

# Pavilion REIT (PREIT MK)

# BUY

Share Price	MYR 1.30
12m Price Target	MYR 1.49 (+21%)
Previous Price Target	MYR 1.40

## 1Q22: A strong quarter

### Results above expectations; maintain BUY

1Q22 results were ahead of our and consensus estimates at 33% of full year forecasts. YoY earnings were mainly driven by sustained performances of Pavilion KL, Elite Pavilion Mall and Intermark Mall, and in the absence of rental assistance to tenants. We adjust higher our FY22-24E earnings forecasts by 24%/5%/14% and raise our DDM-TP to MYR1.49 (Ke: 7.9%). PavREIT now offers above-average FY22E net DPU yield of 5.9% (vs sector's average of 5.2%). Maintain BUY.

### Improved performance by retail assets

1Q22 core net profit was MYR65.2m (+109% YoY, +20% QoQ). This was higher than our expectations due to stronger Pavilion KL and Elite Pavilion Mall's earnings. YoY, 1Q22's bottom-line was mainly driven by; (1) zero rental supports to tenants, (2) higher income from advertising, and (3) write back of impairment loss on trade receivables. Overall, NPI margin for 1Q22 was higher QoQ to 67.7% (+1.2ppt). Notably, occupancy for all PavREIT's assets improved QoQ, except for Pavilion Tower due to non-renewal of tenants.

### Raising estimates

We tweak our FY22-24E net profit forecasts by 24%/5%/14% after excluding rental supports to tenants and adjustments to Pavilion KL and Elite Pavilion Mall's assumptions. Consequently, we raise our DDM-TP to MYR1.49.

### Outlook remain intact

We continue to favour Pavilion KL and Elite Pavilion Mall's earnings outlook which will be largely supported by its prominent location and high footfall traffic. Meanwhile, the decision to acquire Pavilion Bukit Jalil is only expected to be known in the next couple of months. However, we have yet to impute new assets into our forecasts, pending the confirmation. PavREIT's end-March gross gearing was a decent 0.35x.

### Company Description

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

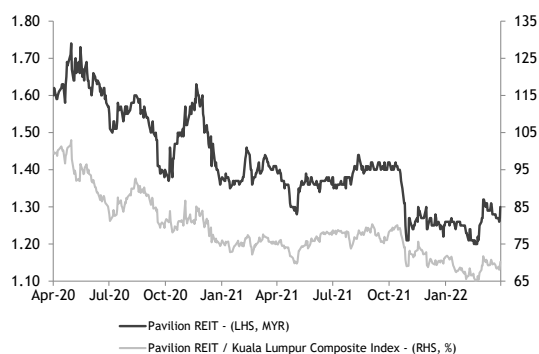
### Statistics

52w high/low (MYR)	1.44/1.20
3m avg turnover (USDm)	0.2
Free float (%)	19.4
Issued shares (m)	3,053
Market capitalisation	MYR4.0B USD910M

### Major shareholders:

Qatar Holding LLC	33.0%
LIM SIEW CHOON	27.7%
Employees Provident Fund	10.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	3	(7)
Relative to index (%)	4	(1)	(6)

Source: FactSet

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	510	489	597	609	622
Net property income	234	237	370	390	403
Core net profit	117	126	243	262	274
Core EPU (sen)	3.8	4.1	8.0	8.5	8.9
Core EPU growth (%)	(53.0)	7.7	92.8	7.4	4.4
Net DPU (sen)	3.7	4.0	7.7	8.2	8.5
Net DPU growth (%)	(51.4)	6.8	92.9	7.1	4.2
P/NTA (x)	1.2	1.0	1.0	1.0	1.0
Net DPU yield (%)	2.5	3.2	5.9	6.3	6.6
ROAE (%)	3.0	3.3	6.2	6.5	6.7
ROAA (%)	1.9	2.0	3.9	4.1	4.2
Debt/Assets (x)	0.35	0.35	0.34	0.34	0.33
Consensus Net DPU	-	-	5.8	6.4	6.9
MKE vs. Consensus (%)	-	-	32.9	28.4	24.2

