

Malaysia

ADD (previously HOLD)

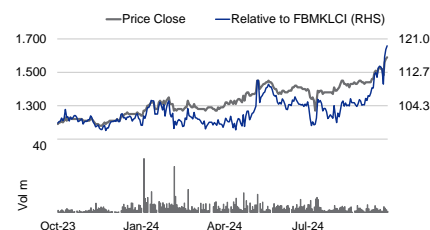
Consensus ratings*: Buy 7 Hold 1 Sell 0

Current price:	RM1.59
Target price:	RM1.78
Previous target:	RM1.29
Up/downside:	11.9%
CGSI / Consensus:	9.9%
Reuters:	PREI.KL
Bloomberg:	PREIT MK
Market cap:	US\$1,345m
	RM5,820m
Average daily turnover:	US\$0.80m
	RM3.45m
Current shares o/s:	3,652m
Free float:	37.2%

*Source: Bloomberg

Key changes in this note

- Upgrade from Hold to Add with a higher DDM-derived TP of RM1.78.
- Raise our FY24F core EPU by 15%.
- Introduce FY25F-26F core EPU of 10.2-10.8 sen.
- This note marks the transfer of coverage to Lucas Tan.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.7	13.6	32.5
Relative (%)	11.1	12.9	18.4

Major shareholders	% held
Qatar Investment Authority	27.6
Tan Sri Lim Siew Choon	23.1
Employees Provident Fund	12.1

Analyst(s)



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Pavilion REIT

Multiple catalysts are coming together

- We resume coverage on Pavilion REIT with an Add and a TP of RM1.78 following our model updates.
- We see the REIT as a proxy to stronger private consumption, increase in tourist arrivals and accelerated earnings growth from Pavilion Bukit Jalil.
- We anticipate a strong performance from the REIT supported by 8.8% EPU CAGR over FY23-26F and an attractive FY25F dividend yield of 6.0%.

Riding on the tailwinds of a better macroeconomic environment

In our view, Pavilion REIT is poised to benefit significantly from an improving macroeconomic landscape marked by robust domestic spending and a rapid recovery in tourism activities. This would result in increased footfall and tenants' sales for malls, thus elevating its rental revenue growth. The solid outlook also lends support to the upcoming rental reversions, with management setting in sight an uptick in rental rates of 4-6% for FY24F. We also see substantial room for growth in Pavilion Bukit Jalil's performance in the next 3 years, as it remains in the fast-growth phase. We see the rise in the occupancy rate as the low-hanging fruit that could spur the mall's rental income growth. Management's target for the mall's occupancy rate to achieve 90% in 4Q24F is within reach, in our view. We project the mall to subsequently improve its occupancy rate to 95% by end-26. This anchors the majority of the REIT's earnings growth in FY24F-26F.

Future acquisitions remain on the table

Meanwhile, Pavilion REIT also has a number of future acquisitions in the pipeline, providing continuous inorganic growth in the short to medium term, according to the management. We estimate that potential acquisition targets may include Pavilion Damansara Heights Mall and Fahrenheit88. Despite a lack of clarity on the potential valuation for the two malls, we believe a minimum NPI yield of 6% is required for the assets to be yield-accretive. Recall that Pavilion Bukit Jalil was injected at a targeted NPI yield of 6.6% which comes with a minimum guaranteed income.

Upgrade to Add with a higher target price of RM1.78

We raise FY24F core EPU by 15% while introducing FY25F-26F core EPU of 10.2-10.8 sen, factoring in incremental earnings from Pavilion Bukit Jalil and higher rental rate assumptions. We upgrade Pavilion REIT from Hold to Add on our expectation of 8.8% EPU CAGR in FY23-26F and an attractive FY25F dividend yield of 6.0%. We lift our DDM-based TP to RM1.78 (COE: 8.5%, TG: 3.0%) following the core EPU revisions and model updates. At our new TP, implied FY25F yield is 5.3% with a yield differential of 200-300bp compared to 10-year MGS. We like Pavilion REIT for its strong FY24F-26F performance supported by strong occupancy rates and consistent rental growth. Potential re-rating catalysts 1) stronger-than-expected tenant sales, 2) acquisition of new assets, 3) a faster recovery in tourist arrivals and receipts. Downside risks 1) non-renewal of existing, 2) unexpected increase in interest rates, 3) higher-than-expected opex.

Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue (RMm)	551.3	723.8	850.7	904.6	929.8
Net Property Income (RMm)	364.2	459.1	526.3	572.9	594.6
Net Profit (RMm)	397.8	431.8	326.6	372.4	396.2
Distributable Profit (RMm)	255.8	307.4	339.2	385.5	409.7
Core EPS (RM)	0.08	0.08	0.09	0.10	0.11
Core EPS Growth	95.4%	3.8%	6.6%	13.8%	6.2%
FD Core P/E (x)	19.70	18.69	17.80	15.64	14.73
DPS (RM)	0.07	0.07	0.08	0.09	0.10
Dividend Yield	4.18%	4.66%	5.25%	5.95%	6.31%
Asset Leverage	33.8%	37.7%	37.8%	37.6%	36.8%
BVPS (RM)	1.33	1.35	1.36	1.36	1.37
P/BV (x)	1.20	1.18	1.17	1.17	1.16
Recurring ROE	6.22%	6.35%	6.60%	7.48%	7.90%
% Change In DPS Estimates			2.20%		
DPS/Consensus DPS (x)			0.91	0.99	1.06

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Multiple catalysts are coming together

Riding on the tailwinds of a better macroeconomic environment

In our view, Pavilion REIT is poised to benefit significantly from an improving macroeconomic landscape marked by robust domestic spending and a rapid recovery in tourism activities. This would result in increased footfall and tenants' sales for malls, thus elevating its rental revenue growth. The solid outlook would also lend support to future rental reversions, with management setting in sight an uptick in rental rates in the range of 4-6% for FY24F. This comes on the heels of impressive rental reversions achieved in FY23, which brought most of its malls' average rental rates above pre-Covid levels by 1-25%, except for Da Men Mall.

In addition, we see substantial room for growth in Pavilion Bukit Jalil's performance in the next 3 years, as it remains in the fast-growth phase. Particularly, we view the rise in the occupancy rate as the low-hanging fruit that could easily spur the mall's rental income growth. Recall that Pavilion Bukit Jalil's occupancy rate stood at 87.8% as of end-Jun 24. Having said that, we believe the management's target for the mall's occupancy rate to achieve 90% in 4Q24F is within reach. We also project the mall to subsequently improve its occupancy rate to 95% by end-FY26F. This anchors the majority of the Pavilion REIT's earnings growth in FY24F-26F.

On the other hand, Pavilion Bukit Jalil also risks getting a downward revision in its valuation if it fails to meet the targeted net property income (NPI) of RM146m on an annualised basis by mid-2025. Note that the RM146m targeted NPI translates into a yield of 6.6% based on the mall's RM2.2bn purchase price. The injection was completed in Jun 23 and there have been 4 quarters of contribution since 3QFY23. In 2QFY24, the mall recorded a quarterly NPI of RM25.7m which works out to an annualised NPI of RM102.7m, falling short of the target by nearly 30%. That said, we think it might be a long shot for the mall to meet the NPI target by mid-2025.

On a positive note, Pavilion REIT would be able to partially waive the balance payment of RM400m related to the acquisition of the Pavilion Bukit Jalil in the event that the mall fails to meet the NPI target. Recall that the REIT raised around RM1.8bn through equity and debts to fund the majority of the acquisition payment, leaving the RM400m balance due upon the mall's revaluation in mid-2025. Should the NPI target be achieved by mid-2025, the REIT needs to make the full payment of RM400m, with funding coming from a combination of equity and debt. If the mall fails to meet the NPI target, we foresee less additional funding required, reducing the risk of equity dilution or a higher gearing ratio.

Figure 1: The healthy tenant mix as of end-23 which allows Pavilion RET to capitalise on the uptick in retail sales in Malaysia

