

29 July 2022

Pavilion REIT

Hit by Higher Operating Expenses

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2QFY22 net profit of RM55.0m (+169% YoY) took 1HFY22 net profit to RM120.2m (+133% YoY), which is slightly below our expectation. DPU of 1.87 sen (in 2QFY22) and 4.08 sen (in 1HFY22) are marginally under our FY22E DPU of 8.2 sen. We adjust our forward earnings by -3.5% for FY22 and +0.9% for FY23. Maintain MARKET PERFORM with a revised TP of RM1.42 based on a target yield of 6.0% (which implies a 1.5% yield spread above our 10-year MGS assumption of 4.5%). There is no adjustment to our TP based on ESG for which it is given a 3-star rating as appraised by us.

Slightly behind our expectation with 1HFY22 net profit of RM120.2m (up 133% YoY) accounting for 50% of our full-year projection (but slightly ahead of consensus at 54%) as we anticipate a marginally slower second half. DPU of 1.87 sen for 2QFY22 was declared, taking 1HFY22 DPU to 4.08 sen (or 50% of our full-year estimate).

Results' highlights. YoY, net profit surged 169% to RM55.0m on the back of a 13% jump in gross revenue to RM141.5m following a 10% rebound in rental income from 2QFY21 (which was then marred by the Covid-19 disruptions). QoQ, topline was broadly flat (+2%) but net profit slipped (-16%) as net property income declined 12% from RM94.0m to RM83.1m, attributable to a 30% increase in "other operating expenses" (mainly because of higher upkeeping costs that were previously deferred). Cumulatively, 1HFY22 net profit jumped 133% YoY to RM120.2m as gross revenue increased 12% to RM280.3m, lifted by better net property income (of RM177.1m versus RM106.5m previously). The key profit generator was Pavilion Kuala Lumpur Mall, which contributed RM154.4m or 87% of total net property income in the first half.

Outlook. The company indicated that shopping traffic at its prime malls is now approximately 85% of the pre-pandemic level. While the positive momentum from 1HFY22 will likely continue with the resumption of economic activities, business sentiment may turn cautious ahead in view of the rising inflationary environment and possible recession fears. Within its asset portfolio, Pavilion Kuala Lumpur Mall and Elite Pavilion Mall have seen high occupancy rates (of 89.7% and 86.7%, respectively, as of end-June 2022), which are expected to climb further by year-end following the repositioning of new/existing tenants amid ongoing rental renewal negotiations. As for loss-making DA MEN Mall (which incurred net property loss of RM3.2m in 1HFY22), we gather that its occupancy rate may rise from 58.8% at end-June to slightly above 70% by year-end as PAVREIT is targeting this property to break even next year before turning profitable in 2023.

Tweaking our forecasts. Following the 1HFY22 results, our net profit forecasts have been adjusted to RM232.7m (-3.4%) for FY22 and RM248.5m (+0.9) for FY23 after tweaking our operating cost assumptions. Correspondingly, our FY22-FY23 gross DPU are now projected at 7.9 sen (from 8.2 sen) and 8.5 sen (from 8.4 sen), respectively, which imply yields of 5.9%-6.4%.

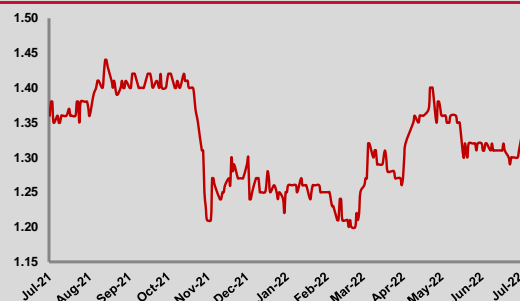
Still MARKET PERFORM. We have revised our TP to RM1.42 (from RM1.30) based on a target yield of 6.0% (which is derived from a 1.5% yield spread above our 10-year MGS assumption of 4.5%). This reflects PAVREIT's prime asset portfolio (as anchored by Pavilion Kuala Lumpur Mall and Elite Pavilion Mall) while it will take time for other assets such as DA MEN Mall to make meaningful contributions against the competitive retail industry backdrop.

