

Pavilion REIT (PREIT MK)

Adding two hotels to portfolio

NPI yield of 7%; maintain BUY

PREIT has proposed to acquire two hotels operated and managed by Banyan Tree Hotels & Resorts for a total of MYR480m. We are positive on the deal, as it offers EPU and DPU accretion of 0.7%/4.6% in FY25/26E respectively, assuming 100% new placement units to fund the acquisitions. We raise our FY25/26E core net profit forecasts by 4%/8% respectively, and lift our DDM-TP to MYR1.72 (+4 sen), based on an enlarged share base.

Funding via new placements units

PREIT proposed to acquire Banyan Tree Kuala Lumpur (BTKL) and Pavilion Hotel Kuala Lumpur (PHKL) from Lumayan Indah Sdn Bhd (LISB) and Harmoni Perkasa Sdn Bhd (HPSB), for MYR140m and MYR340m respectively. It also proposed to undertake the placement of new units to raise gross proceeds between MYR264m (minimum) to MYR552m (maximum). To part of fully fund the acquisitions, the new units will be placed out to existing major unitholder(s) who are not related parties and/or parties connected in respect to the proposals. PREIT also has the option to issue new units amounting to MYR246.5m to the vendors. The shortfall will be funded via borrowings and/or internally generated funds. The deal is expected to be completed by 1H25. PREIT's gross gearing will be lowered to 0.36x, assuming deal is fully funded via placement (from 0.38x as at Sep 2024).

Fixed rental income with variable arrangements

Both hotels will be leased to HPSB, with Banyan Tree Hotels & Resorts continuing to operate them. The leases are for a term of 10 years, with an option to renew for another 20 years. Both hotels will be on a fixed total annual rental income of MYR33.5m for the first five years of the first term, generating an NPI yield of 7.0%. This rental income will be subject to incremental adjustments of 5%-10% every five subsequent years. In the event its NOI is higher than the fixed rental, PREIT will also be entitled to 40% of the difference. These are the first hospitality assets for PREIT (representing 5.5% of PREIT's enlarged total AUM), which should benefit from higher inbound tourist arrivals into the country.

Raising FY25/26E forecasts

We raise our FY25E/26E earnings by +4%/+8% respectively, as we assume; (1) the acquisitions will be fully funded via new placement units, and (2) fixed rental income from both hotels to commence from Jul 2025 onwards.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	570	724	818	941	983
Net property income	364	459	516	601	633
Core net profit	246	285	309	389	420
Core EPU (sen)	8.1	7.8	8.4	9.1	9.8
Core EPU growth (%)	95.7	(3.3)	8.1	8.3	7.7
Net DPU (sen)	7.5	8.1	8.2	8.8	9.4
Net DPU growth (%)	89.8	7.6	0.5	7.5	7.4
P/NTA (x)	0.9	0.9	1.1	1.1	1.0
Net DPU yield (%)	6.2	6.7	5.4	5.8	6.2
ROAE (%)	6.2	6.3	6.2	7.0	6.9
ROAA (%)	3.9	3.7	3.4	4.0	4.1
Debt/Assets (x)	0.34	0.38	0.36	0.32	0.32
Consensus Net DPU	-	-	8.0	8.3	9.0
MIBG vs. Consensus (%)	-	-	2.3	5.2	4.5

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BUY

Share Price	MYR 1.51
12m Price Target	MYR 1.72 (+19%)
Previous Price Target	MYR 1.68

Company Description

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

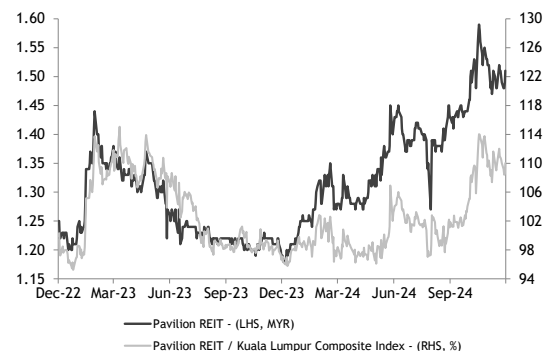
Statistics

52w high/low (MYR)	1.59/1.18
3m avg turnover (USDm)	0.7
Free float (%)	27.7
Issued shares (m)	3,661
Market capitalisation	MYR5.5B USD1.2B

Major shareholders:

Qatar Holding LLC	27.6%
LIM SIEW CHOON	23.1%
Employees Provident Fund	12.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	6	27
Relative to index (%)	(1)	9	14

Source: FactSet

Abbreviations;

