

Pavilion-REIT's earnings resilient


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Maybank IB expects Pavilion-REIT's earnings to remain resilient, largely backed by Pavilion KL's prime location and potential growth from Pavilion Bukit Jalil from the third quarter of 2023.

PETALING JAYA: Pavilion Real Estate Investment Trust  (Pavilion-REIT), which specialises in retail assets, is set to benefit from the reopening of China's borders.

Maybank Investment Bank Research (Maybank IB), in a report yesterday, said assets such as Pavilion KL, Elite Pavilion and Intermark mall would gain.

"Traffic footfall has recovered to pre-Covid levels in 2022 even before China's reopening.

"China's reopening should benefit Pavilion-REIT further with higher footfall in its malls alongside 'revenge spending' by Chinese tourists from the second quarter of 2023, onwards," the research house said.

ADVERTISING

Pre-Covid, Maybank IB noted that around 30% of Pavilion KL's footfall were foreign tourists, of which 11% to 20% were from China.

Pavilion-REIT's strategies to attract tourists include providing VIP services such as its UnionPay lounge and working closely with various inbound tour agencies.

Additionally, Maybank IB expects Pavilion-REIT's earnings to remain resilient, largely backed by Pavilion KL's prime location and potential growth from Pavilion Bukit Jalil from the third quarter of 2023.

"As at end-February 2023, the committed tenancy at Pavilion Bukit Jalil was 81.4%, where 75% of the space is now already open.

"Based on the condition precedent for the first tranche of acquisition payment, the vendor needs to achieve a billable rental of 80% occupancy with average rental of RM9.50 per month per sq ft."

Maybank IB said it is maintaining Pavilion-REIT's financial year (FY) 2023 to 2024 earnings and is introducing its earnings forecast for FY2025.

"The acquisition of Pavilion Bukit Jalil is expected to be completed by end-May 2023.

"Management is guiding for a positive mid-single-digit rental reversion for the REIT as a whole in 2023.

"Our financial model has incorporated Pavilion Bukit Jalil, with expected net property income of RM39mil (seven months contribution) and RM84mil in FY 2023 and FY2024 respectively."

For FY2022 ended Dec 31, 2022, Pavilion-REIT's net profit grew to RM397.80mil from RM125.24mil a year earlier, while revenue grew to RM569.69mil from RM488.59mil.

In its notes on its FY2022 performance, Pavilion-REIT said consumers in Malaysia continued to be cautious in their spending due to the uncertainties in the domestic and global economy of inflationary pressures, rising cost of living besides the projected slowdown in the international economy.

"However, despite these challenges, it is expected that domestic demand will anchor the economy amid a steady recovery in the labour market, as well as further strengthening in the tourism-related sectors leading to an increase in corporate earnings.

"The reopening of China's borders will also attract Chinese tourists that would spur the local economy and tourism businesses," it said.

The company expects retail sales to normalise.

“Pavilion-REIT malls will continue to elevate its retail mix, create immersive experiences and encourage shopper-interaction with targeted campaigns.”