

Pavilion REIT to shine thanks to China's reopening, says Rakuten

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Rakuten Trade places a “buy” call on Pavilion REIT with a target price of RM1.60.

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PETALING JAYA: Pavilion REIT, with its great retail concentration, is expected to see its distributable income rebound strongly following China's reopening and the expected return of foreign tourists.

Rakuten Trade Sdn Bhd is optimistic about the REIT's prospects, with its addition of Pavilion Bukit Jalil (PBJ) expected to lift the group's FY2023 and FY2024 distributable income.

“We forecast Pavilion REIT to register distributable incomes of RM302.8 million and RM378.4 million for FY2023 and FY2024 respectively,” said Rakuten.

“Based on a payout ratio of 100%, we expect Pavilion REIT to distribute 8 sen and 8.7 sen for FY2023 and FY2024, translating into yields of 6.1% and 6.6% respectively,”

Rakuten reaffirmed a “buy” call on Pavilion REIT with a target price of RM1.60 based on a target yield of 5.5% for its FY2024 distribution.

The REIT’s largest contributor currently is Pavilion Mall KL, which has a net lettable area of 1.35 million sq ft, and makes up 87% of its net property income.

Pavilion Mall KL’s occupancy rate has gradually improved to 92% according to the latest quarterly report.

“We expect occupancy to reach pre-pandemic levels of 98%-99% by the second half of 2023 supported by the return of foreign tourists particularly from China,” said Rakuten.

Other assets belonging to Pavilion REIT include Elite Pavilion Mall, Da Men Mall, Pavilion Tower and Intermark Mall.

In November 2022, Pavilion REIT announced the acquisition of PBJ from Regal Path for RM2.2 billion.

Pavilion REIT will finance the acquisition with bank borrowings and issuance of 1.27 billion new units in two private placements spread between the first tranche of RM720 million and the second tranche of RM550 million.

“Management-guided PBJ has significant growth potential due to its low base, as the current average rental per sq ft is only in the high single digit (range),” added Rakuten.

This is in comparison to average rental costs in the mid-teens of other suburban malls.

At noon break, Pavilion REIT was down 0.67% or 1 sen at RM1.31, giving it a market capitalisation of RM4.01 billion.