5	N	12/2021	17.3%	6.9%	42.2%	12.5%	21.5	16.1	12.9	0.5	0.5	2.6%	5.9%	0.605	MP	
IGB REIT	1.75	6,237.0	N	12/2021	12.6%	1.8%	21.7%	1.7%	25.0	21.9	21.9	1.6	1.6	6.2%	4.2%	1.90	OP	
KLCCP STAPLED GROUP	6.93	12,511.0	Y	12/2021	4.9%	6.9%	8.2%	10.3%	23.1	21.0	19.3	1.0	0.9	5.4%	4.2%	7.55	OP	
SENTRAL REIT	0.905	970.0	N	12/2021	3.0%	2.6%	1.0%	0.7%	11.3	12.9	11.3	0.7	0.7	5.3%	6.9%	0.975	OP	
PAVILION REIT	1.40	4,266.8	N	12/2021	9.1%	7.9%	51.7%	13.1%	36.6	24.1	21.4	1.1	1.1	2.5%	3.9%	1.40	MP	
SUNWAY REIT	1.50	5,137.2	N	12/2021	1.5%	12.2%	-10.5%	24.4%	15.0	16.7	15.0	1.0	0.9	5.4%	4.7%	1.15	UP	
<b>Simple Average</b>					<b>7.4%</b>	<b>5.8%</b>	<b>18.0%</b>	<b>9.2%</b>	<b>21.8</b>	<b>18.8</b>	<b>17.1</b>	<b>1.1</b>	<b>1.1</b>	<b>4.8%</b>	<b>4.9%</b>			
* Core NP and Core PER																		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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