

Pavilion-REIT's hotel buys to enhance profit


thestar.com.my/business/business-news/2024/12/09/pavilion-reits-hotel-buys-to-enhance-profit

The Star Online

9 December 2024

- [Property](#)
- Monday, 09 Dec 2024



PETALING JAYA: [Pavilion Real Estate Investment Trust](#) 's (Pavilion-REIT) acquisition of two hospitality assets is set to spur the group's earnings from the financial year ending Dec 31, 2026 (FY26) onwards.

Pavilion-REIT announced last week that it is proposing to acquire the Banyan Tree Kuala Lumpur (BTKL) and Pavilion Hotel Kuala Lumpur (PHKL) in the Bukit Bintang area for a combined RM480mil.

MIDF Research said the acquisitions are earnings accretive and will lift FY26 earnings by 10.6%.

“Nevertheless, earnings per unit is expected to dilute by 9% post placement of shares (based on a maximum scenario).

“However, we maintain our earnings forecast pending completion of the acquisitions.”

MIDF Research said it is maintaining its target price for Pavilion-REIT at RM1.69, based on a dividend discount model.

“We maintain our ‘buy’ call on Pavilion-REIT as we continue to see a better earnings outlook for the group, driven by stable contribution from Pavilion KL Mall on the back of positive rental reversion and strong shopper footfall.”

Additionally, the research house said the growing contribution from Pavilion Bukit Jalil provides upside to the earnings growth.

“Net distribution yield remains attractive at 5.4%,” it said.

RHB Research, meanwhile, said it remains “neutral” on the acquisition.

“Considering the size of the assets and short-term dilutive impact, we are neutral on the acquisition.

“For our forecasts, we assume Pavilion-REIT will proceed with the minimum scenario as it has ample debt headroom while enhancing its liquidity and we conservatively only include the fixed rental payments.”

RHB Research said there could be more upside from the variable rent due to positive operating synergies with Pavilion Kuala Lumpur, as better marketing strategies would boost the performance of both hotels.

“The acquisitions are expected to be completed by the second half of 2025.

“As such, we raise our FY25 and FY26 earnings forecasts by 1% and 2%, while our dividend per unit forecasts drop by 1% and 2%, respectively, due to the higher share base.”

In a statement last week, Pavilion-REIT Management Sdn Bhd said the REIT’s trustee, MTrustee Bhd, had entered into a conditional sale and purchase agreement with Lumayan Indah Sdn Bhd for the acquisition of BTKL at a purchase consideration of RM140mil, and a separate conditional agreement with Harmoni Perkasa Sdn Bhd for the acquisition of PHKL for RM340mil.

“The acquisitions align with Pavilion-REIT’s strategy which contributes positively to the overall portfolio and future growth, while also generating stable and sustainable income for unitholders.

“Acquiring these iconic hospitality assets reinforces our commitment to delivering premium offerings while capitalising on synergistic opportunities with Pavilion Kuala Lumpur Mall,” said Pavilion-REIT Management chief executive officer Datuk Philip Ho.

The acquisitions will be funded via a combination of debt and/or equity, with Pavilion-REIT proposing a private placement of new units to raise gross proceeds of between RM264mil and RM552mil.

The hotels have been operated and managed by Banyan Tree Hotels & Resorts Pte Ltd, a part of Singapore-listed Banyan Tree Holdings Ltd, since their opening in 2018.

According to Pavilion-REIT, BTKL and PHKL had consistently achieved average occupancy rates of 83% and 82.2%, respectively, up to Sept 30, 2024.