



AmInvestment Bank

Company report

PAVILION REIT

(PREIT MK EQUITY, PREI.KL)

23 Nov 2022

Injection of Pavilion Bukit Jalil at RM2.2bil

BUY

(Maintained)

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03-2036 2299

Rationale for report: Company update

Price	RM1.20
Fair Value	RM1.51
52-week High/Low	RM1.41/RM1.19

Key Changes

Fair value	⬇️
EPS	⬇️

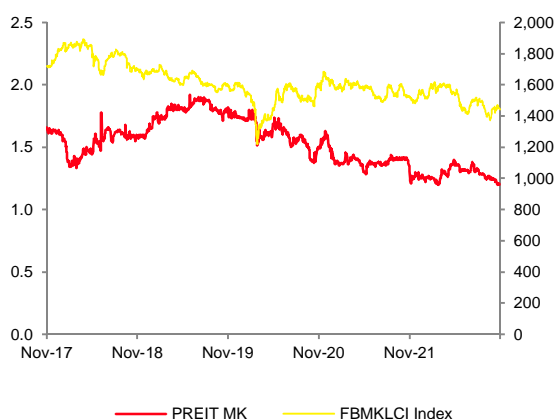
YE to Dec	FY21	FY22F	FY23F	FY24F
Gross Revenue (RM mil)	488.6	555.7	659.3	768.0
Distributable Income (RM mil)	134.7	252.1	283.7	313.2
EPU	4.1	8.3	7.0	7.8
Consensus Net Profit (RM mil)	—	229.5	242.4	252.7
DPU (sen)	4.4	8.3	7.7	7.7
DPU Growth (%)	6.8	87.3	(6.4)	(0.7)
PE (x)	28.1	15.0	17.4	16.0
EV/EBITDA (x)	41.3	27.1	17.1	16.9
Distribution yield (%)	3.6	6.7	6.2	6.2
ROE (%)	3.2	6.6	5.7	6.3
Debt/Assets (%)	34.8	35.3	37.9	37.8

Stock and Financial Data

Shares Outstanding (million)	3,055.7
Market Cap (RMmil)	3,666.9
Book Value (RM/share)	1.27
P/BV (x)	0.9
ROE (%)	3.2
Debt/Assets (%)	34.8

Major Shareholders	Qatar Investment Authority (33.0%)
	Lim Siew Choon (27.7%)
	EPF (10.1%)
Free Float	29.3
Avg Daily Value (RMmil)	0.5

Price performance	3mth	6mth	12mth
Absolute (%)	(8.4)	(14.3)	(8.4)
Relative (%)	(5.5)	(7.9)	(3.0)



Investment Highlights

- We maintain BUY on Pavilion REIT (PREIT) with a lower fair value (FV) of RM1.51/unit (from RM1.59/unit previously) based on dividend discount model (DDM) and a neutral ESG rating of 3 stars (Exhibits 4, 5).
- MTrustee, the trustee of PREIT, has entered into a conditional sale and purchase agreement with Malton's indirect subsidiary, Regal Path to acquire Pavilion Bukit Jalil (PBJ) for RM2.2bil (Exhibit 1).
- We raise our FY23F/FY24F distributable income estimate by 10%/14% to factor in the earnings contribution from PBJ. This is based on the assumption of 80% of occupancy rate, 5% of net property income yield and 4.8% effective interest rate.
- However, we lower our FY23F/FY24F distribution per unit (DPU) by 17%/14% to reflect the dilution of DPU assuming the issuance of additional 1.1mil units at RM1.20/share, through private placements to fund the acquisition.
- The proposed acquisition entails the acquisition of PBJ mall together with strategic link bridges and underpass, tenancies, car park bays, utilities and ancillary components.
- In addition, Pavilion REIT will also acquire additional movable assets required for the operations of PBJ, including laptops, buggies and mobile elevating work platforms costing RM3.4mil.
- To fund the acquisition cost, PREIT proposes to undertake a private placement exercise to raise up to RM1.3bil, with the issue price to be determined later through a book-building exercise.
- The remainder RM900mil will be satisfied via a combination of term loans and internal funds. Meanwhile, Regal Path may receive new units to be issued by PREIT as partial settlement of the purchase consideration.
- We expect the group's FY23F gearing ratio to rise to 0.38x from 0.35x assuming that RM900mil will be fully funded by debt.
- We believe that the purchase consideration is fairly valued after comparing the latest available appraised value of surrounding malls, Sunway Pyramid and The Mines within a 15km radius (Exhibit 2) of an average of price of RM1,423 per sq ft.