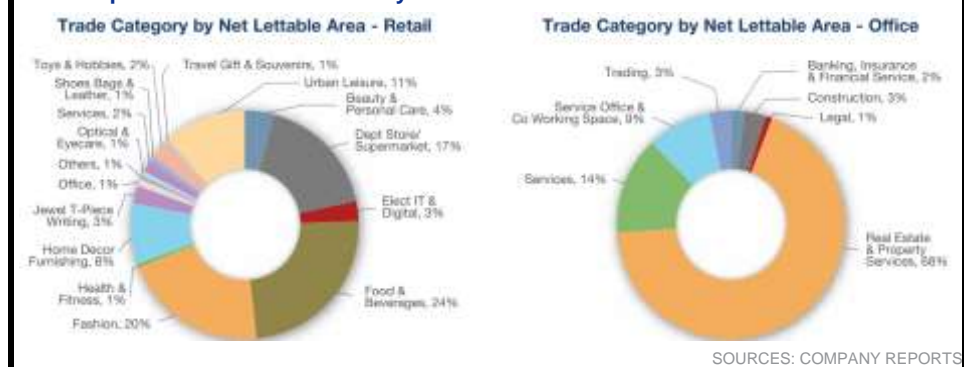
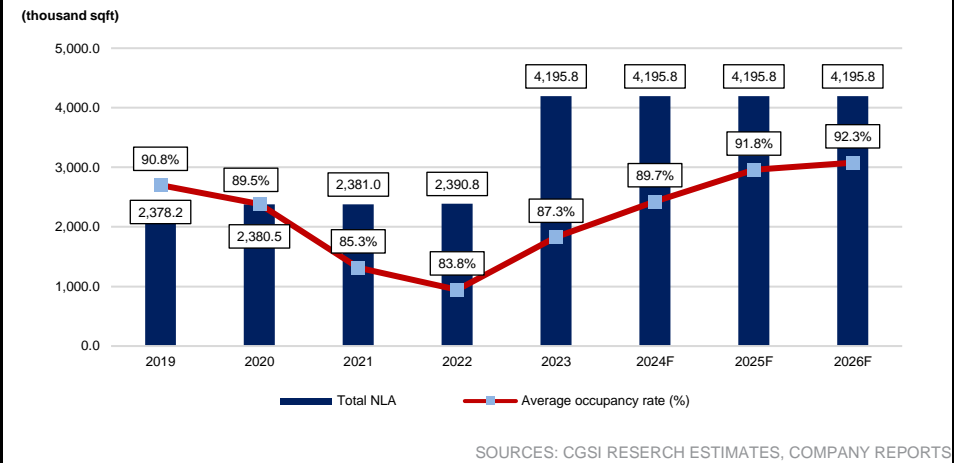


Figure 2: Improved occupancy rates in FY24F-26F anchored by better performance of Pavilion Bukit Jalil



Future acquisitions remain on the table

Meanwhile, Pavilion REIT also has a number of future acquisitions in the pipeline, providing continuous inorganic growth in the short to medium term according to the management. We estimate that potential acquisition targets may include Pavilion Damansara Heights Mall and Fahrenheit88, among others.

Pavilion REIT has the first right of refusal to buy Fahrenheit88, which comes with a total net lettable area (NLA) of around 330k sq ft from the owner, Pavilion International Development Fund Ltd. Meanwhile, Pavilion REIT's chairman and substantial shareholder Tan Sri Desmond Lim owns a majority stake in Pavilion Damansara Heights Mall through a joint venture with the Canada Pension Plan Investment Board. This implies that Pavilion REIT stands out among other bidders when Pavilion Damansara Heights Mall is up for sale, which may materialise in the next 5 years, in our view.

Phase 1 of the mall, with a total NLA of 533k sq ft, opened to the public in May 23 with a committed occupancy of around 80%. Moreover, the owner earlier guided for Phase 2, with a total NLA of 529k sq ft to commence operations by end-2024. Despite a lack of clarity on the potential valuation for the 2 malls, we believe a minimum NPI yield of 6% is required for the assets to be yield-accretive. Recall that Pavilion Bukit Jalil was injected at a targeted NPI yield of 6.6% which comes with a minimum guaranteed income.

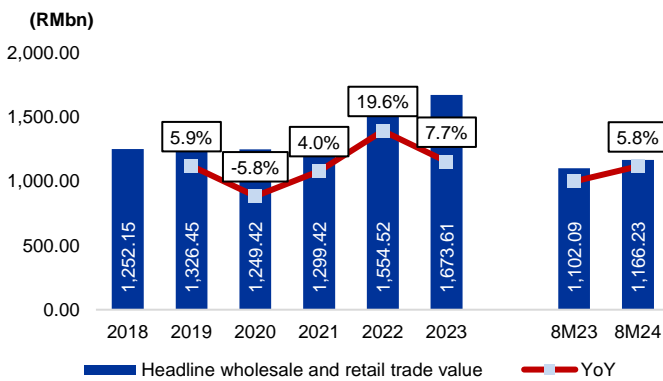
INDUSTRY OUTLOOK

We believe that the near-term outlook for Malaysian retail malls in FY24F-26F remains positive, driven by robust private consumption and increased tourist receipts. We anticipate stronger private consumption due to several factors: i) rising disposable income resulting from the government's introduction of withdrawals from Employees' Provident Fund (EPF) Account 3, ii) salary increases of over 13% for civil servants starting in Dec 2023, and iii) potentially higher cash handouts for low-income households. Notably, Malaysia recorded private consumption growth of 4.7% yoy in 1Q24 and 6% in 2Q24, compared to our economics team's full-year projection of 6.9% for 2024.

