



AmInvestment Bank

## Company report

## PAVILION REIT

(PREIT MK EQUITY, PREI.KL)

30 Apr 2021

1QFY21 earnings in line with expectations

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company results

Price	RM1.40
Fair Value	RM1.75
52-week High/Low	RM1.78/RM1.34

## Key Changes

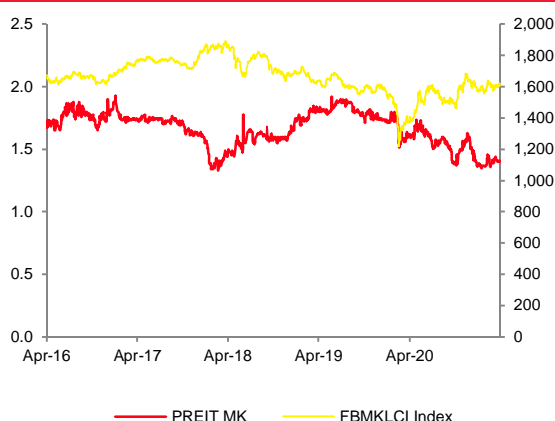
Fair value	↔
EPS	↓

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	510.2	422.6	534.3	571.9
Distributable Income (RM mil)	125.8	158.4	214.6	241.6
Distributable Income PU (sen)	4.1	5.2	7.0	7.9
Distributable Income PU growth (%)	(51.3)	25.9	35.5	12.6
Consensus Net Profit (RM mil)	-	179.4	223.8	240.0
DPS (sen)	5.7	5.2	7.0	7.9
PE (x)	33.9	26.9	19.9	17.6
EV/EBITDA (x)	42.6	22.7	17.8	16.7
Div yield (%)	4.1	3.7	5.0	5.7
ROE (%)	3.2	4.1	5.6	6.3
Net debt to total assets (%)	28.2	30.5	29.9	29.8

## Stock and Financial Data

Shares Outstanding (million)	3,047.7
Market Cap (RM mil)	4,266.8
Book Value (RM/share)	1.26
P/BV (x)	1.1
ROE (%)	3.2
Net Gearing (%)	28.2
Major Shareholders	QATAR INVESTMENT AUT(33.1%) SIEW CHOON LIM(27.7%) EPF(9.6%)
Free Float	29.6
Avg Daily Value (RM mil)	2.0

Price performance	3mth	6mth	12mth
Absolute (%)	2.2	-	(13.6)
Relative (%)	0.4	(7.0)	(26.3)



## Investment Highlights

- We maintain our BUY recommendation for Pavilion REIT (PREIT) at an unchanged fair value of RM1.75 based on a lowered distribution target yield of 4% (from 4.5% previously) given the current low interest rate environment. We make no ESG related adjustment to our FV based on our 3-star rating (Exhibit 3).
- However, we cut our distributable income forecasts by 10% to RM214.6mil for FY22F and 7% to RM241.6mil for FY23F. Our lower forecasts largely reflect more conservative assumptions for rental recovery at the malls, taking cue from the recent spike in Covid-19 cases locally and globally, which could lengthen the timeline for our country to open our borders to international tourists, thus dampening the footfall recovery at PREIT's malls.
- Historically, international tourist footfall makes up 30% at Pavilion Mall, which contributes to more than 90% of PREIT's net property income (NPI).
- PREIT's 1QFY21 distributable income of RM33.5mil (-9.2% YoY) accounted for 21% of our full-year forecasts and 19% of the consensus' full-year estimates. We consider the results within expectations given our expectations of a weaker 1Q due to the MCO 2.0.
- PREIT's 1QFY21 revenue of RM 126.2mil declined by 6% YoY (vs. RM134.3mil in 1QFY20), mainly due to lower occupancy rate for malls because of non-renewal of some expired tenancies, as well as lower marketing events and advertising revenue. This was exacerbated by the longer MCO 2.0 period during the quarter compared to the MCO 1.0 back in 2020.
- Meanwhile, 1QFY21 NPI fell by 10% YoY to RM58.8mil mainly due to lower revenue, which was partly offset by decreased property operating expenses, largely from electrical costs savings and lower marketing expenses.
- Distributable income contracted by 9% YoY to RM33.5mil, mainly because of the lower NPI, partly offset by slightly lower management fees, in line with the decrease in total assets value and NPI, and lower borrowing costs for the quarter on lower interest rate.
- On a QoQ comparison, PREIT's gross rental revenue has dropped by 3.5% mainly due to lower occupancy rate for malls, as well as fewer marketing events and weaker advertising revenue, resulting from the MCO 2.0 during the quarter as compared to mainly the CMCO in 4QFY20.

