



AmInvestment Bank

## Company report

## PAVILION REIT

(PREIT MK EQUITY, PREI.KL)

24 July 2020

1HFY20 revenue falls 39% but Pavilion Mall KL occupancy remains strong

BUY

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price	RM1.60
Fair Value	RM1.91
52-week High/Low	RM1.91/RM1.35

## Key Changes

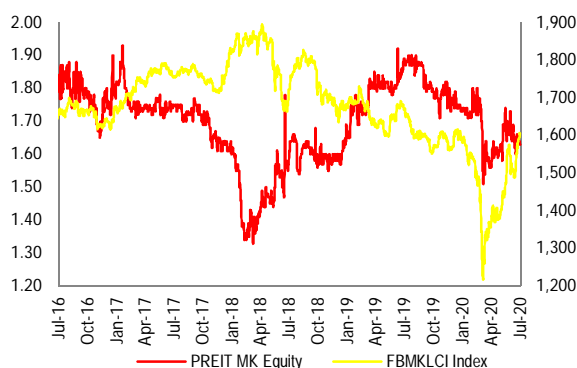
Fair value	⬇️
EPS	⬇️

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	585.4	428.9	575.0	591.5
Distributable Income (RM mil)	258.3	156.5	261.0	267.0
Distributable Income PU (sen)	8.5	5.1	8.6	8.8
Distributable Income PU growth (%)	(3.1)	(39.4)	66.8	2.3
Consensus Net Profit (RM mil)	-	169.4	234.2	246.1
DPS (sen)	8.5	5.1	8.6	8.8
PE (x)	18.8	31.1	18.6	18.2
EV/EBITDA (x)	18.0	25.3	17.8	17.4
Div yield (%)	5.3	3.2	5.4	5.5
ROE (%)	6.6	3.9	6.6	6.7
Net debt to total assets (%)	28.1	28.0	27.6	27.5

## Stock and Financial Data

Shares Outstanding (million)	3,043.33
Market Cap (RM mil)	4,869.3
Book Value (RM/share)	1.3
P/BV (x)	1.3
ROE (%)	5.84
Net Gearing (%)	28.1%
Major Shareholders	
	Qatar Holding LLC 33.2%
	Tan Sri Lim Siew Choon 27.8%
	EPF 9.6%
Free Float	29.5%
Avg Daily Value (RM mil)	1.38

Price performance	3mth	6mth	12mth
Absolute (%)	(0.6)	(5.9)	(11.3)
Relative (%)	(8.7)	(15.3)	(12.9)



## Investment Highlights

- We maintain our BUY recommendation on Pavilion REIT (PREIT) with a lower fair value of RM1.91 (from RM1.99) based on an unchanged target yield of 4.5%. We cut our FY20–22 distributable income by 25.1%, 4.0% and 3.4% respectively. We have factored in higher rebates for FY20 (28% from 20%) while lowering our average FY21–FY22 rental rate by 3%.
- PREIT reported its 1HFY20 revenue and distributable income of RM181.0mil (-38.7% YoY) and RM49.1mil (-63.4% YoY) respectively, which are below expectations at 24% and 27% of our and consensus estimates.
- The weaker revenue is mainly due to the enforcement of the movement control order (MCO) beginning 18 March 2020; further rent rebates from April 2020 to June 2020 given to tenants of non-essential services and supplies; and lower income from car park and advertisements. As a result, 1HFY20 NPI and distributable income fell by 46% and 63.4% to RM104.1mil and RM49.1mil respectively.
- Management indicated a stronger 2HFY20 given the improved situation and it has discontinued its rebates after June 2020. Also, Pavilion KL's occupancy rate remained strong at 96.4% as of June 2020 vs. previous year's 95.6% (Exhibit 2).
- PREIT proposed a distribution of 0.4 sen per unit for 2QY20 compared with 2.03 sen per unit YoY. We have lowered our FY20–FY22 distribution to 5.1 sen, 8.6 sen and 8.8 sen respectively.
- PREIT's debt-to-asset ratio is maintained at 30% and is still below the regulatory threshold of 50%. At the current level, we believe PREIT still has some headroom to gear up for future acquisitions.
- We value PREIT at RM1.91 based on FY21 forward target yield of 4.5%. At its current price, the stock offers a potential upside of 19.4%, hence we maintain our BUY recommendation. PREIT's long-term outlook remains positive given the diminishing rate of Covid-19 infections in Malaysia while several stimulus plans by the government provide a greater boost to consumer spending. Furthermore, PREIT's dividend yields of 3.2% for FY20 and more than 5% for FY21 and beyond, offer attractive returns compared to the current low interest rate environment.