In addition, data from the Department of Statistics Malaysia (DOSM) shows that the headline wholesale and retail trade value in the first 8 months of 2024 surged by 5.8% yoy to RM1,166.2bn, compared to 8M23. This follows an average growth rate of 10% per annum in wholesale and retail trade value from 2021 to 2023. Meanwhile, according to Tourism Malaysia, tourist arrivals grew by 29% yoy to 11.8m (12% lower than pre-pandemic 2019 levels) 1H24, while tourist receipts rose by 51% yoy to RM45.4bn (9% higher than pre-pandemic 2019 levels).

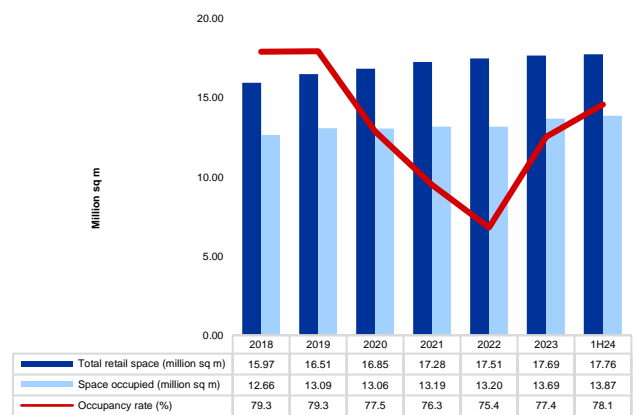
Regarding supply, the National Property Information Centre (NAPIC) reports that total retail space in Malaysia increased gradually from 15.97m sq m in 2018 to 17.76m sq m in 1H24. Notably, about 219,000 sq m of net lettable area (NLA) was added in 2023 alone, with The Exchange TRX Mall, which opened in Nov 2023, contributing around 125,000 sq m. Despite this increase in retail space, occupancy rates have remained stable, averaging between 75% and 79% in 2018-23. While NAPIC notes that there is about 1.13m sq m of incoming supply and nearly 350,000 sq m planned by the end of 2023, we remain optimistic about the resilient retail outlook, which should support stable occupancy rates for Malaysian malls in the coming years.

Figure 3: The headline wholesale and retail trade value has been consistently on the uptrend over the years, which depicts a solid outlook for Malaysian malls



SOURCES: CGSI RESEARCH, NATIONAL PROPERTY INFORMATION CENTRE (NAPIC)

Figure 4: Malaysia's total supply and average occupancy of shopping complexes in 2018-1H24 shows resilient occupancy despite the gradual increase in space over the years



SOURCES: CGSI RESEARCH, COMPANY REPORTS

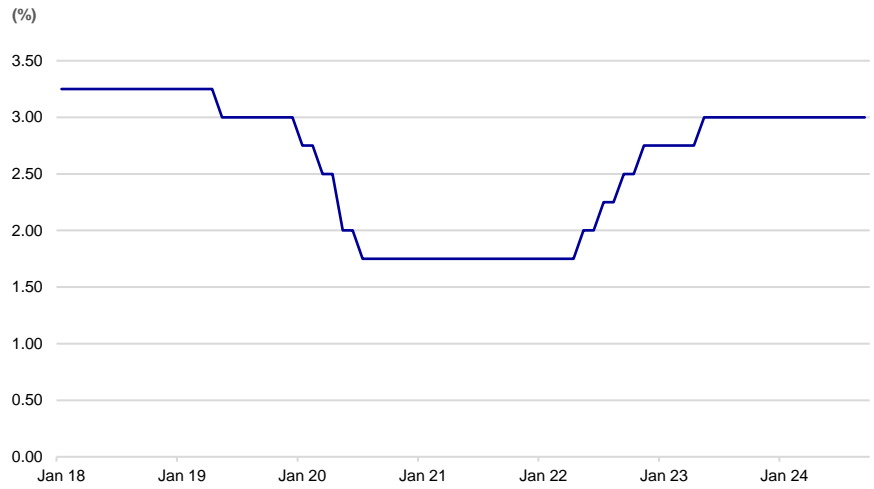
Figure 5: Key economic indicators projected by our in-house economics team, which lend support to our sanguine view of the operating environment

