Pavilion-REIT expects modest rental growth

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CGSI Research anticipates Pavilion-REIT to deliver stronger earnings in FY25.

PETALING JAYA: Pavilion Real Estate Investment Trust (Pavilion-REIT) expects low-to-mid single-digit rental revision for the financial year 2025 (FY25).

It will also benefit from tourism-driven initiatives and promotions related to Malaysia's 2025 Asean Chairmanship and the Visit Malaysia 2026 campaign.

Prime malls such as Pavilion KL and Elite Pavilion Mall are well-positioned to capitalise on these opportunities, enhancing their performance further, said Hong Leong Investment Bank (HLIB) Research.

Meanwhile, CGS International (CGSI) Research anticipates Pavilion-REIT to deliver stronger earnings in FY25, underpinned by higher tenant sales and an improved portfolio occupancy rate.

Additionally, some 52% of Pavilion KL's total net lettable area is due for renewal in FY25.

The full-year contribution of a luxury brand tenant in Pavilion KL, namely Louis Vuitton (which started its store in July 2024), would also help lift the mall's turnover rental income, the research house said.

CGSI Research, which applauded the improvement in Pavilion Bukit Jalil's (PBJ) occupancy rate in the fourth quarter of the financial year 2024 (4Q24), believes that the mall will not be able to meet its targeted new product introduction of RM146mil on an annualised basis by mid-2025.

This may lead to an unfavourable downward revision in PBJ's valuation, resulting in a higher gearing ratio, in its view.

UOB Kay Hian (UOBKH) Research increased its 2025 to 2027 earnings forecasts by 3% to 6% to factor in a higher-than-expected contribution from PBJ.

Furthermore, it included the remaining purchase consideration of RM400mil for PBJ in 2025.

It expects overall rental reversion to be at the high end of management's guidance of 3% to 5% year-on-year (y-o-y) (versus 5% y-o-y in 2024) due to inflationary pressures.

It said management's outlook on consumer spending for 2025 was mixed due to inflationary concerns and the rationalisation of the petrol subsidy.

However, spending should be supported by higher discretionary spending after the wage hikes and an increase in the number of tourists.

MIDF Research said the long-term earnings outlook for Pavilion-REIT remains solid. RHB Research said that post-results, it made minor adjustments to its earnings forecasts and introduced FY27 earnings of RM418mil. AmInvestment Research said the FY25 distribution yield of 6.5% still offers an appealing spread of 268 basis points from the present 10-year Malaysian Government Securities (MGS) yield of 3.82%.

HLIB Research's target price (TP) is based on the FY25 distribution per unit (DPU) and a targeted yield of 5.8%. This was derived from the post-pandemic historical average spread between Pavilion-REIT and the 10-year MGS, it said.

Most research houses reiterated their "buy" calls, while CGSI Research maintained an "add" stance on the stock.

MIDF Research, UOBKH Research and HLIB Research have set a TP of RM1.69 per share, while RHB Research has a TP of RM1.74, CGSI Research, RM1.78 and AmInvestment, RM1.80.

Pavilion-REIT closed unchanged at RM1.54 a share yesterday.

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