

25 April 2023

Pavilion REIT

Here Comes PBJ Mall

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1QFY23 net profit of RM70.1m (+7% YoY) and DPU of 2.37 sen are marginally ahead of our full-year expectations. We reiterate our OUTPERFORM call with a slightly higher TP of RM1.47 based on a target yield of 6.0% (which implies a 1.5% yield spread above our 10-year MGS yield assumption of 4.5%) as we impute contributions from PBJ Mall and roll over our valuation window.

Slightly above expectations. 1QFY23 core net profit of RM70.1m (+7% YoY) represented 28%/26% of our/consensus full-year estimates. DPU of 2.37 sen is marginally ahead of our FY23 forecast of 8.6 sen.

Results' highlights. YoY, gross revenue was up 16% to RM156.4m (lifted by higher rental and advertising & marketing event incomes) while property operating expenses climbed 34% to RM54.3m mainly due to higher electricity tariff, no recovery of doubtful debts (previously recognised in 1QFY22) and marketing campaigns cost for Chinese New Year festival and Pavilion Kuala Lumpur Mall (PKL Mall)'s 15th anniversary. Consequently, core net profit came in at RM70.1m (+7%).

By property asset: (i) PKL Mall contributed net property income (NPI) of RM91.4m (+14% YoY, accounting for 90% of total NPI), and (ii) Elite Pavilion Mall (EPM) made NPI of RM9.9m (+2% YoY or 10% of overall NPI). DA MEN Mall posted net property loss of RM2.5m in 1QFY23 (vs. net property loss of RM2.7m in 3QFY22 and RM1.2m in 4QFY22).

PBJ Mall acquisition on track. PAVREIT is on track to add Pavilion Bukit Jalil (PBJ Mall) to its portfolio of investment properties. Following its first announcement on 22 November last year, it has recently secured approval from unitholders (on 22 March) and would be undertaking a placement exercise to part finance the acquisition price. Recall that PAVREIT has agreed to buy PBJ Mall in a related party transaction for an aggregate purchase consideration of RM2.2b to be funded by a mixture of new equity capital (via a 2-tranche private placement exercise) and bank borrowings.

According to a circular to unitholders dated 7 March 2023, PBJ Mall recorded an unaudited NPI of RM75.4m since its opening on 3 December 2021 until 31 December 2022 (excluding the opening incentive and rebate to tenants). Post the acquisition, we are projecting that PBJ Mall will rake in NPI of RM53m (half-year contribution; based on an occupancy rate of 85%) in FY23 and RM118m (based on an occupancy rate of 90%) in FY24.

Forecasts update. After factoring in contributions from PBJ Mall and fine-tuning the latest figures from the results, we have set our net profit forecasts at RM284.2m (+12.4%) for FY23 and RM347.1m (+29.8%) for FY24. Imputing an enlarged number of units of 4,058.8m (+33% from its existing base) post the private placement exercise (assumed at an issue price of RM1.27), this brings our FY23/FY24 gross DPU to 8.2 sen (from 8.6 sen) and 8.8 sen (from 9.1 sen), which imply yields of 6.3% and 6.5%, respectively.

OUTPERFORM call intact. We have adjusted our TP to RM1.47 (from RM1.43 previously) based on a target yield of 6.0% on FY24F GDPU after applying a 1.5% yield spread above our 10-year MGS yield assumption of 4.5% as we roll over our valuation window. This is to reflect its prime asset portfolio as anchored by PKL Mall and EPM. Including our FY23F dividend yield of 6.3%, PAVREIT offers an expected total return of 19.4%, prompting us to maintain our OUTPERFORM call. There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us.

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

OUTPERFORM ↔

Price : **RM1.30**
Target Price : **RM1.47** ↑

Share Price Performance



KLCI	1,422.11
YTD KLCI chg	-4.9%
YTD stock price chg	7.4%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PREIT MK Equity
Market Cap (RM m)	3,976.4
Shares outstanding	3,058.8
52-week range (H)	1.45
52-week range (L)	1.18
3-mth avg daily vol:	1,008,404
Free Float	9%
Beta	0.3

Major Shareholders

Qatar Investment Authority	33.0%
Lim Siew Choon	27.6%
Employees Provident Fund	9.9%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	569.7	693.2	831.8
EBIT	331.9	390.9	476.7
PBT	397.8	284.2	347.1
Net Profit (NP)	397.8	284.2	347.1
Core Net Profit (NP)	246.4	284.2	347.1
Consensus (NP)	-	274.3	306.3
Earnings Revision (%)	-	+12.4	+29.8
Core EPS (sen)	8.1	8.0	8.5
Core EPS growth (%)	95	-1.2	6.2
GDPU (sen)	8.4	8.2	8.8
BV/Share (RM)	1.29	1.31	1.31
Core PER (x)	16.7	16.2	15.3
Gearing (x)	0.34	0.34	0.34
Gross Div Yield (%)	6.2	6.3	6.5

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Results Highlights					
FYE 31 Dec (RM m)	1Q23	1Q22	YoY	4Q22	QoQ
Gross revenue	156.4	134.6	16%	141.1	11%
Property operating expenses	-54.3	-40.6	34%	-44.2	23%
Net property income	102.1	94.0	9%	96.9	5%
Interest income & other income	2.7	1.2	123%	2.1	26%
Other non-operating expenses	-34.7	-30.0	16%	-34.0	2%
FV changes on invmt properties	0.0	0.0	-	151.4	-
Pretax profit	70.1	65.2	7%	216.4	-68%
Taxation	0.0	0.0	-	0.0	-
Net profit	70.1	65.2	7%	216.4	-68%
Core net profit	70.1	65.2	7%	65.0	8%
Income distribution	72.5	67.5	7%	67.5	7%
EPU (sen)	2.29	2.14	7%	7.09	-68%
DPU (sen)	2.37	2.21	7%	2.21	7%

Source: Company, Kenanga Research

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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	1.91	1.84	-3.66%	3,325.4	Y	12/2023	9.3	10.2	-3.1%	9.7%	20.5	18.7	1.2	6.4%	9.3	4.9%
CAPITALAND MALAYSIA MALL TRUST	MP	0.515	0.510	-0.97%	1,376.0	N	12/2023	3.8	4.2	-7.3%	10.5%	13.5	12.1	0.5	3.7%	3.8	7.4%
IGB REIT	MP	1.72	1.65	-4.07%	6,175.6	N	12/2023	9.5	9.8	1.1%	3.2%	18.1	17.6	1.2	8.8%	9.9	5.8%
KLCCP STAPLED GROUP	MP	6.96	6.60	-5.17%	12,565.1	Y	12/2023	40.2	41.6	5.0%	3.5%	17.3	16.7	1.0	5.2%	36.3	5.2%
CENTRAL REIT	UP	0.860	0.790	-8.14%	921.7	N	12/2023	6.7	6.6	-2.9%	-1.5%	12.9	13.0	0.7	5.4%	6.3	7.3%
PAVILION REIT	OP	1.30	1.47	13.08%	3,976.4	N	12/2023	8.0	8.5	-1.2%	6.2%	16.2	15.3	1.0	6.1%	8.2	6.3%
SECTOR AGGREGATE					33,820.0					6.7%	3.5%	17.1	16.5	0.9	5.9%		6.1%

Source: Company, Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	☆	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Effluent/Waste Management	★	★	★	☆	
	Water Management	★	★	★		
	Energy Efficiency	★	★	★	☆	
	Green Buildings	★	★	★		
	Tenant Management	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ 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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