Key economic indicators	2021	2022	2023	2024F	2025F
Real GDP growth (%)	3.3	8.7	3.8	5.2	4.4
Inflation rate (%)	2.5	3.4	2.5	2.6	3.3
Private consumption growth (%)	1.9	11.2	4.7	6.9	6.5
OPR by year-end (%)	1.75	2.75	3.00	3.00	3.00
RM/US\$ exchange rate	4.17	4.40	4.59	4.40	4.20

SOURCES: CGSI RESEARCH ESTIMATES, BANK NEGARA MALAYSIA
Note: OPR refers to Overnight Policy Rate

We view the current accommodative interest rate environment as a boon for all REITs, including Pavilion REIT. This is following Bank Negara Malaysia's (BNM) decision to keep the overnight policy rate (OPR) at 3% during its meeting on 5 Sep 2024. That said, BNM has maintained this rate for over a year, having last raised it by 25bp in May 2023. Our in-house economists expect the OPR to remain at 3% until the end of 2025. Generally, a low interest rate environment enables REITs to finance new property acquisitions and development projects at a lower borrowing cost, which can expedite earnings growth and enhance portfolio yields. Furthermore, reduced finance costs can boost a REIT's profitability and cash flow.

Figure 6: The OPR has remained at 3% for over a year, following BNM's decision to maintain the rate in Sep 24. This stability benefits REITs by ensuring that borrowing costs remain cheap



SOURCES: CGSI RESEARCH, BANK NEGARA MALAYSIA (BNM)

VALUATION AND RECOMMENDATION

We raise our FY24F core earnings per unit (EPU) estimates by 15% upon factoring in the incremental earnings from Pavilion Bukit Jalil as well as lifting the rental rate assumptions. We also introduce core EPU of 10.2 sen in FY25F with implied yoy growth of 13.8% and 10.8 sen in FY26F with implied yoy growth of 6.2%.

Figure 7: We raise our FY24F core EPU estimate 15% upon factoring in the incremental earnings from Pavilion Bukit Jalil as well as lifting the rental rate assumptions. We also introduce FY25F-26F core EPU of 10.2-10.8 sen

(RM m unless otherwise stated)	Previous			Revised			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	554.6	NA	NA	850.7	904.6	929.8	53%	NA	NA
NPI	354.4	NA	NA	526.3	572.9	594.6	48%	NA	NA
PBT	239.2	NA	NA	326.6	372.4	396.2	37%	NA	NA
Net profit	239.2	NA	NA	326.6	372.4	396.2	37%	NA	NA
EPU (sen)	7.8	NA	NA	8.9	10.2	10.8	15%	NA	NA
DPU (sen)	8.2	NA	NA	8.3	9.5	10.0	2%	NA	NA

SOURCES: CGSI RESEARCH ESTIMATES

We upgrade Pavilion REIT from Hold to Add underpinned by our expectation of 8.8% EPU CAGR over FY23-26F and an attractive FY25F dividend yield of 6.0%. We also raise the DDM-derived target price to RM1.78 (cost of equity: 8.5%, terminal growth: 3.0%) from RM1.29 previously following our earnings revisions and model updates. At our new TP, the implied FY25F yield is 5.3% with a yield differential of 200-300bp compared to 10-year MGS. We like Pavilion REIT for its strong performance in FY24F-26F supported by a strong occupancy rate and consistent rental growth which provide significant DPU growth to unitholders. We also foresee accelerated earnings growth should the REIT pursue another sizeable acquisition, which is not priced into its current valuation.

