

Pavilion REIT (PREIT MK)

A strong finish to FY21

Upgrade to BUY

4Q21 core net profit and final gross DPU of 2.58sen (FY21: 4.41sen) were above our expectations. YoY growth for 4Q21 was largely driven by sustained performances of Pavilion KL, Elite Pavilion Mall and Intermark Mall but partly dragged by Da Men Mall and office tower. We tweak our FY22/23E estimates by <1%. We U/G PavREIT to a BUY with an upside of 17% to our unchanged DDM-TP of MYR1.40 (Ke: 7.9%).

Strong NPI margin in 4Q21

Excluding revaluation loss of MYR0.6m, 4Q21 core net profit was MYR54.2m (+35% YoY, +171% QoQ), lifting FY21 core earnings to MYR125.9m (+8% YoY), accounting for 120%/108% of our/consensus' full-year estimates. The discrepancies were mainly due to lower-than-expected rental rebates and finance cost. Topline in 4Q21 declined 5% YoY to MYR124.3m due to lower occupancy rates at all its assets except Elite Pavilion Mall. This, however, was mitigated by lower operating expenses, namely rental rebates and utilities cost. Overall, NPI margin for 4Q21 was at its all-time high since the pandemic at 66.5%, bringing its FY21's NPI to MYR236.6m (+1.3%).

Marginal forecast changes

We tweak our FY22/23E net profit forecasts by <1% post full-year FY21 results adjustments and maintain our key assumptions across PavREIT assets. We also introduce our FY24 forecasts.

Outlook for FY22

Management is upbeat on its FY22's outlook, with positive rental reversion of between 3%-5%. We note that 55% of NLA (~1.28m sq.ft.) are due for renewal in 2022, these being mainly its anchor tenants. Meanwhile, the decision to acquire Pavilion Bukit Jalil is only expected to be known in the next 9-12months. However, we have yet to impute new assets into our forecasts, pending the confirmation. PavREIT's end-FY21 gross gearing was a decent 0.35x.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	510	489	597	610	624
Net property income	234	237	321	375	369
Core net profit	117	126	197	248	241
Core EPU (sen)	3.8	4.1	6.4	8.1	7.8
Core EPU growth (%)	(53.0)	7.7	55.7	26.1	(3.2)
Net DPU (sen)	3.7	4.0	6.3	7.8	7.6
Net DPU growth (%)	(51.4)	6.8	57.7	24.5	(2.9)
P/NTA (x)	1.2	1.0	1.0	0.9	0.9
Net DPU yield (%)	2.5	3.2	5.0	6.2	6.1
ROAE (%)	3.0	3.3	5.0	6.2	5.9
ROAA (%)	1.9	2.0	3.1	3.9	3.7
Debt/Assets (x)	0.35	0.35	0.34	0.34	0.33
Consensus Net DPU	-	-	5.7	6.8	na
MKE vs. Consensus (%)	-	-	10.4	13.9	na

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BUY

[Prior:HOLD]

Share Price	MYR 1.25
12m Price Target	MYR 1.40 (+17%)
Previous Price Target	MYR 1.40

Company Description

Pavilion Real Estate Investment Trust invests in a diversified portfolio of income producing real estate properties used for retail purposes.

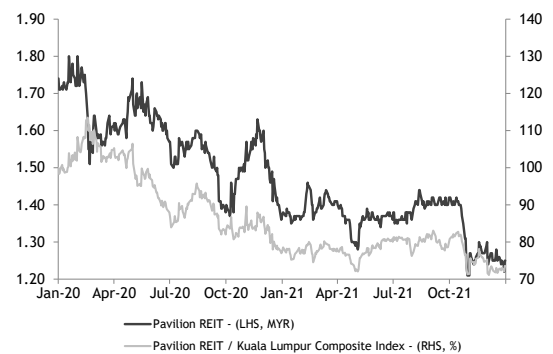
Statistics

52w high/low (MYR)	1.46/1.21
3m avg turnover (USDm)	0.4
Free float (%)	19.8
Issued shares (m)	3,050
Market capitalisation	MYR3.8B USD908M

Major shareholders:

