

Research houses upbeat on Pavilion REIT, maintain 'buy' call

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Pavilion REIT's core net income of RM70.1 million for Q1 FY2023 was in line with consensus expectations.

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Pavilion KL mall contributed a NPI of RM91.4 million, up 14% year-on-year, and accounting for a lion's share of 90% of total NPI for Pavilion Real Estate Investment Trust.

PETALING JAYA: Pavilion Real Estate Investment Trust (Pavilion REIT)'s financial results for their first quarter ended March 31, 2023 has earned a reiterated 'buy' call from various research houses.

MIDF Research, AmlInvestment Bank Bhd, Kenanga Investment Bank Bhd and RHB Securities are among the houses reaffirming the positive call on the counter.

The core net income of RM70.1 million, which was 7.7% higher compared to the preceding quarter, made up 25% of consensus estimates for full FY2023 profit.




"Despite higher property operating expenses stemming from the electricity tariff surcharge and higher spending for marketing campaigns, its net property income (NPI) yield was at a healthy 65% (FY2022: 64%)," said RHB.

In a Bursa filing, Pav REIT said that total property operating expenses were higher by RM13.7 million or 34% as compared to Q1 2022 mainly due to the increase of electricity tariff surcharge.

The hike from 3.7 sen to 20 sen per kilowatt hour (kWh) was imposed by the government from Jan 1, 2023 onwards.

The REIT's crown jewel, Pavilion KL mall, contributed a NPI of RM91.4 million, up 14% year-on-year, and accounting for a lion's share of 90% of total NPI for the REIT.

The Elite Pavilion Mall (EPM) in Kuala Lumpur contributed a NPI of RM9.9 million.

RESEARCH HOUSE	RECOMMENDATION	TARGET PRICE (RM)
	Buy	1.63 (unchanged)
	Buy	1.62 (RM1.51) *fair value
	Outperform	1.47 (RM1.30)
	Buy	1.57 (unchanged)

INFOGRAPHICS



Bukit Jalil acquisition on track

The acquisition of Pavilion Bukit Jalil (PBJ) mall is expected to be completed in Q2 2023 following approval by unitholders.

Apart from the shopping mall, the strategic link bridges, underpasses, tenancies, car park bays, utilities and ancillary components are included in the acquisition plan.

Manager and CEO of Pavilion REIT Philip Ho has said that the acquisition of PBJ is expected to contribute positively to its future growth, enlarging its portfolio base to RM8.3 billion from RM6 billion.

AmlInvest and Kenanga raised forecasts for the group's FY2023 and FY2024 net profit to account for the acquisition of PBJ.

"We have set our net profit forecasts at RM284.2 million (+12.4%) for FY2023 and RM347.1 million (+29.8%) for FY2024," said Kenanga.

“Post the acquisition, we are projecting that PBJ will rake in a NPI of RM53 million (half-year contribution; based on an occupancy rate of 85%) in FY2023 and RM118 million (based on an occupancy rate of 90%) in FY2024.”

Meanwhile, AmInvest raised their FY2024 and FY2025 distributable income forecasts by 7% and 8% respectively to reflect higher rental rate assumptions for PBJ.

In addition to the benefits from PBJ, tenant sales are expected to be bolstered by a resilient domestic economy and an increasing number of tourists.

RHB Securities noted that the REIT management previously indicated that 30% of Pavilion KL’s pre-pandemic footfall came from foreign tourists.

The majority of foreign tourists contributing to the footfall (50%) were from China, making RHB confident that the border reopening will be a boost for the mall.

Major risks to the calls include weaker-than-expected retail performance, occupancy rates, and rental reversions.