Figure 8: Our revised DDM valuation lifts our target price to RM1.78

(sen unless otherwise stated)	2024F	2025F	2026F	2027F	2028F
Core EPU	8.93	10.17	10.79	11.36	12.02
- yoy growth	6.6%	13.8%	6.2%	5.3%	5.7%
DPU	8.35	9.47	10.05	10.57	11.16
- yoy growth	5.1%	13.4%	6.0%	5.2%	5.6%
<i>Dividend payout ratio</i>	90%	90%	90%	90%	90%
Expected PV of DPU	7.70	8.05	7.86	7.62	7.42
Total expected PV of DPU	38.65				
Terminal value of DPU	208.97				
PV of terminal value of DPU	138.97				
Total PV per share	177.62				
Target Price (RM)	1.78				
Key assumptions:					
Risk-free rate of return	4.0%				
Expected market return	10.0%				
Beta (x)	0.75				
Cost of equity	8.5%				
Terminal growth rate	3.0%				

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 9: Sensitivity analysis – our target price could rise to as high as RM2.94 in our bull-case scenario with a terminal growth rate of 3.75% and cost of equity of 7.0%

		Terminal Growth Rate						
		2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
Cost of Equity	7.00%	2.12	2.22	2.33	2.45	2.59	2.76	2.94
	7.50%	1.91	1.99	2.08	2.18	2.29	2.41	2.55
	8.00%	1.74	1.81	1.88	1.96	2.04	2.14	2.25
	8.50%	1.60	1.65	1.71	1.78	1.85	1.92	2.01
	9.00%	1.48	1.52	1.57	1.63	1.68	1.75	1.81
	9.50%	1.38	1.41	1.46	1.50	1.55	1.60	1.66
	10.00%	1.29	1.32	1.35	1.39	1.43	1.47	1.52

SOURCES: CGSI RESEARCH ESTIMATES

Figure 10: Pavilion REIT's dividend yield vs. 10-year MGS yield; the yield spread has sustained above 2% since 2018. This was despite the narrowing trend this year due to the commendable share price performance (up 30% YTD)

