# HLIB Downgrades Pavilion REIT Post Rally

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Hong Leong Investment Bank Bhd (HLIB) has downgraded Pavilion Real Estate Investment Trust (Pavilion REIT) to **HOLD** from Buy, despite raising its target price to RM1.85 from RM1.77. The research house said the recent rally in Pavilion REIT's share price, which closed at RM1.95, has made its risk-reward balance less compelling, even as operational and cost factors continue to improve.

HLIB said Pavilion REIT's outlook remains resilient, supported by the rebranding of Da Men Mall into Easyhome Mall and the easing of financing and electricity costs. The rebranding effort, through a master lease agreement with China-based Easyhome International, marks a turnaround for the Subang Jaya asset, which has been loss-making since 2020. Easyhome took over operations in April and has begun refurbishment works, with the mall expected to reach breakeven from October.

The research house noted that Easyhome Mall's current occupancy stands at about 33%, with anchor tenants such as Jaya Grocer and Big Pharmacy continuing operations during the transition. HLIB viewed the new arrangement positively, citing its potential to stem net property income erosion and allow for future profit sharing should performance exceed expectations.

On the cost side, HLIB said Pavilion REIT is expected to benefit from margin support following a 25-basis-point cut in the Overnight Policy Rate (OPR) in July 2025. With roughly 80% of borrowings on floating rates, the REIT could see financing costs decline by around 20 basis points, translating to annual savings of approximately RM6 million, or 1.6% of forecast FY26–27 earnings. Electricity costs have also eased, with the management reporting savings of around RM100,000 monthly between June and August.

While the new 8% sales and service tax (SST) may pose a mild headwind, management remains confident that resilient traffic and a stronger tenant mix will sustain the REIT's performance. Footfall and tenant sales have shown no signs of weakening since the SST implementation. Pavilion Bukit Jalil, one of its key assets, continues to perform strongly, with occupancy at 90% and on track to reach 95% by year-end, supported by rising interest from Chinese retailers.

Reflecting the lower financing and operating costs, HLIB has raised its earnings forecasts for Pavilion REIT by 1.0%, 2.6%, and 2.5% for FY25, FY26, and FY27 respectively. The research house maintained that Pavilion REIT's prospects remain underpinned by a favourable tourism outlook, which should continue to boost footfall and tenant spending across its portfolio, including Pavilion KL and Pavilion Elite. However, after a sharp rally in share prices, HLIB said the valuation has caught up, leading to its downgrade to Hold.

As of 11 am, the stock price noted a decrease of 1.03% (RM1.930).