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly				
	1QFY22	1QFY21	% YoY	4QFY21	% QoQ
Gross revenue	138.8	126.2	10.0	124.3	11.7
<b>Net property income</b>	<b>94.0</b>	<b>58.8</b>	<b>59.7</b>	<b>82.7</b>	<b>13.7</b>
Interest income	1.2	1.2	(2.1)	1.1	11.9
Revaluation gains/(loss)	-	-	NA	(0.6)	(100.0)
Non-property expenses	(7.9)	(6.7)	17.4	(7.5)	5.8
Finance costs	(22.0)	(22.1)	(0.2)	(22.1)	(0.2)
<b>Pretax profit</b>	<b>65.2</b>	<b>31.3</b>	<b>&gt;100</b>	<b>53.6</b>	<b>21.8</b>
Tax	-	-	NA	-	NA
<b>Net profit</b>	<b>65.2</b>	<b>31.3</b>	<b>&gt;100</b>	<b>53.6</b>	<b>21.8</b>
<b>Net profit ex-EI</b>	<b>65.2</b>	<b>31.3</b>	<b>&gt;100</b>	<b>54.2</b>	<b>20.4</b>
Distributable income	67.6	33.5	>100	56.6	19.5
EPU (sen)	2.1	1.0	>100	1.8	21.6
Gross DPU (sen)	-	-	NA	2.6	(100.0)
	<b>1QFY22</b>	<b>1QFY21</b>	<b>+/- ppt</b>	<b>4QFY21</b>	<b>+/- ppt</b>
Net property margin (%)	67.7	46.6	21.1	66.5	1.2
Net income ex-EI margin (%)	47.0	24.8	22.2	43.6	3.4
<b>SEGMENTAL</b>	<b>1QFY22</b>	<b>1QFY21</b>	<b>% YoY</b>	<b>4QFY21</b>	<b>% QoQ</b>
<b>Revenue</b>					
Pavilion KL Mall	111.7	103.7	7.7	99.4	12.3
Intermark Mall	6.0	5.9	2.1	5.7	5.5
DA MEN Mall	3.5	3.1	10.7	3.0	17.3
Elite Pavilion Mall	15.1	10.7	40.7	13.5	11.6
Pavilion Tower	2.5	2.8	(8.8)	2.7	(6.0)
<b>Total</b>	<b>138.8</b>	<b>126.2</b>	<b>10.0</b>	<b>124.3</b>	<b>11.7</b>
<b>Net property income</b>					
Pavilion KL Mall	80.4	54.0	48.8	69.8	15.1
Intermark Mall	2.9	2.1	43.3	2.9	0.8
DA MEN Mall	(0.3)	(2.2)	(85.8)	(1.1)	(69.9)
Elite Pavilion Mall	9.6	3.6	169.1	9.4	2.4
Pavilion Tower	1.4	1.5	(7.1)	1.6	(15.0)
<b>Total</b>	<b>94.0</b>	<b>58.8</b>	<b>59.7</b>	<b>82.7</b>	<b>13.7</b>

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
<b>Key Metrics</b>					
Price/DPU(x)	40.4	31.5	17.0	15.8	15.2
P/BV (x)	1.2	1.0	1.0	1.0	1.0
P/NTA (x)	1.2	1.0	1.0	1.0	1.0
DPU yield (%)	2.8	3.5	6.5	7.0	7.3
FCF yield (%)	5.0	4.6	5.1	6.0	6.3

**INCOME STATEMENT (MYR m)**

Revenue	510.2	488.6	596.7	608.7	622.3
<b>Net property income</b>	<b>233.5</b>	<b>236.6</b>	<b>369.5</b>	<b>389.9</b>	<b>403.3</b>
Management and trustee fees	(27.4)	(27.2)	(30.7)	(31.8)	(32.6)
Net financing costs	(89.4)	(83.5)	(95.4)	(95.9)	(96.3)
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
<b>Pretax profit</b>	<b>116.7</b>	<b>125.9</b>	<b>243.4</b>	<b>262.2</b>	<b>274.5</b>
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
<b>Net profit</b>	<b>116.7</b>	<b>125.9</b>	<b>243.4</b>	<b>262.2</b>	<b>274.5</b>
Core net profit	116.7	125.9	243.4	262.2	274.5
Distributable inc to unitholders	125.8	134.7	260.4	279.7	292.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	341.2	312.2	249.5	202.6	159.3
Accounts receivable	33.5	42.7	52.1	53.1	54.3
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	2.8	2.7	2.7
<b>Total assets</b>	<b>6,244.0</b>	<b>6,240.8</b>	<b>6,324.2</b>	<b>6,417.7</b>	<b>6,517.3</b>
ST interest bearing debt	1,088.9	395.0	395.0	395.0	395.0
Accounts payable	151.6	125.3	112.9	108.8	108.9
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
<b>Total Liabilities</b>	<b>2,384.7</b>	<b>2,382.4</b>	<b>2,365.1</b>	<b>2,355.9</b>	<b>2,351.0</b>
Shareholders Equity	3,859.3	3,858.5	3,959.2	4,061.8	4,166.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>3,859.3</b>	<b>3,858.5</b>	<b>3,959.2</b>	<b>4,061.8</b>	<b>4,166.4</b>
<b>Total liabilities and equity</b>	<b>6,244.0</b>	<b>6,240.8</b>	<b>6,324.2</b>	<b>6,417.7</b>	<b>6,517.3</b>