NPI - Net Property Income
 NOI - Net Operating Income
 HPSB - Harmoni Perkasa Sdn Bhd (vendor)

Fig 1: A brief summary of the properties

	Banyan Tree Kuala Lumpur (BTKL)	Pavilion Hotel Kuala Lumpur (PHKL)
Vendor	Lumayan Indah Sdn Bhd (LISB)	Harmoni Perkasa Sdn Bhd (HPSB)
Land tenure	Freehold	99 years expiring on 26 October 2109
Strata floor area	10,212 sq. m.	(i) 31,612 sq. m. (ii) 199 sq. m.
Age of building	Approximately 6 years	Approximately 6 years
Occupancy rate	83.0% (Average up to 30 Sep 2024)	82.2% (Average up to 30 Sep 2024)
Audited net book value (as at 31 Dec 2023)	MYR158.05m	MYR328.08m
Market value ascribed	MYR140.0m	MYR350.0m
Building descriptions	Comprises 55 rooms with an average size starting from 51 sq. m., together with 81 parking bays on level 1 and two levels of basement parking within a 59-storey integrated commercial building	Comprises 325 rooms with an average size starting from 32 sq. m., together with 147 parking bays on two levels of basement parking within a 13-storey hotel block erected on Pavilion Kuala Lumpur shopping mall
Fixed annual rental	First five year: MYR10.0m Remaining five year: MYR10.5m	First five year: MYR23.5m Remaining five year: MYR24.675m
Variable rental	If net operating income is higher than the fixed rental, PREIT will be entitled to 40% of the difference	

Source: Company, Maybank IBG Research

Fig 2: Summary of earnings change

FY Dec (MYR m)	Old			Revised		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	818.5	924.4	949.1	818.5	941.2	982.6
Net property income	516.0	583.8	599.4	516.0	600.5	632.9
Core net profit	309.4	373.6	388.8	309.4	388.7	420.0
% change				-	4.0%	8.0%
DPU (sen)	8.2	8.7	9.0	8.2	8.8	9.4
% change				-	0.7%	4.4%
<u>Key assumption changes:</u>						
Number of shares (m)	3,664.4	4,117.7	4,131.2	3,664.4	4,252.6	4,266.8
% change				-	3.3%	3.3%

Source: Maybank IBG Research

Risk statement

There are several risk factors to our earnings estimates, target price and rating for PREIT. Changes in rental rates, occupancy rates, operating expenses, and interest rates may lead to lower earnings for PREIT. 53% of Pavilion KL Mall's NLA, 53% of Elite Pavilion's NLA and 26% of Pavilion Bukit Jalil's NLA are due for lease renewal in 2025, while 88% of PREIT's debts is on floating rate. Another earnings risk would be from another pandemic impacting footfall at the malls.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	16.1	14.9	18.5	17.2	16.0
P/BV (x)	0.9	0.9	1.1	1.1	1.0
P/NTA (x)	0.9	0.9	1.1	1.1	1.0
DPU yield (%)	6.9	7.4	6.0	6.4	6.9
FCF yield (%)	9.4	nm	7.0	7.2	6.8
INCOME STATEMENT (MYR m)					
Revenue	569.7	723.8	818.5	941.2	982.6
Net property income	364.2	459.1	516.0	600.5	632.9
Management and trustee fees	(32.3)	(40.7)	(43.8)	(49.3)	(50.8)
Net financing costs	(85.5)	(133.2)	(162.8)	(162.6)	(162.1)
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	246.4	285.3	309.4	388.7	420.0
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	246.4	285.3	309.4	388.7	420.0
Core net profit	246.4	285.3	309.4	388.7	420.0
Distributable inc to unitholders	255.8	307.4	331.9	414.0	446.1
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	392.3	546.4	509.8	559.8	550.6
Accounts receivable	42.4	55.2	62.4	71.8	74.9
Property, Plant & Equip (net)	2.1	2.1	2.1	2.1	2.1
Investment properties	6,045.6	8,393.0	8,560.8	9,553.4	9,744.4
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	2.9	3.9	4.5	5.0	5.2
Total assets	6,485.3	9,000.6	9,139.5	10,192.1	10,377.2
ST interest bearing debt	800.0	100.0	100.0	100.0	100.0
Accounts payable	184.8	591.6	676.2	761.4	781.6
LT interest bearing debt	1,394.0	3,290.9	3,200.0	3,200.0	3,200.0
Other liabilities	46.4	86.6	86.6	86.6	86.6
Total Liabilities	2,425.3	4,069.2	4,062.8	4,148.0	4,168.2
Shareholders Equity	4,060.0	4,931.5	5,076.7	6,044.1	6,209.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	4,060.0	4,931.5	5,076.7	6,044.1	6,209.0
Total liabilities and equity	6,485.3	9,000.6	9,139.5	10,192.1	10,377.2
CASH FLOW (MYR m)					
Cash flow from operations	361.8	475.2	386.2	464.0	436.9
Capex	(13.6)	(1,823.6)	0.0	0.0	0.0
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	5.2	(23.1)	0.0	(821.4)	0.0
CF from investing activities	(8.4)	(1,846.7)	0.0	(821.4)	0.0
Dividends paid	(255.6)	(307.4)	(331.9)	(413.9)	(446.1)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	(384.3)	1,896.9	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	821.4	0.0
Other financial activities	365.4	(95.5)	0.0	0.0	0.0
CF from financing activities	(274.5)	1,494.1	(331.9)	407.5	(446.1)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	78.9	122.6	54.3	50.0	(9.2)