Qatar Holding LLC	33.1%
LIM SIEW CHOON	27.7%
Employees Provident Fund	9.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(12)	(9)
Relative to index (%)	(2)	(8)	(5)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	12MFY21	12MFY20	% YoY
Gross revenue	124.3	130.8	(5.0)	113.3	9.7	488.6	510.2	(4.2)
Net property income	82.7	68.5	20.8	47.5	74.2	236.6	233.5	1.3
Interest income	1.1	1.3	(15.3)	1.2	(8.5)	4.7	6.4	(26.8)
Revaluation gains/(loss)	(0.6)	(70.3)	(99.1)	0.0	NM	(0.6)	(70.3)	(99.1)
Non-property expenses	(7.5)	(6.9)	7.9	(6.5)	15.6	(27.2)	(27.4)	(0.7)
Finance costs	(22.1)	(22.8)	(2.9)	(22.2)	(0.4)	(88.2)	(95.8)	(8.0)
Pretax profit	53.6	(30.3)	<-100	20.0	>100	125.2	46.3	>100
Tax	0.0	0.0	NM	0.0	NM	0.0	0.0	NM
Net profit	53.6	(30.3)	<-100	20.0	>100	125.2	46.3	>100
Net profit ex-EI	54.2	40.0	35.4	20.0	>100	125.9	116.7	7.9
Distributable income	56.6	42.4	33.4	22.1	>100	134.7	125.8	7.0
EPU (sen)	1.8	(1.0)	(276.0)	0.7	>100	4.1	1.5	>100
Gross DPU (sen)	2.6	2.5	2.4	0.0	NM	4.4	4.1	6.8
	4QFY21	4QFY20	+/- ppt	3QFY21	+/- ppt	12MFY21	12MFY20	+/- ppt
<i>Net property margin (%)</i>	66.5	52.3	14.2	41.9	24.6	48.4	45.8	2.7
<i>Net income ex-EI margin (%)</i>	43.6	30.6	13.0	17.7	26.0	25.8	22.9	2.9
SEGMENTAL	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	12MFY21	12MFY20	% YoY
Revenue								
Pavilion KL Mall	99.4	106.0	(6.3)	91.8	8.3	396.4	410.2	(3.4)
Intermark Mall	5.7	6.4	(11.7)	5.7	(1.4)	23.5	25.6	(8.5)
DA MEN Mall	3.0	3.0	(0.2)	2.6	12.6	11.4	13.2	(13.9)
Elite Pavilion Mall	13.5	12.6	7.7	10.4	29.9	46.3	50.0	(7.5)
Pavilion Tower	2.7	2.8	(3.7)	2.8	(2.7)	11.0	11.2	(1.0)
Total	124.3	130.8	(5.0)	113.3	9.7	488.6	510.2	(4.2)
Net property income								
Pavilion KL Mall	69.8	61.1	14.3	44.8	55.7	213.0	208.9	2.0
Intermark Mall	2.9	2.7	9.0	1.6	81.9	8.9	11.1	(20.3)
DA MEN Mall	(1.1)	(2.7)	(60.6)	(3.2)	(67.3)	(9.2)	(11.2)	(18.3)
Elite Pavilion Mall	9.4	5.6	67.2	2.5	272.7	18.5	18.6	(0.5)
Pavilion Tower	1.6	1.8	(9.9)	1.8	(9.1)	5.5	6.2	(11.8)
Total	82.7	68.5	20.8	47.5	74.2	236.6	233.5	1.3

Source: Trust, Maybank IBG Research

Risk statement

There are several risks to our earnings estimates, target price and rating for PavREIT. Changes in rental rates, occupancy rates, operating expenses, and interest rates may lead to lower earnings for PavREIT. 61% of Pavilion KL Mall's NLA is due for lease renewal in 2022, while 58% of PavREIT's debts is on floating rate. Another earnings risk would be if the impact from COVID-19 becomes prolonged.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Price/DPU(x)	40.4	31.5	20.0	16.0	16.5
P/BV (x)	1.2	1.0	1.0	0.9	0.9
P/NTA (x)	1.2	1.0	1.0	0.9	0.9
DPU yield (%)	2.8	3.5	5.6	6.9	6.7
FCF yield (%)	5.0	4.6	4.7	5.4	6.0

INCOME STATEMENT (MYR m)

Revenue	510.2	488.6	597.5	609.6	623.7
Net property income	233.5	236.6	321.0	375.5	368.9
Management and trustee fees	(27.4)	(27.2)	(29.3)	(31.3)	(31.6)
Net financing costs	(89.4)	(83.5)	(95.3)	(95.7)	(96.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	116.7	125.9	196.5	248.4	241.3
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	116.7	125.9	196.5	248.4	241.3
Core net profit	116.7	125.9	196.5	248.4	241.3
Distributable inc to unitholders	125.8	134.7	212.8	265.7	258.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	341.2	312.2	274.0	210.9	178.0
Accounts receivable	33.5	42.7	52.2	53.2	54.5
Property, Plant & Equip (net)	2.1	2.1	2.1	2.1	2.1
Investment properties	5,864.2	5,880.7	6,017.7	6,157.1	6,298.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3.0	3.1	3.4	2.9	3.1
Total assets	6,244.0	6,240.8	6,349.4	6,426.2	6,536.5
ST interest bearing debt	1,088.9	395.0	395.0	395.0	395.0
Accounts payable	151.6	125.3	137.4	116.4	126.7
LT interest bearing debt	1,074.4	1,778.3	1,773.3	1,768.3	1,763.3
Other liabilities	69.8	83.8	83.8	83.8	83.8
Total Liabilities	2,384.7	2,382.4	2,389.5	2,363.5	2,368.8
Shareholders Equity	3,859.3	3,858.5	3,959.9	4,062.7	4,167.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	3,859.3	3,858.5	3,959.9	4,062.7	4,167.8
Total liabilities and equity	6,244.0	6,240.8	6,349.4	6,426.2	6,536.5