## EXHIBIT 1: EARNINGS SUMMARY

YE 31 Dec (RM mil)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ %	YoY %	1HFY19	1HFY20	YTD %
<b>Gross rental income</b>	<b>144.1</b>	<b>144.4</b>	<b>146.0</b>	<b>102.4</b>	<b>78.6</b>	<b>-23.2%</b>	<b>-45.5%</b>	<b>295.0</b>	<b>181.0</b>	<b>-38.7%</b>
Property operating cost	(52.8)	(53.3)	(43.4)	(37.2)	(39.5)	6.2%	-25.1%	(102.2)	(76.8)	-24.9%
<b>Net Property income</b>	<b>91.4</b>	<b>91.1</b>	<b>102.5</b>	<b>65.1</b>	<b>39.1</b>	<b>-40.0%</b>	<b>-57.2%</b>	<b>192.9</b>	<b>104.2</b>	<b>-46.0%</b>
Net interest	(24.1)	(23.8)	(35.3)	(23.4)	(22.7)	-3.3%	-6.1%	(48.1)	(46.1)	-4.2%
Other expenses	(8.0)	(7.8)	(7.5)	(7.1)	(6.4)	-9.5%	-19.7%	(16.3)	(13.5)	-17.2%
Fair value adjustments	0.0	0.0	15.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
<b>Income before tax</b>	<b>59.2</b>	<b>59.4</b>	<b>74.7</b>	<b>34.6</b>	<b>10.0</b>	<b>-71.1%</b>	<b>-83.1%</b>	<b>128.5</b>	<b>44.6</b>	<b>-65.3%</b>
Taxation	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
<b>Income after tax</b>	<b>59.2</b>	<b>59.4</b>	<b>74.7</b>	<b>34.6</b>	<b>10.0</b>	<b>-71.1%</b>	<b>-83.1%</b>	<b>128.5</b>	<b>44.6</b>	<b>-65.3%</b>
Distribution adjustment	2.6	2.5	(12.4)	2.3	2.2	-7.4%	-15.8%	5.5	4.5	-18.1%
<b>Distributable income</b>	<b>61.8</b>	<b>62.0</b>	<b>62.3</b>	<b>36.9</b>	<b>12.2</b>	<b>-67.1%</b>	<b>-80.3%</b>	<b>134.0</b>	<b>49.1</b>	<b>-63.4%</b>
EPU (sen)	2.03	2.04	2.05	1.22	0.40	-67.1%	-80.3%	4.41	1.62	-63.4%
DPU (sen)	2.03	2.04	2.06	1.21	0.40	-66.9%	-80.3%	4.40	1.61	-63.4%
NAV/unit (RM)	1.25	1.26	1.27	1.28	1.27	-1.0%	1.6%	1.25	1.27	1.6%
NPI margin (%)	63.4%	63.1%	70.2%	63.6%	49.7%			65.4%	57.6%	
Pretax margin (%)	41.1%	41.2%	51.2%	33.8%	12.7%			43.5%	24.6%	

Source: AmInvestment Bank Bhd

## EXHIBIT 2: OCCUPANCY RATES

Occupancy rate	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Pavilion Mall KL	97.8%	95.6%	97.2%	98.0%	97.4%	96.4%
Intermark Mall	93.9%	93.9%	95.9%	97.1%	94.8%	88.8%
DA MEN Mall	67.9%	65.4%	69.3%	71.7%	71.7%	73.5%
Elite Pavilion Mall	95.5%	95.2%	92.2%	95.0%	89.1%	92.4%

