Pavilion-REIT’s earnings resilience remains intact

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PETALING JAYA: Pavilion Real Estate Investment Trust (Pavilion-REIT) is favoured for its earnings resilience but newly opened premium malls are expected to give it a run for its money.

Affin Hwang Investment Bank Research has maintained its “hold” call on Pavilion-REIT with a revised target price of RM1.33 as it tweaks its 2024 to 2025 earnings per unit forecasts by 1% to 2.5% after updating the full-year 2023 results.

Pavilion-REIT’s realised net profit grew by 15.8% year-on-year (y-o-y) to RM285.3mil in the financial year ended Dec 31, 2023 (FY23), on the back of 31.3% higher revenue of RM723.81mil.

“Overall, the results were in line with our and market’s estimates – 2023 realised net profit accounted for 101% of our and consensus 2023 full-year estimates,” it added.

The research house also raised its cost of equity to 9.3% from 9.2% due to its cautious view over heightened competition among premium retail malls within Bukit Bintang from the opening of The Exchange TRX.

“While we continue to like Pavilion-REIT for its strong branding and strategically located shopping malls, we foresee The Exchange TRX could divert footfall from Pavilion KL due to its close proximity,” it added.

Affin Hwang Investment Bank Research noted that Pavilion-REIT’s borrowing costs rose 57.2% y-o-y in FY23 due to higher borrowing costs from the Pavilion Bukit Jalil (PBJ) Mall acquisition.

Its 2023 net property income (NPI) margin was weaker by 2.6 percentage points y-o-y due to higher utility cost and dilution from PBJ Mall, which fetches a lower NPI margin.

However, AmInvestment Bank Research maintained a “buy” call on Pavilion-REIT with a higher fair value (FV) of RM1.64 from RM1.62 previously based on a revised dividend discount model (DDM).

It said the higher FV stems from raising FY24 to FY25 distributable income by 8% and 10% to reflect higher NPI from PBJ mall.

“We also like the stock due to its resilient earnings.

“This is mainly underpinned by its prime asset portfolio as anchored by Pavilion Kuala Lumpur and Elite Pavilion Mall, which are tourist hotspots that will benefit from the return of international tourists.

“Further increase in earnings is expected from PBJ in 2024.

“We believe PBJ is positioned for a positive rental reversion in 2024, supported by improving traffic footfalls and occupancy rates,” the research house said.

It projects a stable FY24 rental reversion of 5% to 6% for Pavilion-REIT’s prime malls in Bukit Bintang, namely Pavilion Kuala Lumpur and Elite Pavilion Mall on the back of improving tenant sales brought on by the return of foreign tourists.

Similarly, Kenanga Research has an “outperform” call on Pavilion-REIT as its FY23 results met expectations with a notable pick-up in occupancy rates, along with a return in overall consumer spending appetite.

“We believe Pavilion-REIT’s premium retail assets are less vulnerable to downward pressure on occupancy and rental rates amidst rising headwinds in the retail sector on the back of sustained high inflation that hurts consumer spending,” it said.

Kenanga Research has raised its target price to RM1.51 from RM1.47 previously as rolling over its valuation base year to FY25 with a dividend per unit of 9.1 sen.