- Likewise, the company's NPI tumbled by 14% QoQ as compared to RM68.5mil in 4QFY20, while distributable income shrank by 21% QoQ from RM42.4mil in 4QFY20, mainly because of the lower revenue recorded, partly offset by the lower property operating expenses.
- During the quarter, we observed that among the retail malls owned by PREIT, Elite Pavilion Mall recorded the biggest decline in revenue YoY (-22.4% YoY), followed by Da Men Mall (-14.9% YoY), Intermark Mall (-6.2% YoY), and Pavilion KL Mall (-3.8% YoY). We believe the larger decline in revenue from Elite Pavilion Mall could be due to the less stable relationship with its tenants, as well as higher supply of retail space as compared to demand, given it being a relatively new mall (ie. only less than 4 years in operation before the pandemic hits). On a positive note, we take comfort that Pavilion KL Mall's rental rates (the main retail mall own by PREIT) has remained resilient during the pandemic, with only a small decline in revenue recorded YoY, thanks to the more stable and mature tenant base with stronger financial ability to sustain throughout the pandemic.
- On a QoQ comparison, Elite Pavilion Mall has also recorded the biggest decline in revenue QoQ (-14.6% QoQ), followed Intermark Mall (-8.7% QoQ) and Pavilion KL Mall (-2.2% QoQ). This stemmed from a less stable tenant base and higher retail space supply as compared to demand at Elite Pavilion Mall. Pavilion KL Mall continues to remain more resilient as compared to the other malls given its stronger relationship with tenants, as well as the better quality tenants. On the other hand, Da Men Mall has recorded a revenue growth of 5.8% QoQ. We believe this is largely because of the moving in of new tenants (which were supposed to move in earlier but was postponed due to the delay in renovation work as a result of the various MCOs), thus contributing positively to the rental income at the mall.
- PREIT has incurred RM8.5mil for capital expenditure (capex) to develop a new retail space at the end of the Couture precinct and glass kiosk outside Fashion Avenue at Pavilion Mall in 1QFY21. Moving forward, PREIT will continue to improve its performance and support its tenants by sustaining healthy occupancy levels through proactive lease management; extend its reach to shoppers by leveraging on aggressive marketing strategies, creative initiatives and the use of technology.
- Reflecting the lower results, PREIT's proposed distribution income declined by 9% YoY to 1.1 sen per unit for 1QFY21 (compared with 1.2 sen per unit in 1QFY20). While we maintain our FY21F distribution projection of 5.20 sen, we lower our distribution projections to 7.1 sen (from 7.8 sen) for FY22F and 7.9 sen (from 8.5 sen) for FY23F. This translates into FY21F–23F dividend yields of 3.7%, 5.0% and 5.7% respectively.
- PREIT's debt-to-asset ratio stayed relatively unchanged at 30% (vs. 29% previously in FY20), well below the regulatory threshold of 60% (temporarily raised from 50% up to 31 December 2022 by the Securities Commission, being a Covid-19 relief measure). As such, PREIT does have some headroom to gear up for new acquisitions.
- We believe PREIT's long-term outlook remains positive given its strategic assets which are located in the heart of the capital in Malaysia, and are poised to benefit from the growth in Malaysia's economy post-pandemic. We like PREIT as a recovery play as well as a yield play, with attractive dividend yields of more than 5% for FY21 and beyond amidst a low interest rate environment that is likely to be prolonged.

## EXHIBIT 1: EARNINGS SUMMARY

YE 31 Dec (RM mil)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	QoQ %	YoY %
<b>Gross rental income</b>	<b>134.3</b>	<b>86.7</b>	<b>116.2</b>	<b>130.8</b>	<b>126.2</b>	<b>-3.5%</b>	<b>-6.0%</b>
Property operating cost	(69.2)	(47.7)	(55.4)	(62.3)	(67.4)	8.1%	-2.6%
<b>Net Property income</b>	<b>65.1</b>	<b>39.1</b>	<b>60.9</b>	<b>68.5</b>	<b>58.8</b>	<b>-14.0%</b>	<b>-9.6%</b>
Net interest	(23.4)	(22.7)	(21.9)	(21.5)	(20.8)	-3.0%	-11.1%
Other expenses	(7.1)	(6.4)	(7.0)	(6.9)	(9.2)	32.4%	29.7%
Fair value adjustments	0.0	0.0	0.0	(70.3)	0.0	-100.0%	n.m.
<b>Income before tax</b>	<b>34.6</b>	<b>10.0</b>	<b>32.0</b>	<b>(30.3)</b>	<b>31.3</b>	<b>-203.2%</b>	<b>-9.7%</b>
Taxation	0.0	0.0	0.0	0.0	0.0	n.m.	n.m.
<b>Income after tax</b>	<b>34.6</b>	<b>10.0</b>	<b>32.0</b>	<b>(30.3)</b>	<b>31.3</b>	<b>-203.2%</b>	<b>-9.7%</b>
Distribution adjustment	2.3	2.2	2.3	72.7	2.3	-96.9%	-2.3%
<b>Distributable income</b>	<b>36.9</b>	<b>12.2</b>	<b>34.4</b>	<b>42.4</b>	<b>33.5</b>	<b>-20.9%</b>	<b>-9.2%</b>
EPU (sen)	1.21	0.40	1.13	1.39	1.10	-20.9%	-9.2%
DPU (sen)	1.21	0.40	1.13	1.39	1.10	-20.9%	-9.1%
NAV/unit (RM)	1.28	1.27	1.27	1.27	1.25	-1.2%	-2.1%
NPI margin (%)	48.5%	45.0%	52.4%	52.3%	46.6%		
Pretax margin (%)	25.8%	11.5%	27.6%	-23.2%	24.8%		