Source: Company

## EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	555.0	585.4	428.9	575.0	591.5
EBITDA	386.4	369.9	262.5	370.5	379.7
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Operating income (EBIT)	386.4	369.9	262.5	370.5	379.7
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(97.7)	(107.3)	(106.1)	(109.6)	(112.7)
Exceptional items	22.1	4.4	0.0	0.0	0.0
<b>Pretax profit</b>	<b>310.8</b>	<b>267.0</b>	<b>156.5</b>	<b>261.0</b>	<b>267.0</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>310.8</b>	<b>267.0</b>	<b>156.5</b>	<b>261.0</b>	<b>267.0</b>
Core net profit	288.7	262.6	156.5	261.0	267.0
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
PPE	1.6	1.1	1.2	1.2	1.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	5,893.0	5,913.0	5,913.0	5,913.0	5,913.0
<b>Total non-current assets</b>	<b>5,894.6</b>	<b>5,914.1</b>	<b>5,914.2</b>	<b>5,914.2</b>	<b>5,914.3</b>
Cash & equivalent	379.8	368.9	342.3	363.8	358.4
Inventories	2.1	2.9	1.9	2.4	2.6
Trade receivables	81.3	71.1	52.3	74.7	73.6
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>463.2</b>	<b>442.9</b>	<b>396.5</b>	<b>440.9</b>	<b>434.6</b>
Trade payables	184.9	146.5	165.7	188.1	189.4
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Other current liabilities	716.0	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>900.9</b>	<b>146.5</b>	<b>165.7</b>	<b>188.1</b>	<b>189.4</b>
Long-term borrowings	1,431.9	2,157.1	2,111.2	2,114.7	2,104.8
Other long-term liabilities	47.0	73.7	54.0	72.4	74.4
<b>Total long-term liabilities</b>	<b>1,478.9</b>	<b>2,230.7</b>	<b>2,165.2</b>	<b>2,187.0</b>	<b>2,179.2</b>
<b>Shareholders' funds</b>	<b>3,978.0</b>	<b>3,979.7</b>	<b>3,979.9</b>	<b>3,980.1</b>	<b>3,980.3</b>
Minority interests	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	1.31	1.31	1.31	1.31	1.31
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	310.8	267.0	156.5	261.0	267.0
Depreciation/Amortisation	0.0	0.0	0.0	0.0	0.0
Net change in working capital	(66.5)	3.4	38.9	(0.6)	2.3
Others	54.2	83.4	42.7	18.4	2.1
<b>Cash flow from operations</b>	<b>298.4</b>	<b>353.8</b>	<b>238.2</b>	<b>278.8</b>	<b>271.4</b>
Capital expenditure	0.0	0.0	(0.1)	(0.1)	(0.1)
Net investments & sale of fixed assets	(505.4)	0.0	0.0	0.0	0.0
Others	(11.7)	3.9	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(517.0)</b>	<b>3.9</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>
Debt raised/(repaid)	681.6	9.0	(45.9)	3.5	(9.9)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(261.4)	(268.5)	(156.3)	(260.8)	(266.8)
Others	(94.2)	(107.1)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>326.0</b>	<b>(366.6)</b>	<b>(202.2)</b>	<b>(257.3)</b>	<b>(276.7)</b>
<b>Net cash flow</b>	<b>107.4</b>	<b>(8.9)</b>	<b>35.9</b>	<b>21.4</b>	<b>(5.4)</b>
<b>Net cash/(debt) b/f</b>	<b>234.4</b>	<b>319.7</b>	<b>306.5</b>	<b>342.3</b>	<b>363.8</b>
<b>Net cash/(debt) c/f</b>	<b>341.8</b>	<b>310.8</b>	<b>342.3</b>	<b>363.8</b>	<b>358.4</b>
<b>Key Ratios (YE31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	13.3	5.5	(26.7)	34.1	2.9
EBITDA growth (%)	20.7	(4.3)	(29.0)	41.1	2.5
Pretax margin (%)	56.0	45.6	36.5	45.4	45.1
Net profit margin (%)	56.0	45.6	36.5	45.4	45.1
Interest cover (x)	4.0	3.4	2.5	3.4	3.4
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	85.8	96.7	99.9	99.9	99.9
Receivable turnover (days)	53.5	44.3	44.5	47.4	45.4
Inventory turnover (days)	1.2	1.6	2.0	1.4	1.5
Payable turnover (days)	119.1	103.3	132.9	112.3	116.5

Source: Company, AmInvestment Bank Bhd estimates

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