

Positive earnings projection for Pavilion REIT

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Research firms said Pavilion Real Estate Investment Trust's (REIT) earnings outlook is still favourable, supported by increasing rental income and lower property operating costs.

For the fiscal year that concluded on December 31, 2022 (FY2022), Pavilion REIT's net profit improved by 217.6 per cent to RM397.80 million from RM125.24 million the year before, while revenue increased by 17 per cent to RM569.69 million from RM488.59.

According to MIDF Research, Pavilion REIT's earnings for FY2022 were a little bit higher than expected.

The earnings recovery was primarily supported by a recovery in rental income from its shopping complex when the economic and international borders were reopened.

"We revised our forecast for its FY2023 core net earnings upwards by 40 per cent after factoring in the lower maintenance expenses and contribution from Pavilion Bukit Jalil as well as placement exercise," it said in a research note today.

After the acquisition is complete, MIDF anticipates Pavilion Bukit Jalil positively increase earnings for FY2023.

As a result of a favourable earnings expectation for Pavilion REIT, the research firm is keeping its "buy" call with a revised target price (TP) of RM1.63 from the previous RM1.56.

It said that the increased tourism, notably from China, is anticipated to boost tenant sales at Pavilion KL Mall and Elite Pavilion Mall as well as increase consumer foot traffic.

According to a separate note from Hong Leong Investment Bank, the core net profit of RM246.4 million for Pavilion REIT's FY2022 was in line with forecasts,

"The stellar showing was due to expansion in rental income and revenue rent alongside significantly lower rental rebates in FY2022, while the occupancy rates for its retail properties also saw steady improvement," it said.

HLIB said that Chinese tourists make up about half of the 30 per cent of foreign visitors to Pavilion KL, therefore the reopening of the Chinese border is expected to increase foot traffic at the mall.

As a result, it has kept its "buy" rating on the company and raised the target price (TP) from RM1.38 to RM1.44.

With a slightly higher target price (TP) of RM1.43 compared to the prior RM1.42, Kenanga Research also reiterated its "outperform" call on Pavilion REIT.

The research firm noted that given the rising inflationary environment and cloudy economic outlook, any decline in domestic consumer spending power may be mitigated by the predicted increase in foreign visitor arrivals.