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL BREAKDOWN

	1QFY20	4QFY20	1QFY21	QoQ %	YoY %	Split %
<b>Gross revenue</b>						
<b>Retail:</b>	<b>131.6</b>	<b>128.0</b>	<b>123.4</b>	<b>-3.6%</b>	<b>-6.2%</b>	<b>97.8%</b>
Pavilion KL Mall	107.8	106.0	103.7	-2.2%	-3.8%	82.2%
Intermark	6.2	6.4	5.9	-8.7%	-6.2%	4.6%
DA MEN	3.7	3.0	3.1	5.8%	-14.9%	2.5%
Elite Pavilion Mall	13.9	12.6	10.7	-14.6%	-22.4%	8.5%
<b>Office:</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>-0.6%</b>	<b>0.8%</b>	<b>2.2%</b>
Pavilion Tower	2.8	2.8	2.8	-0.6%	0.8%	2.2%
<b>Total</b>	<b>134.3</b>	<b>130.8</b>	<b>126.2</b>	<b>-3.5%</b>	<b>-6.0%</b>	<b>100.0%</b>
<b>Net Property Income</b>						
<b>Retail:</b>	<b>63.8</b>	<b>66.7</b>	<b>57.4</b>	<b>-13.9%</b>	<b>-10.0%</b>	<b>97.5%</b>
Pavilion KL Mall	56.4	61.1	54.0	-11.6%	-4.3%	91.8%
Intermark	2.7	2.7	2.1	-23.4%	-22.8%	3.5%
DA MEN	(2.0)	(2.7)	(2.2)	-16.8%	14.3%	-3.8%
Elite Pavilion Mall	6.7	5.6	3.6	-36.4%	-46.2%	6.1%
<b>Office:</b>	<b>1.3</b>	<b>1.8</b>	<b>1.5</b>	<b>-17.6%</b>	<b>9.4%</b>	<b>2.5%</b>
Pavilion Tower	1.3	1.8	1.5	-17.6%	9.4%	2.5%
<b>Total</b>	<b>65.1</b>	<b>68.5</b>	<b>58.8</b>	<b>-14.0%</b>	<b>-9.6%</b>	<b>100.0%</b>