Risks to our call include: (i) bond yield contraction/expansion, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

MARKET PERFORM ↔

Price : **RM1.33**
Target Price : **RM1.42 ↑**

Share Price Performance



KLCI 1,491.20
YTD KLCI chg -4.9%
YTD stock price chg 6.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PREIT MK Equity
Market Cap (RM m)	4,060.2
Shares outstanding	3,052.8
52-week range (H)	1.44
52-week range (L)	1.20
3-mth avg daily vol:	757,654
Free Float	11%
Beta	0.5

Major Shareholders

Qatar Investment Authority	33.1%
Lim Siew Choon	27.7%
Employees Provident Fund	10.1%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	488.6	557.7	599.3
EBIT	213.4	323.4	344.4
PBT	125.2	232.7	248.5
Net Profit (NP)	125.2	232.7	248.5
Income Distribution	132.5	241.9	259.0
Consensus (NP)	n.a.	224.4	239.6
Earnings Revision	n.a.	-3.4%	+0.9%
Core EPS (sen)	4.1	7.6	8.1
Core EPS growth (%)	170%	85%	7%
GDPU (sen)	4.41	7.9	8.5
BV/Share (RM)	1.24	1.28	1.28
Core PER (x)	32.4	17.5	16.4
Gearing (%)	0.35	0.35	0.35
Net Div Yield (%)	3.1	5.9	6.4

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Results Highlights								
FYE 31 Dec (RM m)	2Q22	2Q21	YoY	1Q22	QoQ	1H22	1H21	YoY
Gross revenue	141.5	124.8	13%	138.8	2%	280.3	251.0	12%
Property operating expenses	-58.4	-77.2	-24%	-44.8	30%	-103.2	-144.5	-29%
Net property income	83.1	47.6	75%	94.0	-12%	177.1	106.5	66%
Interest income & other income	1.2	1.2	0%	1.2	-2%	2.4	2.4	-1%
Other non-operating expenses	-29.3	-28.4	3%	-30.0	-2%	-59.3	-57.2	4%
Pretax profit	55.0	20.4	169%	65.2	-16%	120.2	51.7	133%
Taxation	0.0	0.0	-	0.0	-	0.0	0.0	-
Net profit	55.0	20.4	169%	65.2	-16%	120.2	51.7	133%
Income distribution	57.1	22.3	156%	67.5	-15%	124.6	55.8	123%
EPU (sen)	1.80	0.67	169%	2.14	-16%	3.94	1.70	132%
DPU (sen)	1.87	0.73	156%	2.21	-15%	4.08	1.83	123%
Key Operating Metrics:								
Occupancy rate# (eop)	89.7%	93.9%	-	90.6%	-	89.7%	93.9%	-
Gearing (eop)	34.7%	34.8%	-	34.9%	-	34.7%	34.8%	-
<i># Based on data for Pavilion Kuala Lumpur Mall as a reference</i>								
<i>Source: Company, Kenanga Research</i>								

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)				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.			
STOCKS UNDER COVERAGE																		
AXIS REIT	1.95	3,200.1	Y	12/2022	8.7%	9.1%	10.4%	9.9%	24.4	21.7	19.5	1.3	1.3	6.2%	4.3%	1.95	MP	
CAPITALAND MALAYSIA TRUST	0.570	1,228.5	N	12/2022	20.9%	3.0%	n.m.	-1.7%	n.m.	14.5	14.9	0.5	0.5	3.7%	6.9%	0.51	MP	
IGB REIT	1.64	5,870.3	N	12/2022	33.3%	2.8%	66.1%	4.4%	28.4	17.1	16.7	1.5	1.5	8.8%	6.1%	1.65	MP	
KLCCP STAPLED GROUP	7.02	12,673.4	Y	12/2022	-4.4%	17.4%	-1.0%	20.6%	20.1	19.5	19.0	1.0	1.0	5.4%	4.6%	6.45	MP	
SENTRAL REIT	0.970	1,039.6	N	12/2022	9.0%	1.8%	-2.5%	0.7%	12.8	12.8	12.8	0.8	0.8	5.3%	6.7%	0.890	MP	
PAVILION REIT	1.33	4,060.2	N	12/2022	14.1%	7.5%	85%	7%	32.4	17.5	16.5	1.0	1.0	6.0%	5.9%	1.42	MP	
SUNWAY REIT	1.50	5,137.2	N	12/2022	7.6%	5.0%	-21.3%	21.7%	22.5	17.5	16.0	1.0	1.0	5.4%	4.9%	1.50	MP	
Simple Average					14.3%	5.9%	23.9%	8.3%	23.6	17.1	16.5	1.0	1.0	5.8%	5.6%			

* Core NP and Core PER

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	☆		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
	OVERALL	★	★	★		
SPECIFIC	Waste Management	★	★	★		
	Energy Efficiency	★	★	☆		
	Digital Transformation	★	★	★		
	Customer Safety / Protection	★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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Published and printed by:

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