

26 April 2024

# Pavilion REIT

## Minimal Impact from Entry of Rival Mall

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**PAVREIT's 1QFY24 results beat expectations. Its 1QFY24 core net profit rose 19% YoY drive largely by contribution from new asset Pavilion Bukit Jalil. Its core shopping malls in KL city centre have held up relatively up despite competition from the new TRX mall. We raise our FY24-25F earnings forecasts by 2% and 5%, lift our TP by 5% to RM1.59 (from RM1.51) and maintain our OUTPERFORM call.**

PAVREIT's 1QFY24 core net profit of RM83.2m made up 24% and 25% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the result as above expectations as we expect stronger quarters ahead from Pavilion Bukit Jalil. No distribution was announced for the quarter as PAVREIT typically makes bi-annual payments.

**YoY**, its revenue surged by 40% driven by: (i) contribution from its new asset Pavilion Bukit Jalil of which acquisition was completed in June 2023, and (ii) improved occupancy across its existing portfolio. However, its core net profit only increased by 19% due to: (i) higher utility costs, property expenses (seasonally peak refurbishment works) and financing cost (additional borrowings to fund the acquisition of Pavilion Bukit Jalil and an increase in interest rates).

**QoQ**, its 1QFY24 top line grew 5% driven by positive rental reversions. However, its core net profit only grew 2% due to seasonally higher maintenance.

**Outlook.** PAVREIT's assets in the KL city centre, i.e. Pavilion KL and Elite Pavilion Mall, have been able to consistently chalk up higher occupancy despite the entry of the TRX mall. On one hand, we are mindful of the sustained elevated inflation (which could be exacerbated by subsidy rationalisation) that eats into consumers' spending power. On the other hand, the return of tourists could potentially fill the gap.

**Forecasts.** We raise our FY24F-25F earnings forecasts by 2% and 5%, respectively, mainly to account for better earnings contributions from Pavilion Bukit Jalil.

**Valuations.** Correspondingly, we raise our TP to RM1.59 (from RM1.51) with FY25F NDPU to 9.5 sen (from 9.1 sen). This is against an unchanged target yield of 6.0% (derived from a 2.0% yield spread above our 10-year MGS assumption of 4.0%). The low yield spread is to reflect its prime asset portfolio as anchored by Pavilion KL and Pavilion Bukit Jalil.

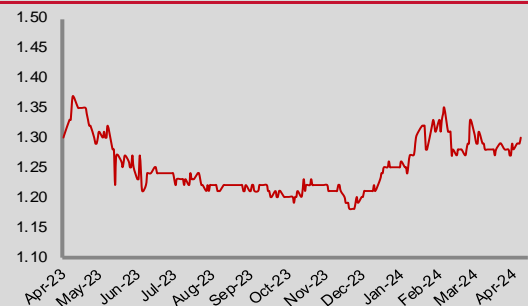
**Investment case.** We believe PAVREIT's premium retail assets are less vulnerable to downward pressure on occupancy and rental rates amidst rising headwinds in the retail sector on the back of sustained high inflation that hurts consumer spending. There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us (see Page 4). **Maintain OUTPERFORM.**

**Risks to our call include:** (i) rising risk-free rate, (ii) lower-than-expected rental reversions, (iii) weaker-than-expected occupancy rates; and (iv) loss of footfall to new rival malls.

# OUTPERFORM ↔

Price : RM1.30  
Target Price : RM1.59 ↑

### Share Price Performance



KLCI 1,569.25  
YTD KLCI chg 7.9%  
YTD stock price chg 7.4%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	PREIT MK Equity
Market Cap (RM m)	4,753.9
Shares Outstanding	3,656.8
52-week range (H)	1.37
52-week range (L)	1.17
3-mth avg daily vol:	5,030,234
Free Float	20%
Beta	0.4