- The proposed acquisition is expected to be completed by 2QFY23. Upon completion of the proposed acquisition, PREIT's property value will increase by 37% to RM8bil. This will largely reduce the reliance on Pavilion Kuala Lumpur's contribution to PREIT's total asset value to 60% from 82%.
- Meanwhile, the net lettable area of PREIT will rise by 77% to 4.2mil sq ft. Assuming 80% occupancy rate for PBJ, the group's average occupancy rate is anticipated to remain stable at 80% post-acquisition.
- PBJ houses 5 levels of retail space, 2 levels of basement car park with 4,800 bays and a Piazza (centralised green area). It is a regional mall forming part of the 50-acre commercial integrated development of Bukit Jalil City.
- It is strategically located along Bukit Jalil Highway within the thriving suburb of Bukit Jalil. PBJ is situated 13km due south of the Kuala Lumpur City Centre, and surrounded by mature and well-established neighbourhoods such as Taman Overseas Union, Bandar Baru Seri Petaling, Taman Gembira (Kuchai Lama), Sungai Besi, Serdang and Kinrara.
- Over the last 6 months, PBJ registered an average of 1.2 million monthly footfall with an occupancy rate of 78%.
- PREIT intends to declare an advance distribution of its latest quarterly distributable income prior to the date of allotment of the placement units and consideration units (if any). This is to ensure that the distributable income accrued during the advance distribution period is only distributed to existing unitholders.
- PREIT currently trades at a compelling FY23F PE of 17x vs. its 2-year average (pre-pandemic FY18-19) of 19x. Meanwhile, FY23F distribution yield of 6% is attractive vs. 10-year MGS yield of 4%.

EXHIBIT 1: DETAILS OF PAVILION BUKIT JALIL

Registered proprietor	Regal Path
Title No.	Geran 79550, Lot 101899, Mukim Petaling, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur
Land tenure	Interest in perpetuity
Land area	113,900 square metres
Category of land use	Building
Existing and proposed use	Shopping mall
Age of building	1 year
Audited net book value (as at 30 June 2022)	RM2,176,718,963
Net property income	RM30.1 mil*
Net lettable area	1,822,041 sq ft
Occupancy rate	78.2%
Independent registered valuer	Knight Frank Malaysia
Date of valuation	31/10/2022
Market value ascribed	RM2,210 mil

*Refers to the unaudited NPI attributable to PBJ Mall since the opening date on 3 December 2021 until 30 June 2022 (excluding the opening incentive and rebate to the tenants).

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: COMPARISON OF APPRAISED VALUE PER SQUARE FEET

Mall	NLA (sq ft)	Latest appraised value (RM mil)	Value (RM psf)
Pavilion Bukit Jalil	1,822,041	2,210	1,213
Sunway Pyramid	1,774,359	3,830	2,159
The Mines	734,145	660	899
Average			1,423

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: CHANGE IN FINANCIAL INDICATOR PRE- AND POST-ACQUISITION

	Pre-acquisition	Post-acquisition
Gearing ratio (x)	0.35	0.38
NLA (sq ft)	2,381,001	4,203,042
Occupancy rate (%)	80	80
Distributable income (RM mil):		
- FY23F	258.3	283.9
- FY24F	272.9	313.5
Distribution per unit (sen):		
- FY23F	8.4	7.7
- FY24F	8.8	7.7

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: DIVIDEND DISCOUNT MODEL (DDM)**Assumption for Weighted Average Cost of Capital (WACC)**

Risk Free Rate	4.3%
Beta	0.6
Market Return	11.0%

Cost of Equity (Ke) 8.0%

Average Cost of Debt 4.7%

Capital Structure: (RM Mil)

Market Cap	3,789.1	63.5%
Total Borrowing	2,173.3	36.5%
Total	5,962.4	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	63.5%	8.0%	5.1%
Average Cost of Debt	36.5%	4.7%	1.7%
WACC			6.8%

Multi-Stage DDM	2022	2023	2024	2025	2026	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.08	0.08	0.08	0.08	0.09	1.64
Present Value (RM)	0.08	0.07	0.06	0.06	0.06	1.18
Valuation	1.51					
Rate of Return (%)	6.8%					
Growth Rate (%)	1.5%					

Source: Company, AmInvestment Bank Berhad

EXHIBIT 5: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★	★		
Waste management	★	★	★		
Pollution Control	★	★	★		
Sustainable industrialization	★	★	★		
Diversity and inclusion	★	★	★		
Employees welfare	★	★	★		
Corporate social responsibility	★	★	★		
Gender diversity	★	★	★		
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