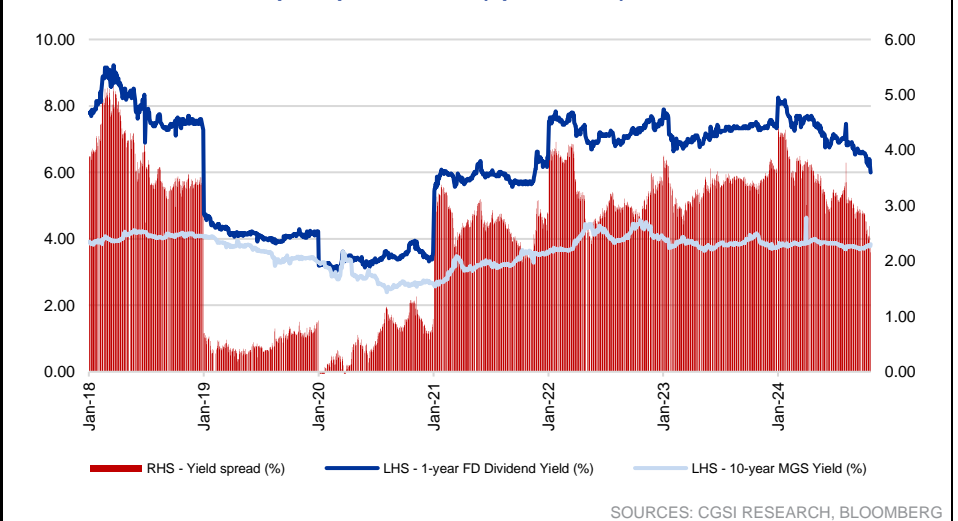


Figure 11: Peer comparison table

Company	Ticker	FYE	Rec	TP		Upside (%)	Mkt Cap (US\$)	P/E (x)		2Y EPS		EPS Growth (%)		P/BV (x)		ROE (%)		DY (%)	
				(RM)	(RM)			CY24F	CY25F	CAGR (%)	CY24F	CY25F	CY24F	CY25F	CY24F	CY25F	CY24F	CY25F	
Axis REIT	AXRB MK	Dec	Add	2.01	1.81	11.0	727	18.1	16.5	(4.2)	(20.0)	10.0	1.2	1.2	6.4	6.9	5.5	6.1	
Capitaland Malaysia Trust	CLMT MK	Dec	Add	0.80	0.70	15.1	453	14.8	13.7	6.7	12.8	7.7	0.7	0.7	4.7	5.0	6.4	6.9	
IGB REIT	IGBREIT MK	Dec	Add	2.02	2.19	(7.8)	1,819	19.9	18.3	6.6	11.1	9.1	2.1	2.1	9.8	10.6	5.0	5.0	
KLCC Stapled Group	KLCCSS MK	Dec	Hold	7.62	8.00	(4.8)	3,320	18.2	17.4	5.4	11.7	4.8	0.9	0.9	5.1	5.4	5.2	5.4	
Pavilion REIT	PREIT MK	Dec	Add	1.78	1.59	11.9	1,338	17.8	15.6	6.7	6.6	13.8	1.2	1.2	6.6	7.4	5.3	6.0	
Sentral REIT	SENTRAL MK	Dec	Hold	0.86	0.80	7.5	220	13.2	13.6	3.4	13.5	(2.5)	0.6	0.6	4.3	4.1	7.4	7.2	
Sunway REIT	SREIT MK	Dec	Add	1.77	1.83	(3.3)	1,441	17.1	16.5	4.0	8.6	3.7	1.1	1.1	6.7	6.8	5.3	5.5	
Malaysia average								16.9	16.0	3.7	6.3	5.5	1.1	1.1	6.2	6.5	5.8	6.0	

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG
SHARE PRICES AS AT 23 OCT 2024

SWOT ANALYSIS

Figure 12: SWOT analysis

Strengths	Opportunities
Appealing DPU yield	Higher rental income from stronger domestic spending
Commendable occupancy rates and rental reversions	Improved occupancy rate on better operating landscape
Diversified tenants profile	Yield-accretive acquisition of new assets
Prime location of malls	Accommodative interest rate environment
Weaknesses	Threats
Earnings may be impacted by higher interest rates	Oversupply in the market
Prolonged losses from Da Men Mall	Downswing in domestic consumption
Constrained balance sheet	Slower recovery in tourist arrivals
	Non-renewal of existing leases

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Strengths: Pavilion REIT delivered an attractive dividend yield of 4.7% for 2023, bolstered by robust earnings. We anticipate the group to maintain a distribution per unit (DPU) of 8.3-10.0 sen for FY24F-26F, resulting in appealing yields of 5.3-6.4%. Its stable occupancy rates and commendable rental reversions indicate a stable income stream ahead, thus positioning Pavilion REIT well to navigate unfavourable market conditions. In addition, the company benefits from diversified tenants from various industries, including F&B, fashion, groceries, etc. which mitigates risk and results in solid earnings. Its malls are also located in strategic locations which drive footfall and rental income.

Weaknesses: Pavilion REIT's earnings might be affected by higher interest rates, which sequentially elevate borrowing costs and compress profit margins. Prolonged losses from Da Men Mall may continue to weigh down its financial performance and investor confidence. Moreover, its gearing ratio of 41.9% as of Jun 2024 may curb Pavilion REIT's capability to fund new acquisitions or asset enhancement initiatives by increasing borrowings. This means it may need to tap on the equity market for sizeable fund raising exercises which result in equity dilution.

Opportunities: In our view, Pavilion REIT is well positioned to capitalise on stronger domestic spending, which could boost tenants' turnover and increase rental income. Improvements in the operating landscape could also lead to an increase in its occupancy rates, enhancing its earnings growth outlook. Furthermore, potentially yield-accretive acquisitions of new assets (Fahrenheit, Pavilion Damansara Heights Mall, etc.) could help expand and diversify its portfolio, further enhancing unitholders' returns. Lastly, an accommodative interest rate environment provides Pavilion REIT with favourable borrowing conditions, enabling cost-effective acquisitions as well as lifting earnings growth.

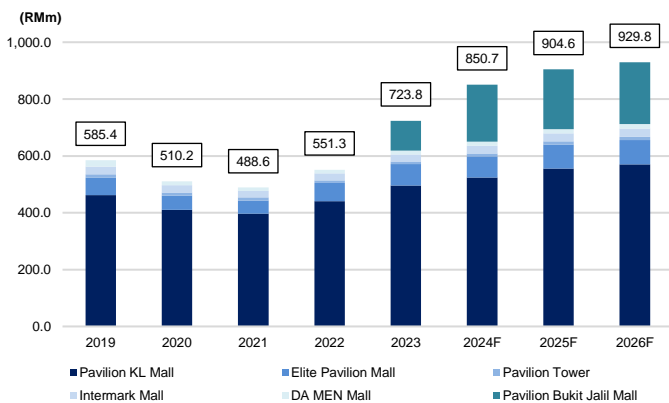
Threats: Increased competition from both existing and new malls, as well as offices, may lead to oversupply in the market. This poses a risk to Pavilion REIT’s market share and could exert downward pressure on rental rates. A potential slowdown in domestic consumption may reduce tenant sales, negatively impacting rental income. Moreover, a decline in tourist arrivals could affect footfall and sales, particularly for retail properties reliant on tourism, such as Pavilion Kuala Lumpur Mall and Elite Pavilion Mall. There is also the risk of existing tenants not renewing leases, which could result in higher vacancy rates and lost rental income, as it may take a few weeks or months to fill up the vacancies.