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	16.6	27.1	13.1	15.0	4.4
Net property income growth	53.9	26.1	12.4	16.4	5.4
Core net profit growth	95.8	15.8	8.5	25.6	8.1
Distributable income growth	90.0	20.2	8.0	24.7	7.8
Profitability ratios (%)					
Net property income margin	63.9	63.4	63.0	63.8	64.4
Core net profit margin	43.3	39.4	37.8	41.3	42.7
Payout ratio	93.3	103.8	96.6	95.9	95.6
DuPont analysis					
Total return margin (%)	43.3	39.4	37.8	41.3	42.7
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.8	1.8	1.7	1.7
ROAE (%)	6.2	6.3	6.2	7.0	6.9
ROAA (%)	3.9	3.7	3.4	4.0	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.2	2.2	2.5	2.5
Net gearing (%) (excl. perps)	44.4	57.7	55.0	45.3	44.3
Net interest cover (x)	3.9	3.1	2.9	3.4	3.6
Debt/EBITDA (x)	6.6	8.1	7.0	6.0	5.7
Capex/revenue (%)	2.4	251.9	0.0	0.0	0.0
Net debt/ (net cash)	1,801.7	2,844.5	2,790.3	2,740.2	2,749.4
Debt/Assets (x)	0.34	0.38	0.36	0.32	0.32

Source: Company; Maybank IBG Research

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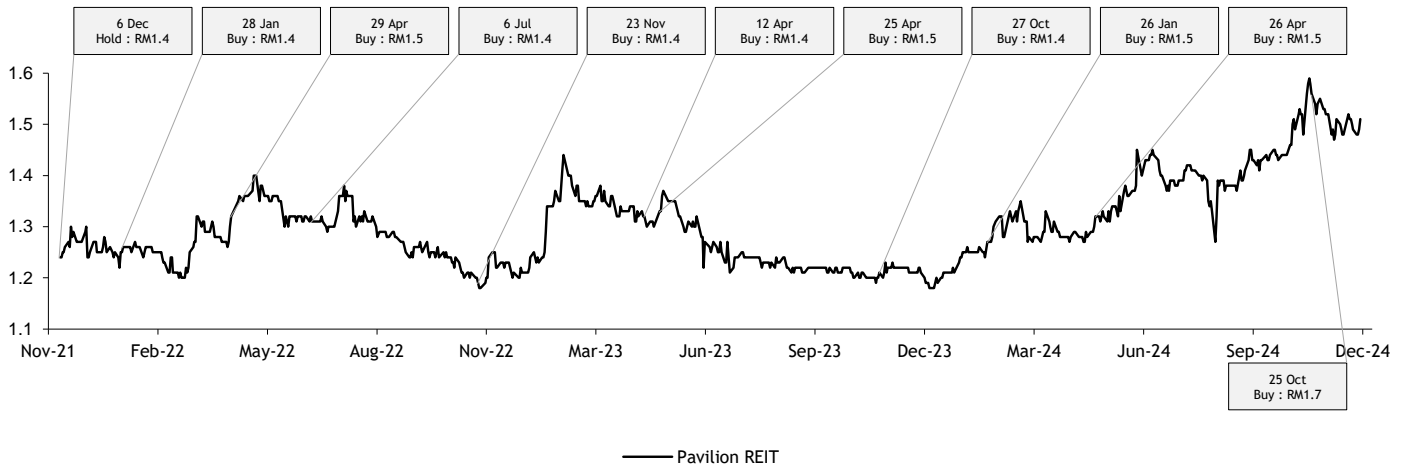
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