CASH FLOW (MYR m)

Cash flow from operations	250.0	194.7	199.5	227.5	250.6
Capex	(20.3)	(17.6)	(20.0)	(20.0)	(20.0)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	4.4	10.3	0.0	0.0	0.0
CF from investing activities	(15.9)	(7.3)	(20.0)	(20.0)	(20.0)
Dividends paid	(125.6)	(134.6)	(212.7)	(265.6)	(258.6)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(132.7)	(71.1)	0.0	0.0	0.0
CF from financing activities	(263.3)	(210.7)	(217.7)	(270.6)	(263.6)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(29.2)	(23.3)	(38.2)	(63.1)	(32.9)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.8)	(4.2)	22.3	2.0	2.3
Net property income growth	(37.8)	1.3	35.7	16.9	(1.7)
Core net profit growth	(52.9)	7.9	56.1	26.4	(2.9)
Distributable income growth	(51.3)	7.0	58.0	24.9	(2.7)
Profitability ratios (%)					
Net property income margin	45.8	48.4	53.7	61.6	59.2
Core net profit margin	22.9	25.8	32.9	40.8	38.7
Payout ratio	97.0	96.2	97.4	96.2	96.4
DuPont analysis					
Total return margin (%)	22.9	25.8	32.9	40.8	38.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	3.0	3.3	5.0	6.2	5.9
ROAA (%)	1.9	2.0	3.1	3.9	3.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.6	2.7	2.7	2.8
Net gearing (%) (excl. perps)	47.2	48.2	47.8	48.1	47.5
Net interest cover (x)	2.3	2.5	3.1	3.6	3.5
Debt/EBITDA (x)	10.5	10.4	7.4	6.3	6.4
Capex/revenue (%)	4.0	3.6	3.3	3.3	3.2
Net debt/ (net cash)	1,822.0	1,861.1	1,894.3	1,952.4	1,980.3
Debt/Assets (x)	0.35	0.35	0.34	0.34	0.33

Source: Company; Maybank

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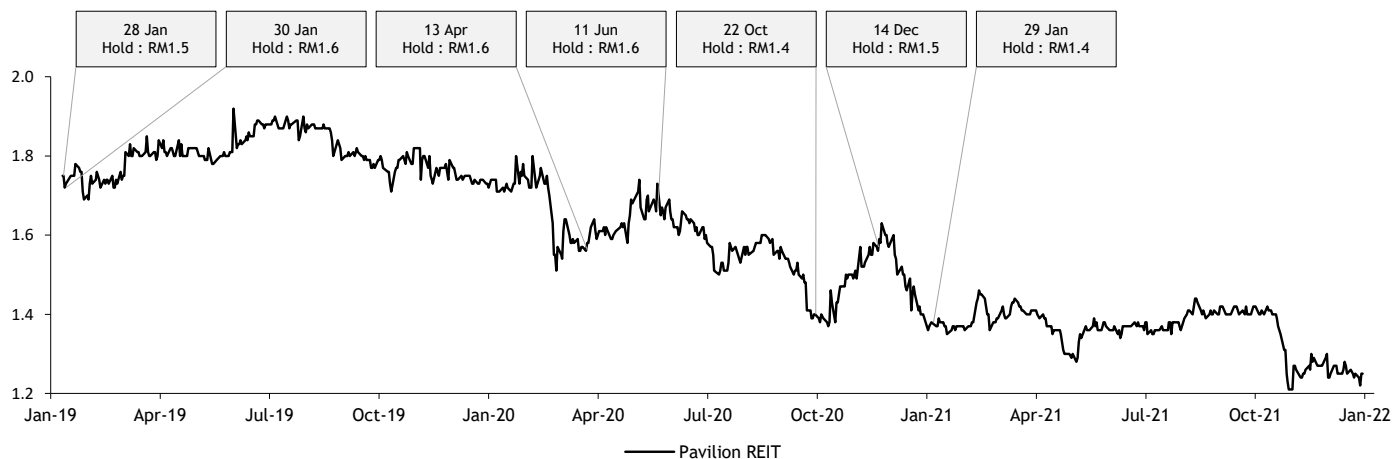
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