


Pavilion REIT to see further footfall recovery on China reopening

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KUALA LUMPUR: The recovery in Pavilion Real Estate Investment Trust  's (REIT) earnings, which is showing signs of normalisation, is expected to receive another boost from the reopening of China's borders and the inflow of tourists from the country.

Pavilion REIT had guided that 30% of its Pavilion Kuala Lumpur footfall pre-pandemic came from foreign tourist, with about 50% of that group coming from China.

"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," said RHB Research in its company update.

Following the release of the REIT's 4Q22 results, RHB said its performance met expectations, with numbers improving across all segments.

The REIT's 4Q core profit of RM65mil brought its total FY22 earnings to RM246mil, which was nearly double the earnings of the previous year.

RHB reported that the REIT's revenue and net property income in the quarter improved 17% year-on-year, mainly attributed to higher rental billings and turnover rent.

Pavilion REIT's management has guided for a higher rental reversion of 5-7% in FY23 on the back of strong retail momentum, up from 4-5% in FY22.

RHB said its own forecast for rental reversion in FY23 was 5-6%, as occupancy rate is a non-concern for Pavilion KL.

"We adjust FY23-24F earnings by 4-6% and introduce our FY25 net profit forecast of MYR382mil," said RHB.

Subsequently, the research firm maintained its "buy" call on the REIT with a higher target price of RM1.57, from RM1.52 previously.

Meanwhile, RHB noted that the acquisition of Pavilion Bukit Jalil is still expected to be completed in 2Q23, which will help to reduce the REIT's reliance on Pavilion KL.

It also noted that Pavilion REIT has entered into a memorandum of understanding with Tanah Hijauan to explore the purchase of green electricity generated by the latter's solar power plant for Pavilion KL and Intermark Mall.

MIDF Research, in its own update, said it maintained its positive earnings outlook on Pavilion REIT given the higher tourist arrivals, particularly from China, and improved tenant sales at Pavilion KL and Elite Pavilion Mall.

The research firm maintained "buy" on the REIT with a higher target price of RM1.63, from RM1.56 previously.