Tourist arrivals a boon for Pavilion-REIT

thestar.com.my/business/business-news/2023/04/26/tourist-arrivals-a-boon-for-pavilion-reit

The Star Online

26 April 2023

MIDF Research said that while its earnings forecasts are unchanged for financial years 2023 (FY23), FY24, FY25, it sees better earnings outlook for Pavilion-REIT as its flagship Pavilion KL mall is a tourist hotspot.

PETALING JAYA: The earnings outlook for Pavilion Real Estate Investment Trust (Pavilion-REIT) is set to be bright in the near term due to higher tourist arrivals and acquisition of Pavilion Bukit Jalil mall (PBJ Mall), according to analysts

MIDF Research said while it makes no changes to its earnings forecasts for the financial year 2023 (FY23), FY24, FY25, it sees a better earnings outlook for Pavilion-REIT as its flagship Pavilion KL mall, which is a tourist hotspot.

That would support tenant sales growth and positive rental reversion outlook, it said, adding that earnings outlook would also be supported by the acquisition of PBJ Mall.

The research house said it is maintaining its “buy” call on the company with a target price of RM1.63.

“We remain positive on Pavilion-REIT as shopper footfall at Pavilion KL Mall and Elite Pavilion Mall is expected to recover further due to higher tourist arrivals.

“That will underpin a positive earnings outlook going forward. Meanwhile, distribution yield is estimated at 6%,” it noted.

With the acquisition of PBJ Mall, the company said in a statement that Pavilion-REIT’s portfolio base is expected to increase to RM8.3bil from RM6bil.

To partly fund the purchase, Pavilion-REIT would undertake two private placement exercises.

As of Feb 28, 2023, the occupancy rate for PBJ Mall was 81.4%.

Kenanga Research said after factoring in contributions from PBJ Mall and fine-tuning the latest figures from the results, it has set its net profit forecasts at RM284.2mil (up 12.4%) for FY23 and RM347.1mil (up 29.8%) for FY24.

“Imputing an enlarged number of units of four billion (up 33% from its existing base) post the private placement exercise (assumed at an issue price of RM1.27), this brings our FY23 and FY24 gross distribution per unit to 8.2 sen (from 8.6 sen) and 8.8 sen (from 9.1 sen), which imply yields of 6.3% and 6.5%, respectively,” it said.

Kenanga Research, which is maintaining its “outperform” call on the stock, however said downside risks to its call include bond yield expansion, lower than expected rental reversions and lower than expected occupancy rates.

Meanwhile, Maybank Investment Bank (Maybank IB) Research said Pavilion-REIT is set to benefit from the reopening of China’s borders.

“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.

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

For its first quarter ended March 31, 2023, Pavilion-REIT’s net profit rose to RM70.05mil from RM65.24mil in the previous corresponding period.

Revenue in the quarter grew to RM156.41mil from RM134.57mil a year earlier.

In a statement, Pavilion-REIT said the growth in quarterly revenue was mainly due to higher contribution from rental income, spurred by increased occupancy, revenue rent, advertising, and marketing income for retail malls.