

18 July 2024

Pavilion REIT

Unscathed in a Crowded Market

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PAVREIT's 1QFY24 results met expectations. Its 1HFY24 core net profit soared 33% YoY driven largely by contribution from new asset Pavilion Bukit Jalil. Its core shopping malls in KL city centre held up relatively well despite competition from the new TRX mall. We keep our forecasts, TP of RM1.59 and OUTPERFORM call.

PAVREIT's 1HFY24 core net profit of RM150.3m made up 44% and 43% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the result as within expectations as we expect stronger performance in 2HFY24 driven by the year-end shopping season. It announced an estimated net income distribution of 4.1 sen, on track to meet our full-year forecast of 9.5 sen.

YoY, its 1HFY24 revenue soared by 33% driven by: (i) contribution from its new asset Pavilion Bukit Jalil of which acquisition was completed in June 2023, and (ii) positive rental reversions. However, its core net profit only grew by 13% mainly attributed to increased upkeep and utilities costs with higher financing costs arising from additional borrowings to fund the acquisition of Pavilion Bukit Jalil.

QoQ, its 2QFY24 revenue dropped by 7% due to the high base in the preceding quarter on pre-Hari Raya shopping. Its core net profit fell by a sharper 19% as operating costs did not ease correspondingly.

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 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. Meanwhile, the return of tourists and additional contribution from Pavilion Bukit Jalil could support rentals and tenancy for the group. Notably, a targeted occupancy rate of 92% by end-FY24 for Pavilion Bukit Jalil could bring the mall closer to its targeted annualised NPI of RM146m (1HFY24 at RM52.4m).

Forecasts. Maintained.

Valuations. We also keep our TP of RM1.59 and FY25F NDPU of 9.5 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 Elite Pavilion Mall. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

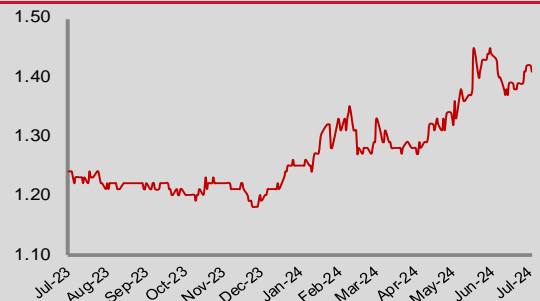
Investment case. We believe PAVREIT's premium retail assets are less vulnerable to downward pressure on occupancy and rental rates amidst rising headwinds in the retail sector on the back of sustained high inflation that hurts consumer spending. They will also benefit from the return of international tourists and higher tourist spending spurred by the weak MYR. Maintain **OUTPERFORM**. PAVREIT is one of our Top Picks within the REIT sector.

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 : RM1.41
Target Price : RM1.59 ↔

Share Price Performance



KLCI	1,633.54
YTD KLCI chg	12.3%
YTD stock price chg	16.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	PREIT MK Equity
Market Cap (RM m)	5,156.2
Shares Outstanding	3,656.8
52-week range (H)	1.45
52-week range (L)	1.17
3-mth avg daily vol:	3,578,183
Free Float	20%
Beta	0.5

Major Shareholders

Qatar Investment Authority	27.6%
Lim Siew Choon	23.1%
Employees Provident Fund	12.1%

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
Net Profit (NP)	431.8	353.0	379.2
Core Net Profit	285.3	353.0	379.2
Consensus (NP)	-	340.3	363.8
Earnings Revision	-	0.0	0.0
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)	18.1	14.6	13.6
Price/NAV (x)	1.04	1.05	1.05
Gearing (x)	0.38	0.42	0.42
Net. Div Yield (%)	5.8	6.4	6.8

