

23 November 2022

Pavilion REIT

Shopping in Bukit Jalil

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The proposed acquisition of PBJ Mall – scheduled to be completed in 2QFY23 – is expected to be slightly accretive based on proforma estimates. Still an **OUTPERFORM** with an unchanged TP of RM1.42 based on a target yield of 6.0%.

Acquiring Pavilion Bukit Jalil. In a related party transaction, PAVREIT has entered into agreements with Regal Path to acquire Pavilion Bukit Jalil (PBJ Mall) together with related assets and rights for an aggregate purchase consideration of RM2.2b (which represents a tiny discount of 0.5% to the market value as ascribed by the independent valuer). Separately, PAVREIT will also acquire additional movable assets required for the operations of PBJ Mall (such as laptops, buggies and mobile elevating work platforms) based on the total net book value of the assets (estimated at RM3.4m as of 31 October 2022). The proposed acquisition – expected to be completed in 2QFY23 – will increase PAVREIT's number of assets to six (from the current portfolio that comprises Pavilion Kuala Lumpur Mall, Pavilion Tower, Intermark Mall, DA MEN Mall and Elite Pavilion Mall).

Key information on PBJ Mall. PBJ Mall – which forms part of the 50-acre commercial integrated development of Bukit Jalil City strategically located along Bukit Jalil Highway – comprises a 5-storey retail mall with two basement car park levels with a total of 4,800 parking bays. The property has net lettable area (NLA) of 1.82m sq ft while occupancy rate stood at 78.2% as of end-October 2022. Over the past six months, it has recorded an average of 1.2m monthly footfall. In terms of net property income (NPI), PBJ Mall recorded an unaudited NPI of RM30.1m since the opening date on 3 December 2021 until 30 June 2022 (excluding the opening incentive and rebate to the tenants).

Funding mechanism. The proposed acquisition will be funded by a mixture of: (i) new equity capital via a proposed 2-tranche private placement exercise to raise up to RM1.27b (at an issue price to be determined later through a book-building exercise, which will also cover estimated expenses of RM70m), and (ii) bank borrowings (amounting to RM1.0b) (Scenario 1). In the event that the proposed placements are not undertaken, PAVREIT plans to fund the acquisition by issuing new units to Regal Path (the vendor) to raise RM600m with the balance RM1.63b to be paid by bank borrowings (Scenario 2). Correspondingly, its gearing would increase from 34.8% (as of end-December 2021) to 37.6% (under Scenario 1) and 45.1% (under Scenario 2).

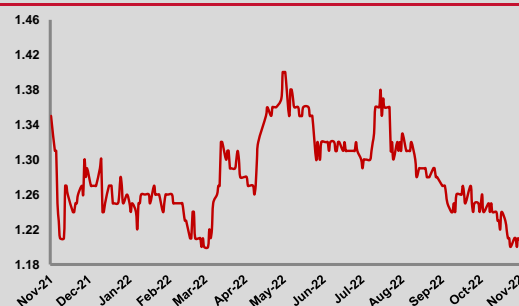
EPU implications. Under the deal, PAVREIT will only make a final balance payment of RM400m subject to PBJ Mall having achieved NPI of at least RM146m on an annualised basis based on the latest 6 months historical NPI records multiplied by 2 (targeted NPI) within 24 months from the completion date. Using this NPI figure, on a proforma basis, after deducting additional borrowing costs (assuming an average rate of 4.2% p.a.) and other expenses (such as manager's management fee and trustee's fee), the adjusted net income would be RM344m (+38% to our FY23 net income of RM248.5m). Imputing an enlarged number of units of 4,071.7m (+33% from its existing base) based on an illustrative issue price of RM1.25, our preliminary FY23 EPU works out to be 8.4 sen (versus 8.1 sen currently) for Scenario 1. Under Scenario 2, our FY23 EPU would be adjusted to 9.0 sen.

In conclusion, the proposed acquisition is expected to be slightly accretive to forward earnings based on the indicative numbers, although we reckon it may take time for PBJ Mall to start contributing a sum equivalent to the targeted NPI. We maintain our **OUTPERFORM** call with an unchanged TP of RM1.42 (which is derived from a target yield of 6.0% after applying a 1.5% yield spread above our 10-year MGS assumption of 4.5%). There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us.

OUTPERFORM ↔

Price : RM1.20
Target Price : RM1.42 ↔

Share Price Performance



KLCI 1,441.29
YTD KLCI chg -8.1%
YTD stock price chg -4.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PREIT MK Equity
Market Cap (RM m)	3,666.9
Shares outstanding	3,055.7
52-week range (H)	1.40
52-week range (L)	1.20
3-mth avg daily vol:	363,939
Free Float	12%
Beta	0.4

Major Shareholders

Qatar Investment Authority	33.0%
Lim Siew Choon	27.7%
Employees Provident Fund	10.1%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	488.6	557.7	599.3
EBIT	208.8	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.	229.5	242.4
Earnings Revision	n.a.	-	-
Core EPS (sen)	4.1	7.6	8.1
Core EPS growth (%)	170	85	7
GDPU (sen)	4.4	7.9	8.5
BV/Share (RM)	1.24	1.28	1.28
Core PER (x)	29.3	15.8	14.8
Gearing (%)	0.35	0.35	0.35
Gross Div Yield (%)	3.7	6.6	6.8

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Gross Div. (sen)	Gross Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.79	1.89	5.59%	2,937.5	Y	12/2022	9.6	10.5	2.1%	9.4%	18.6	17.0	1.4	6.2%	9.6	5.4%
CAPITALAND MALAYSIA MALL TRUST	MP	0.545	0.510	-6.42%	1,202.8	N	12/2022	3.9	3.8	-	-1.5%	14.0	14.2	0.5	3.6%	3.9	7.2%
IGB REIT	MP	1.58	1.65	4.43%	5,667.3	N	12/2022	9.3	9.5	66.1%	4.4%	17.0	16.6	1.5	8.8%	9.7	6.1%
KLCCP STAPLED GROUP	MP	6.80	6.60	-2.94%	12,276.3	Y	12/2022	37.6	40.2	5.9%	6.9%	18.1	16.9	0.9	5.2%	33.1	4.9%
CENTRAL REIT	UP	0.885	0.790	-10.73%	948.5	N	12/2022	6.8	6.7	-11.7%	-1.5%	13.0	13.3	0.7	5.5%	6.5	7.3%
PAVILION REIT	OP	1.20	1.42	18.33%	3,666.9	N	12/2022	7.6	8.1	85.9%	6.8%	15.8	14.8	0.9	6.0%	7.9	6.6%
SUNWAY REIT	OP	1.41	1.60	13.48%	4,829.0	N	12/2022	9.5	9.9	41.8%	4.2%	14.8	14.2	0.9	5.4%	8.5	6.0%
Simple Average								12.0	12.7	31.7%	4.1%	15.9	15.3	1.0	5.8%		6.2%

Source: Company, Bloomberg, Kenanga Research

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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