

Outthink. Outperform.

Pavilion Mall retail sales see recovery

PREIT's 1H16 realized net profit of RM121m (+1% yoy) was in line with our expectations and street estimates. The retail portion remained the key revenue contributor, accounting for 97% of total rental income. Retail spending at Pavilion Mall has seen a recovery of 10% yoy, while new acquisitions in the pipeline such as the Pavilion Extension should be additional catalysts for the share price. Reaffirm BUY with higher TP of RM2.11. A DPU of 4.14 sen was proposed.

1H16 realized net profit within expectations

Pavilion REIT's (PREIT) 1H16 realized net profit of RM121m (+1% yoy) came within our and consensus expectations, accounting for 45% and 46% of forecasts. While 1H16 revenue saw an increase of 8% yoy to RM224.7m due to rental income from the newly injected properties, i.e., Da:Men USJ and the Intermark Mall, realized net profit was relatively flat as a result of higher borrowing costs due to the drawdown of additional borrowings for the acquisition of investment properties. Earnings are expected to pick up in 2H16 due to the tenancy renewal of 69% of the outstanding net lettable area in Pavilion KL, which is set to expire in 3Q-4Q16, as well as income from the two new malls. As at 1H16, a DPU of 4.14 sen was proposed (1H15: 4.09 sen). The Pavilion Mall occupancy rate dropped to 97% from 98% last quarter, and will likely experience a drop to 95% towards end-2016 as the reconfiguration of tenants and the relocation to the Pavilion Extension is happening in September. Nonetheless, management has said that retail sales have seen a pick-up of 10% yoy ytd.

Maintain BUY with higher TP of RM2.11

We maintain our **BUY** rating on PREIT based on a higher DDM-based 12-month TP of **RM2.11** as we update our risk-free assumption from 4% to 3.5% due to the recent OPR cut by Bank Negara. We continue to expect interest in the stock due to its acquisition pipeline. Recall that PREIT has right of first refusal for the Pavilion Extension (NLA of 250,000 sq ft) and Fahrenheit 88 (NLA of 300,000 sq ft).

Key risks – slowdown in spending, upcoming supply of space

Risks to our call: i) a sharp slowdown in upper-middle-class and upper-class retail spending; ii) negative effects of price hike adjustments arising from imported inflation due to a stronger US\$; iii) non-renewal of tenancies; iv) competition from 16m sq ft incoming retail supply (2016-21).

Earnings & Valuation Summary

| FYE 31 Dec | 2014 | 2015 | 2016E | 2017E | 2018E |
|---------------------------|-------|-------|-------|-------|-------|
| Revenue (RMm) | 402.1 | 413.9 | 509.8 | 620.8 | 653.3 |
| Net Property Income (RMm) | 282.7 | 291.5 | 341.6 | 416.4 | 440.6 |
| Net profit (RMm) | 510.5 | 282.3 | 269.1 | 286.3 | 309.2 |
| EPU (sen) | 16.9 | 9.4 | 8.9 | 9.5 | 10.2 |
| PER (x) | 10.6 | 19.2 | 20.2 | 19.0 | 17.6 |
| Distrib. net profit (RMm) | 239.9 | 248.9 | 288.6 | 329.8 | 341.7 |
| Realised net profit (RMm) | 232.4 | 241.3 | 269.1 | 286.3 | 309.2 |
| Realised EPU (sen) | 7.7 | 8.0 | 8.9 | 9.5 | 10.2 |
| Realised EPU growth (%) | 8.4 | 3.8 | 11.4 | 6.2 | 7.8 |
| Realised PER (x) | 23.3 | 22.5 | 20.2 | 19.0 | 17.6 |
| DPU (sen) | 7.96 | 8.23 | 9.54 | 10.89 | 11.26 |
| DPU Yield (%) | 4.4 | 4.6 | 5.3 | 6.0 | 6.3 |
| P/NAV (x) | 1.42 | 1.42 | 1.42 | 1.42 | 1.43 |
| Chg in EPS (%) | - | - | - | - | - |
| Affin/Consensus (x) | - | - | 1.0 | 1.0 | 1.0 |

Source: Company, Affin Hwang forecasts, Bloomberg
Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Pavilion REIT