Source: AmInvestment Bank Bhd

EXHIBIT 6: PB BAND CHART

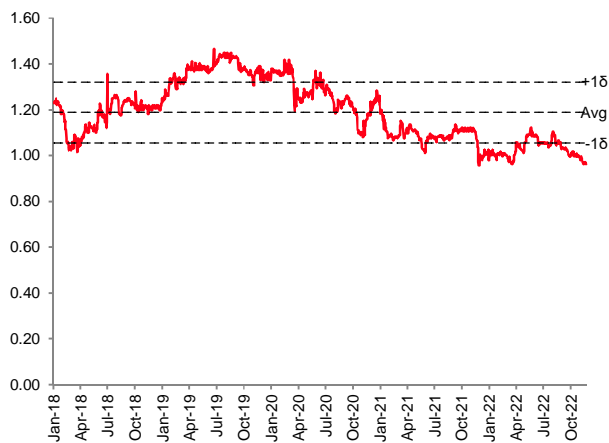


EXHIBIT 7: PE BAND CHART

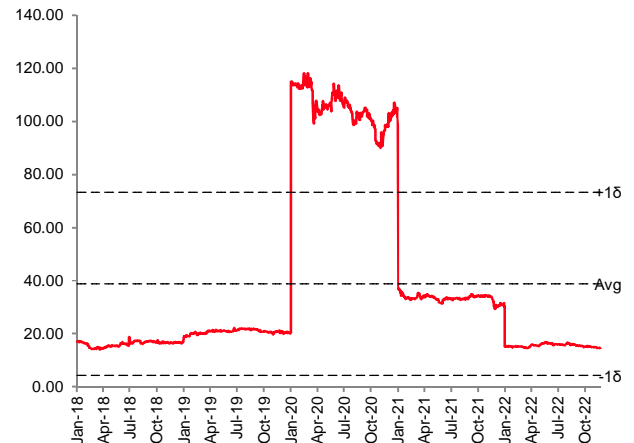


EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Gross Revenue	510.2	488.6	555.7	659.3	768.0
Net Property Income	233.5	236.6	367.2	435.3	506.3
Net Investment income	163.2	236.0	367.2	435.3	506.3
EBITDA	135.8	208.8	336.6	399.0	464.0
Net interest	(89.4)	(83.5)	(84.5)	(115.3)	(150.8)
Exceptional items (EI)	-	-	-	-	-
Pretax profit	46.3	125.2	252.1	283.7	313.2
Taxation	-	-	-	-	-
Net Income	46.3	125.2	252.1	283.7	313.2
Distributable Income	125.8	134.7	252.1	283.7	313.2
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Plant and equipment	1.2	0.7	0.8	0.8	0.9
Investment Properties	5,863.0	5,880.0	5,880.0	8,080.0	8,080.0
Total non-current assets	5,864.2	5,880.7	5,880.8	8,080.8	8,080.9
Cash & equivalent	341.2	312.2	217.9	227.3	237.6
Inventories	3.0	3.1	2.1	2.5	2.9
Trade receivables	33.5	42.7	59.3	70.4	82.0
Other current assets	-	-	-	-	-
Total current assets	377.7	358.0	279.3	300.2	322.5
Trade payables	151.6	125.3	135.8	161.4	188.5
Short-term borrowings	1,088.9	395.0	395.0	395.0	395.0
Other current liabilities	-	-	-	-	-
Total current liabilities	1,240.5	520.3	530.8	556.4	583.5
Long-term borrowings	1,074.4	1,778.3	1,778.3	2,778.3	2,778.3
Other long-term liabilities	67.7	81.7	55.2	65.6	76.7
Total long-term liabilities	1,142.1	1,860.0	1,833.5	2,843.9	2,855.0
Total Unitholders' funds	3,859.3	3,858.5	3,795.9	4,980.7	4,964.9
Minority interests	-	-	-	-	-
NAV per unit (RM)	1.27	1.27	1.24	1.23	1.23
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	46.3	125.2	252.1	283.7	313.2
Depreciation/Amortisation	-	-	-	-	-
Net change in working capital	26.4	(17.7)	62.7	15.1	15.9
Others	177.3	87.1	84.6	115.6	151.1
Cash flow from operations	250.0	194.7	399.4	414.4	480.2
Capital expenditure	(0.5)	(0.1)	(0.1)	(0.0)	(0.0)
Net investments & sale of fixed assets	(20.3)	(17.6)	0.0	(2,200.0)	0.0
Others	4.9	10.4	(87.9)	16.4	18.1
Cash flow from investing	(15.9)	(7.3)	(88.0)	(2,183.7)	18.1
Debt raised/(repaid)	(16.4)	8.2	0.0	1,000.0	0.0
Equity raised/(repaid)	-	-	-	-	-
Distribution paid to unitholders	(173.7)	(132.5)	(252.1)	(280.8)	(310.0)
Others	(73.3)	(86.4)	(91.0)	(122.2)	(158.7)
Cash flow from financing	(263.3)	(210.7)	(343.0)	1,796.9	(468.7)
Net cash flow	(29.2)	(23.3)	(31.7)	27.6	29.6
Net cash/(debt) b/f	306.5	277.3	254.0	222.3	250.0
Net cash/(debt) c/f	277.3	254.0	222.3	250.0	279.6
Key Ratios (YE31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(12.8)	(4.2)	13.7	18.6	16.5
Net Property Income growth (%)	(37.8)	1.3	55.2	18.5	16.3
Pretax margin (%)	9.1	25.6	45.4	43.0	40.8
Distribution income margin (%)	24.7	27.6	45.4	43.0	40.8
Net Interest cover (x)	1.5	2.5	4.0	3.5	3.1
Effective tax rate (%)	-	-	-	-	-
DPU payout (%)	138.0	98.4	100.0	99.0	99.0
Receivable turnover (days)	37.4	28.4	39.0	39.0	39.0
Inventory turnover (days)	3.9	4.4	4.1	4.1	4.1
Payable turnover (days)	196.7	200.6	262.9	262.9	262.9

Source: Company, AmInvestment Bank Bhd estimates

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