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Property Income	185.3	199.3	-7.0%	145.4	27.4%	384.6	289.4	32.9%
Non-Property Income	16.0	19.2	-16.7%	14.5	10.0%	35.2	27.0	30.3%
Gross Revenue	201.3	218.5	-7.9%	160.0	25.8%	419.8	316.4	32.7%
Property Operating Expenses	-81.3	-82.5	-1.5%	-59.0	37.8%	-163.8	-113.3	44.6%
Net Property Income	120.0	136.0	-11.8%	101.0	18.8%	256.1	203.1	26.1%
Interest & Investment Income	3.4	3.9	-12.5%	2.5	37.6%	7.4	5.2	41.7%
Net Investment Income	123.5	139.9	-11.8%	103.5	19.3%	263.4	208.3	26.5%
Non-operating expenses	-56.4	-56.8	-0.7%	-40.6	38.7%	-113.1	-75.4	50.1%
Profit before tax	67.1	83.2	-19.3%	62.9	6.7%	150.3	132.9	13.0%
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
Net Profit	67.1	83.2	-19.3%	62.9	6.7%	150.3	132.9	13.0%
Distributable Income	74.9	90.9	-17.6%	67.0	11.8%	165.8	139.4	18.9%
Core Net Profit	67.1	83.2	-19.3%	62.9	6.7%	150.3	132.9	13.0%
Core Earnings Per Unit (sen)	1.84	2.27	-19.3%	1.72	6.5%	4.11	4.01	2.4%
Distribution Per Unit (sen)	4.53	0.00	N.M	0.76	496.1%	4.53	4.41	2.7%
Net Asset Value Per Unit (RM)	1.35	1.33	1.4%	1.28	5.4%	1.35	1.28	5.4%
Key Operating Metrics:								
Net property income margin	59.6%	62.2%		63.1%		61.0%	64.2%	
Pretax margin	33.3%	38.1%		39.3%		35.8%	42.0%	
Net Gearing	0.33	5.75		0.33		0.33	0.33	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Dec (RM m)	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Gross Revenue								
Retail								
Pavilion KL	122.6	135.9	-9.8%	116.3	5.4%	258.5	243.8	6.0%
Pavilion Bukit Jalil	50.8	51.0	-0.4%	14.3	256.1%	101.8	14.3	613.7%
Intermark Mall	7.0	6.9	1.0%	6.2	13.2%	13.9	12.5	11.5%
DA MEN	3.7	3.4	11.1%	3.5	6.5%	7.1	6.9	2.6%
Pavilion Elite	14.7	19.0	-22.6%	17.6	-16.4%	33.7	34.4	-2.2%
Office								
Pavilion Tower	2.5	2.4	6.1%	2.2	16.1%	4.9	4.5	8.9%
TOTAL	201.3	218.5	-7.9%	160.0	25.8%	419.8	316.4	32.7%
Net Property Income								
Retail								
Pavilion KL	84.2	96.6	-12.8%	82.3	2.4%	180.8	173.7	4.1%
Pavilion Bukit Jalil	25.7	26.8	-4.0%	7.3	252.4%	52.4	7.3	619.5%
Intermark Mall	2.8	2.8	1.8%	2.4	14.7%	5.6	5.3	5.7%
DA MEN	-1.9	-2.0	-6.1%	-2.2	-17.1%	-3.8	-4.7	-19.3%
Pavilion Elite	8.2	11.6	-29.2%	10.3	-20.4%	19.8	20.2	-2.0%
Office								
Pavilion Tower	1.0	0.3	196.6%	0.9	4.9%	1.3	1.4	-9.7%
TOTAL	120.0	136.0	-11.8%	101.0	18.8%	256.1	203.1	26.1%
Net Property Margin								
Retail								
Pavilion KL	68.7%	71.1%		70.8%		69.9%	71.2%	
Pavilion Bukit Jalil	50.6%	52.5%		51.1%		51.5%	51.1%	
Intermark Mall	40.1%	39.8%		39.6%		39.9%	42.1%	
DA MEN	-49.8%	-58.9%		-64.0%		-54.1%	-68.8%	
Pavilion Elite	55.8%	60.9%		58.6%		58.7%	58.6%	
Office								
Pavilion Tower	38.6%	13.8%		42.7%		26.5%	32.0%	
TOTAL	59.6%	62.2%		63.1%		61.0%	64.2%	

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.				
Stocks Under Coverage																	
AXIS REIT	MP	1.84	1.74	-5.4%	3,215.4	Y	12/2024	9.4	10.4	10.1%	10.7%	19.6	17.7	1.1	5.8%	8.7	4.7%
CAPITALAND MALAYSIA TRUST	UP	0.655	0.580	-11.5%	1,856.4	N	12/2024	4.4	4.7	8.7%	5.5%	14.8	14.0	0.7	5.0%	4.3	6.6%
IGB REIT	MP	1.92	1.68	-12.5%	6,929.7	N	12/2024	10.5	10.7	-2.5%	2.3%	18.4	18.0	1.8	9.8%	9.7	5.1%
KLCCP STAPLED GROUP	OP	7.42	8.00	7.8%	13,395.6	Y	12/2024	44.7	46.3	13.6%	3.7%	16.6	16.0	1.0	5.2%	42.5	5.7%
PAVILION REIT	OP	1.41	1.59	12.8%	5,156.2	N	12/2024	9.7	10.4	23.7%	7.4%	14.6	13.6	1.1	7.2%	9.0	6.4%
SUNWAY REIT	MP	1.60	1.65	3.1%	5,479.7	N	12/2024	10.5	11.2	2.7%	6.6%	15.3	14.3	1.1	6.5%	8.8	5.5%
SECTOR AGGREGATE					36,033.0					9.5%	5.2%	16.5	15.7	1.1	6.6%		5.7%

Source: 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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