PREIT MK
Sector: M-REITs

RM1.8 @ 28 July 2016

BUY (maintain)

Upside 17%

Price Target: RM2.11

Previous Target: RM1.90

Price Performance

| | 1M | 3M | 12M |
|-------------|-------|-------|--------|
| Absolute | +3.4% | +7.1% | +20.0% |
| Rel to KLCI | +1.9% | +8.2% | +23.0% |

Stock Data

| | |
|-------------------------------|-----------------|
| Issued shares (m) | 3,019.8 |
| Mkt cap (RMm)/(US\$m) | 5,435.6/1,340.6 |
| Avg daily vol - 6mth (m) | 1.8 |
| 52-wk range (RM) | 1.39-1.9 |
| Est free float | 17.3% |
| NAV per share (RM) | 1.26 |
| P/NAV (x) | 1.43 |
| Net cash/ (debt) (RMm) (2Q16) | (1,053.8) |
| ROE (2016E) | 7.0% |
| Derivatives | Nil |
| Shariah Compliant | No |

Key Shareholders

| | |
|----------------------|-------|
| Qatar Holdings | 35.9% |
| Datuk Lim Siew Choon | 28.0% |
| Datin Tan Kewi Yong | 9.3% |

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

| FYE 31 Dec (RMm) | 2Q16 | QoQ % chg | YoY % chg | 1H16 | YoY % chg | Comments |
|-----------------------------------|--------------|-----------------|-----------------|--------------|-----------------|---|
| Revenue | 118.0 | 10.6 | 14.7 | 224.7 | 8.0 | 1H16 revenue was up by 8% yoy, driven primarily by the retail segment (97% of total revenue) and rental income from newly acquired properties Da:Men USJ and the Intermark Mall. |
| - Gross rental income | 101.2 | 13.1 | 14.4 | 190.6 | 8.1 | |
| - Other income | 16.8 | (2.5) | 16.4 | 34.1 | 7.7 | |
| Operating expenses | (36.6) | 17.8 | 18.1 | (67.6) | 7.1 | Maintenance costs increased due to operating costs incurred for new malls. |
| Net Property Income | 81.4 | 7.7 | 13.3 | 157.1 | 8.4 | NPI margin remained relatively stable at 70%. |
| <i>NPI margin (%)</i> | 69.0 | (1.9) | (0.9) | 69.9 | 0.1 | |
| Revaluation surplus/others | | 28.5 | 52.1 | | 31.1 | |
| | 2.23 | | | 3.97 | | |
| Net Investment Income | 83.7 | 8.1 | 14.0 | 161.0 | 8.9 | Increase in total debt due to drawdown of additional borrowings for recent acquisitions. |
| Interest expense | (17.0) | 75.4 | >100 | (26.7) | 71.6 | |
| REIT's expenses | (7.1) | 14.2 | 13.5 | (13.3) | 6.2 | |
| Pretax profit | 59.6 | (3.1) | 0.4 | 121.0 | 1.0 | Realized net profit in line with Affin and consensus. Profit expected to pick up in subsequent quarters with additional contributions from recent acquisitions and tenancy renewal at Pavilion KL in 3Q-4Q16. |
| Comprehensive income | 59.6 | (3.1) | 0.4 | 121.0 | 1.0 | |
| Realized net profit | 59.6 | (3.1) | 0.4 | 121.0 | 1.0 | |
| Distributable income | 62.3 | (1.9) | 1.8 | 125.7 | 1.8 | A DPU of 4.14sen was proposed. |
| Per share: | | | | | | |
| <i>Realized EPU (sen)</i> | 2.0 | (3.1) | 0.3 | 4.0 | 0.9 | |
| <i>DPU (sen)</i> | 4.14 | n.m. | 1.2 | 4.14 | 1.2 | |
| <i>Distributable income (sen)</i> | 2.06 | (1.9) | 1.7 | 4.16 | 1.7 | |
| <i>DPU payout ratio (%)</i> | 99.9 | n.m. | 0.1 | 99.9 | 0.1 | |
| <i>DPU yield (%)</i> | 2.30 | n.m. | 1.2 | 2.3 | 1.2 | |

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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