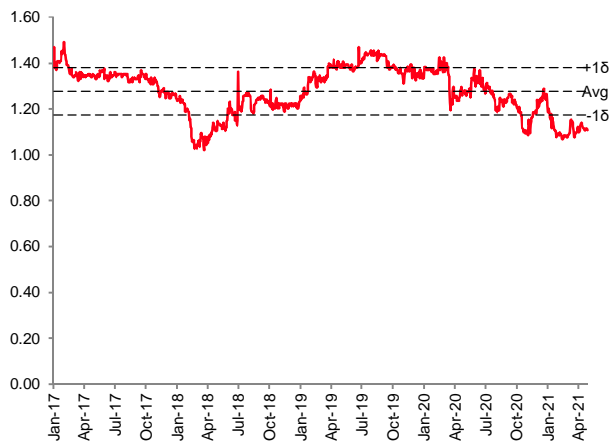
Source: Company, AmInvestment Bank Bhd

**EXHIBIT 3: ESG RATING**

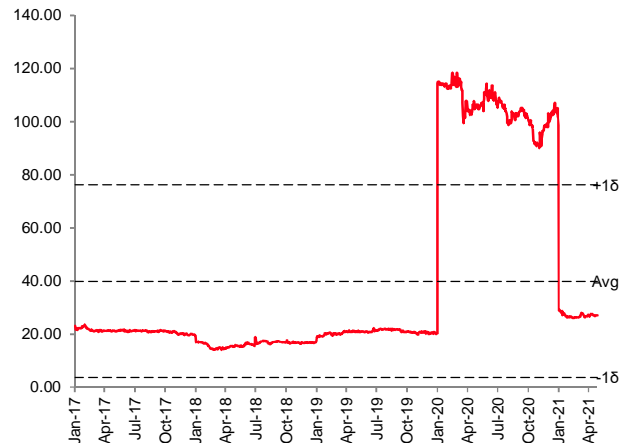
<b>Overall</b>	★	★	★		
Zero-carbon initiatives	★	★	★		
Waste management	★	★	★	★	
Pollution control	★	★	★		
Sustainable industrialization	★	★	★		
Diversity and inclusion	★	★	★		
Employees welfare	★	★	★	★	
Corporate social responsibilities	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	585.4	510.2	422.6	534.3	571.9
EBITDA	369.9	141.6	272.3	345.7	369.2
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Operating income (EBIT)	369.9	142.2	268.0	353.1	389.9
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(107.3)	(95.8)	(109.6)	(138.5)	(148.3)
Exceptional items	4.4	(79.5)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>262.6</b>	<b>46.3</b>	<b>158.4</b>	<b>214.6</b>	<b>241.6</b>
Taxation	0.0	0.0	0.0	0.0	0.0
Minorities/pref dividends	0.0	0.0	0.0	0.0	0.0
<b>Distributable Income (RM mil)</b>	<b>258.3</b>	<b>125.8</b>	<b>158.4</b>	<b>214.6</b>	<b>241.6</b>
Core net profit	258.3	125.8	158.4	214.6	241.6
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
PPE	1.1	1.2	1.2	1.3	1.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	5,913.0	5,913.0	5,913.0	5,913.0	5,913.0
<b>Total non-current assets</b>	<b>5,914.1</b>	<b>5,914.2</b>	<b>5,914.2</b>	<b>5,914.3</b>	<b>5,914.3</b>
Cash & equivalent	368.9	331.4	352.1	346.9	343.4
Inventories	2.9	3.2	1.8	2.3	2.4
Trade receivables	71.1	62.3	54.9	66.5	71.8
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>442.9</b>	<b>396.8</b>	<b>408.8</b>	<b>415.7</b>	<b>417.6</b>
Trade payables	146.5	285.6	138.2	168.6	176.3
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>146.5</b>	<b>285.6</b>	<b>138.2</b>	<b>168.6</b>	<b>176.3</b>
Long-term borrowings	2,157.1	2,108.8	2,279.2	2,241.7	2,231.3
Other long-term liabilities	73.7	64.2	53.2	67.3	72.0
<b>Total long-term liabilities</b>	<b>2,230.7</b>	<b>2,173.0</b>	<b>2,332.4</b>	<b>2,308.9</b>	<b>2,303.3</b>
<b>Shareholders' funds</b>	<b>3,979.7</b>	<b>3,852.4</b>	<b>3,852.4</b>	<b>3,852.4</b>	<b>3,852.4</b>
Minority interests	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	1.31	1.26	1.26	1.26	1.26
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	262.6	46.3	158.4	214.6	241.6
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Net change in working capital	3.4	147.6	(138.7)	18.3	2.3
Others	83.4	53.0	(11.0)	14.1	4.7
<b>Cash flow from operations</b>	<b>349.4</b>	<b>246.9</b>	<b>8.7</b>	<b>247.0</b>	<b>248.7</b>
Capital expenditure	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	3.9	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>3.9</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
Debt raised/(repaid)	9.0	(48.3)	170.5	(37.6)	(10.4)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(268.5)	(173.7)	(158.4)	(214.6)	(241.6)
Others	(107.1)	0.0	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(366.6)</b>	<b>(222.0)</b>	<b>12.0</b>	<b>(252.2)</b>	<b>(252.0)</b>
<b>Net cash flow</b>	<b>(13.3)</b>	<b>24.9</b>	<b>20.7</b>	<b>(5.2)</b>	<b>(3.4)</b>
<b>Net cash/(debt) b/f</b>	<b>319.7</b>	<b>306.5</b>	<b>331.4</b>	<b>352.1</b>	<b>346.9</b>
<b>Net cash/(debt) c/f</b>	<b>306.5</b>	<b>331.4</b>	<b>352.1</b>	<b>346.9</b>	<b>343.4</b>
<b>Key Ratios (YE31 Dec)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	5.5	(12.8)	(17.2)	26.4	7.0
EBITDA growth (%)	(4.3)	(61.7)	92.3	26.9	6.8
Pretax margin (%)	44.9	9.1	37.5	40.2	42.3
Net profit margin (%)	44.9	9.1	37.5	40.2	42.3
Interest cover (x)	3.4	1.5	2.4	2.5	2.6
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	102.3	374.8	100.0	100.0	100.0
Receivable turnover (days)	44.3	44.5	47.4	45.4	45.8
Inventory turnover (days)	1.6	2.2	2.2	1.4	1.5
Payable turnover (days)	103.3	154.6	183.0	104.8	110.1

Source: Company, AmInvestment Bank Bhd

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