### Major Shareholders

Qatar Investment Authority	27.6%
Lim Siew Choon	23.1%
Employees Provident Fund	11.7%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	723.8	875.6	943.9
Operating Profit	459.1	558.8	595.8
Profit Before Tax	431.8	353.0	379.2
<b>Net Profit (NP)</b>	<b>431.8</b>	<b>353.0</b>	<b>379.2</b>
<b>Core Net Profit</b>	<b>285.3</b>	<b>353.0</b>	<b>379.2</b>
Consensus (NP)	-	337.8	363.8
Earnings Revision	-	+2.4	+5.3
Core EPS (sen)	7.8	9.7	10.4
Core EPS growth (%)	15.8	23.7	7.4
GDPU (sen)	9.0	10.0	10.6
NDPU (sen)	8.1	9.0	9.5
NAV/Share (RM)	1.35	1.35	1.34
Core PER (x)	16.6	13.5	12.5
Price/NAV (x)	0.96	0.97	0.97
Gearing (x)	0.38	0.42	0.42
Net. Div Yield (%)	6.3	7.0	7.3

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Property Income	199.3	182.6	9.2%	143.9	38.5%	199.3	143.9	38.5%
Non-Property Income	19.2	25.6	-25.1%	12.5	54.0%	19.2	12.5	54.0%
<b>Gross Revenue</b>	<b>218.5</b>	<b>208.2</b>	<b>4.9%</b>	<b>156.4</b>	<b>39.7%</b>	<b>218.5</b>	<b>156.4</b>	<b>39.7%</b>
Property Operating Expenses	-82.5	-73.6	12.1%	-54.3	51.9%	-82.5	-54.3	51.9%
<b>Net Property Income</b>	<b>136.0</b>	<b>134.6</b>	<b>1.0%</b>	<b>102.1</b>	<b>33.2%</b>	<b>136.0</b>	<b>102.1</b>	<b>33.2%</b>
Interest & Investment Income	3.9	149.7	-97.4%	2.7	45.5%	3.9	2.7	45.5%
<b>Net Investment Income</b>	<b>139.9</b>	<b>284.4</b>	<b>-50.8%</b>	<b>104.8</b>	<b>33.5%</b>	<b>139.9</b>	<b>104.8</b>	<b>33.5%</b>
Non-operating expenses	-56.8	-56.1	1.2%	-34.7	63.4%	-56.8	-34.7	63.4%
<b>Profit before tax</b>	<b>83.2</b>	<b>228.3</b>	<b>-63.6%</b>	<b>70.1</b>	<b>18.7%</b>	<b>83.2</b>	<b>70.1</b>	<b>18.7%</b>
Taxation	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Minority interest	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Net Profit</b>	<b>83.2</b>	<b>228.3</b>	<b>-63.6%</b>	<b>70.1</b>	<b>18.7%</b>	<b>83.2</b>	<b>70.1</b>	<b>18.7%</b>
<b>Distributable Income</b>	<b>90.9</b>	<b>89.7</b>	<b>1.3%</b>	<b>72.4</b>	<b>25.5%</b>	<b>90.9</b>	<b>72.4</b>	<b>25.5%</b>
<b>Core Net Profit</b>	<b>83.2</b>	<b>81.7</b>	<b>1.8%</b>	<b>70.1</b>	<b>18.7%</b>	<b>83.2</b>	<b>70.1</b>	<b>18.7%</b>
Core Earnings Per Unit (sen)	2.27	2.24	1.6%	2.29	-0.7%	2.27	2.29	-0.7%
Distribution Per Unit (sen)	0.00	4.60	-100.0%	3.65	-100.0%	0.00	3.65	-100.0%
Net Asset Value Per Unit (RM)	1.33	1.35	-1.7%	1.31	1.4%	1.33	1.31	1.4%
<b>Key Operating Metrics:</b>								
Net property income margin	62.2%	64.7%		65.3%		62.2%	65.3%	
Pretax margin	38.1%	109.6%		44.8%		38.1%	44.8%	
Net Gearing	5.75	0.35		0.29		5.75	0.29	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY23	FY23	Chg	FY23	Chg	FY23	FY23	Chg
<b>Gross Revenue</b>								
<b>Retail</b>								
Pavilion KL	135.9	129.1	5.3%	127.5	6.6%	135.9	127.5	6.6%
Pavilion Bukit Jalil	51.0	45.7	11.5%	0.0	N.M.	51.0	0.0	N.M
Intermark Mall	6.9	6.3	10.1%	6.3	9.8%	6.9	6.3	9.8%
DA MEN	3.4	2.8	19.3%	3.4	-1.5%	3.4	3.4	-1.5%
Pavilion Elite	19.0	21.6	-12.1%	16.9	12.5%	19.0	16.9	12.5%
<b>Office</b>								
Pavilion Tower	2.4	2.7	-11.7%	2.3	2.1%	2.4	2.3	2.1%
<b>TOTAL</b>	<b>218.5</b>	<b>208.2</b>	<b>4.9%</b>	<b>156.4</b>	<b>39.7%</b>	<b>218.5</b>	<b>156.4</b>	<b>39.7%</b>
<b>Net Property Income</b>								
<b>Retail</b>								
Pavilion KL	96.6	94.4	2.3%	91.4	5.7%	96.6	91.4	5.7%
Pavilion Bukit Jalil	26.8	23.1	15.9%	0.0	N.M.	26.8	0.0	N.M
Intermark Mall	2.8	2.8	-1.3%	2.8	-2.1%	2.8	2.8	-2.1%
DA MEN	-2.0	-1.6	23.8%	-2.5	-21.3%	-2.0	-2.5	-21.3%
Pavilion Elite	11.6	14.9	-22.4%	9.9	17.3%	11.6	9.9	17.3%
<b>Office</b>								
Pavilion Tower	0.3	1.0	-68.4%	0.5	-36.0%	0.3	0.5	-36.0%
<b>TOTAL</b>	<b>136.0</b>	<b>134.6</b>	<b>1.0%</b>	<b>102.1</b>	<b>33.2%</b>	<b>136.0</b>	<b>102.1</b>	<b>33.2%</b>
<b>Net Property Margin</b>								
<b>Retail</b>								
Pavilion KL	71.1%	73.1%		71.7%		71.1%	71.7%	
Pavilion Bukit Jalil	52.5%	50.5%		N.M.		52.5%	N.M.	
Intermark Mall	39.8%	44.4%		44.6%		39.8%	44.6%	
DA MEN	-58.9%	-56.8%		-73.8%		-58.9%	-73.8%	
Pavilion Elite	60.9%	69.0%		58.5%		60.9%	58.5%	
<b>Office</b>								
Pavilion Tower	13.8%	38.5%		22.0%		13.8%	22.0%	
<b>TOTAL</b>	<b>62.2%</b>	<b>64.7%</b>		<b>65.3%</b>		<b>62.2%</b>	<b>65.3%</b>	