**CASH FLOW (MYR m)**

<b>Cash flow from operations</b>	<b>250.0</b>	<b>194.7</b>	<b>222.5</b>	<b>257.7</b>	<b>273.9</b>
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
<b>CF from investing activities</b>	<b>(15.9)</b>	<b>(7.3)</b>	<b>(20.0)</b>	<b>(20.0)</b>	<b>(20.0)</b>
Dividends paid	(125.6)	(134.6)	(260.2)	(279.6)	(292.2)
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
<b>CF from financing activities</b>	<b>(263.3)</b>	<b>(210.7)</b>	<b>(265.2)</b>	<b>(284.6)</b>	<b>(297.2)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>(29.2)</b>	<b>(23.3)</b>	<b>(62.7)</b>	<b>(46.9)</b>	<b>(43.3)</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(12.8)	(4.2)	22.1	2.0	2.2
Net property income growth	(37.8)	1.3	56.2	5.5	3.5
Core net profit growth	(52.9)	7.9	93.4	7.7	4.7
Distributable income growth	(51.3)	7.0	93.3	7.4	4.5
<b>Profitability ratios (%)</b>					
Net property income margin	45.8	48.4	61.9	64.0	64.8
Core net profit margin	22.9	25.8	40.8	43.1	44.1
Payout ratio	97.0	96.2	96.2	96.0	95.8
<b>DuPont analysis</b>					
Total return margin (%)	22.9	25.8	40.8	43.1	44.1
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	6.2	6.5	6.7
ROAA (%)	1.9	2.0	3.9	4.1	4.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.6	2.6	2.7	2.7	2.8
Net gearing (%) (excl. perps)	47.2	48.2	48.5	48.3	48.0
Net interest cover (x)	2.3	2.5	3.6	3.7	3.9
Debt/EBITDA (x)	10.5	10.4	6.4	6.0	5.8
Capex/revenue (%)	4.0	3.6	3.4	3.3	3.2
Net debt/ (net cash)	1,822.0	1,861.1	1,918.8	1,960.7	1,999.0
Debt/Assets (x)	0.35	0.35	0.34	0.34	0.33

Source: Company; Maybank IBG Research

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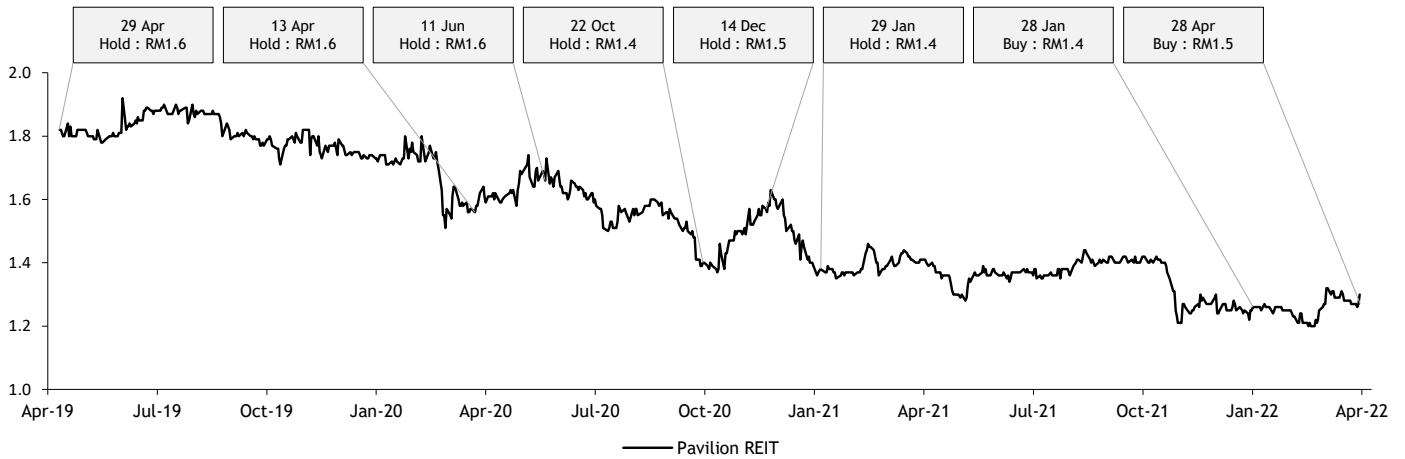
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Historical recommendations and target price: Pavilion REIT (PREIT MK)



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