

Pavilion Reit's outlook in tact on strong retail sales: RHB Research

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RHB Research maintained "Buy" on the stock with a target price of RM1.57. NSTP/ASYRAF HAMZAH

KUALA LUMPUR: RHB Research remains positive on Pavilion Real Estate Investment Trust (Pavilion Reit) outlook on the back of strong retail sales momentum.

It said Pavilion Reit's fourth quarter (Q4) core profit of RM65 million, which brought financial year 2022 (FY22) earnings to RM246 million, was in line with expectations at 104 per cent and 105 per cent of the firm and consensus' estimates.

"Pavilion Reit's FY22 earnings met expectations, with numbers improving across all segments. With the retail sales momentum remaining strong, and Pavilion Kuala Lumpur (PKL) well positioned to benefit from the increasing number of tourists, we remain positive on the Reit's outlook.

"As the occupancy rate is a non-concern for its flagship mall, rental reversion is expected to be c.5-6 per cent in FY23," it said.

RHB Research noted that the retail blended occupancy rate had improved from 84 per cent in 2021 to 86 per cent, as all of Pavilion Reit's shopping malls reported better numbers, although this was still below 2019's blended occupancy rate of 93 per cent.

PKL led the recovery, with net property yield (NPI) for the quarter improving 19.1 per cent year-on-year (YoY) and its occupancy rate growing from 90.2 per cent in Q4 2021 to 91.6 per cent.

Da Men Mall continued to be loss-making with a net property loss of RM7.10 million in FY22 (FY21: -MYR9.18 million), but Pavilion Reit hoped it would return to black in FY23, with new tenants expected to come in.

"The blended rental reversion in FY22 was at 4.0-5.0 per cent, with management guiding for a higher 5.0-7.0 per cent rental reversion in FY23 on the back of the strong retail momentum," it said.

It added that 30 per cent of PKL's footfall pre-pandemic came from foreign tourists, with roughly 50 per cent of that group coming from China.

"With the Reit already reporting normalised earnings without China tourists in FY22, the opening of the country's borders is expected to provide another boost in the upcoming year."

RHB Research adjusted its FY23-24 earnings forecasts by 4.0-6.0 per cent and introduced FY25 net profit forecasts of RM382 million.

"The acquisition of Pavilion Bukit Jalil is still expected to be completed in Q2 2023, and will help pare down the Reit's current reliance on PKL," it said.

RHB Research maintained "Buy" on the stock with a target price of RM1.57.