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	Net Div. (sen)	Net 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.
<b>Stocks Under Coverage</b>																	
AXIS REIT	MP	1.90	1.72	-9.5%	3,320.2	Y	12/2024	9.3	10.2	10.1%	9.8%	20.2	18.4	1.2	5.8%	8.7	4.6%
CAPITALAND MALAYSIA MALL TRUST	MP	0.660	0.580	-12.1%	1,864.9	N	12/2024	3.9	4.0	-284.4%	-19.5%	N.A.	10.9	0.7	5.0%	4.3	6.5%
IGB REIT	MP	1.82	1.68	-7.7%	6,568.8	N	12/2024	10.1	10.4	-2.5%	2.3%	17.4	17.0	1.7	9.8%	9.7	5.3%
KLCCP STAPLED GROUP	OP	7.70	8.00	3.9%	13,901.1	Y	12/2024	40.2	41.6	13.6%	3.7%	17.2	16.6	1.1	5.2%	42.5	5.5%
PAVILION REIT	OP	1.30	1.59	22.3%	4,753.9	N	12/2024	8.0	8.5	23.7%	7.4%	13.5	12.5	1.0	7.2%	9.0	6.9%
SUNWAY REIT	OP	1.54	1.72	11.7%	5,274.2	N	12/2024	10.2	10.9	13.9%	6.3%	14.6	13.7	1.0	6.9%	10.6	6.9%
<b>SECTOR AGGREGATE</b>					<b>35,683.1</b>					<b>-5.2%</b>	<b>25.5%</b>	<b>19.2</b>	<b>15.3</b>	<b>1.1</b>	<b>6.6%</b>		<b>6.0%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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