FINANCIAL ANALYSIS

Pavilion REIT has delivered robust revenue growth with a 3-year CAGR of 12.4% from FY20 to FY23. This growth is attributed to: 1) incremental earnings from Pavilion Bukit Jalil; 2) improved average occupancy rates; and 3) strong rental reversions. We anticipate this upward trend to continue, despite a lower 3-year CAGR of 8.7% from FY23 to FY26F, due to the high base effect. Our revenue forecasts for FY24F-26F are underpinned by several factors, including 1) gradual improvement in the REIT’s average occupancy rates, particularly for Pavilion Bukit Jalil, and 2) resilient rental reversions in the range of 4-6% in FY24F-26F.

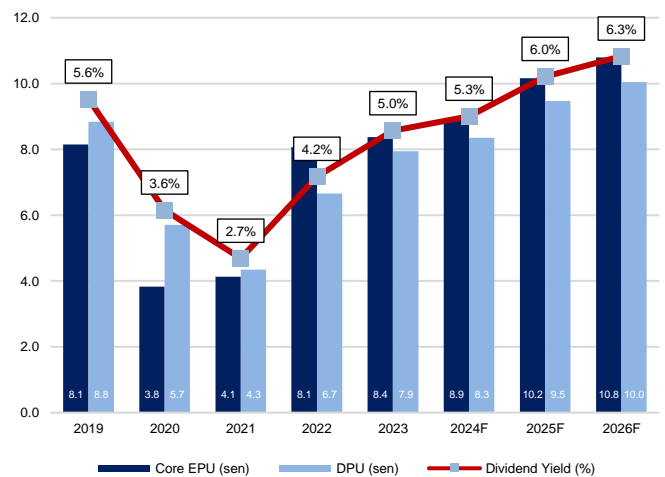
In tandem with growth in revenue, we also project EPU to increase with a 3-year CAGR of 8.8% from FY23 to FY26F, driven by the gradual improvements in NPI margins. Assuming a sustainable dividend payout ratio of 90% over the next three years, we project Pavilion REIT’s DPU to achieve a 3-year CAGR of 8.1%, leading to a DPU of 8.3-10.0 sen for FY23-26F. This is expected to yield an attractive dividend yield of 5.3-6.4% for FY24F-26F.

Figure 13: We project Pavilion REIT’s revenue to grow at a 3-year CAGR of 8.7% from FY23 to FY26F



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: We forecast DPU to record a 3-year CAGR of 8.1% to 8.3-10.0 sen in FY23-26F, backed by higher core EPU



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Re-rating catalysts and downside risks

Potential re-rating catalysts for Pavilion REIT include:

- 1) Stronger-than-expected tenant sales growth, which could lead to increased rental income.
- 2) Acquisition of new retail assets, potentially generating additional rental income and enhancing earnings.
- 3) A significant recovery in tourist arrivals and receipts, which could greatly boost foot traffic and tenant sales per square foot in its malls.

Downside risks to our Add call include:

- 1) Non-renewal of existing leases upon expiries which may result in lower rental income due to the lead time required to fill vacancies.
- 2) An unexpected rise in interest rates would lead to higher interest expenses and subsequently limit Pavilion REIT's ability to pursue future acquisitions and expansion projects.
- 3) Higher-than-anticipated operating expenses which could erode profit margins and result in lower dividend payments to unitholders.

Figure 15: Pavilion REIT's management team which has the right skillset and experience

Name	Age	Gender	Position	Background
Board of directors:				
Tan Sri Lim Siew Choon	63	Male	Chairman, Non-Independent Executive Director	Appointed in Aug 11. Over than 41 years of experience in property development, retail development, corporate management, etc.
Puan Sri Tan Kewi Yong	67	Female	Non-Independent Executive Director	Appointed in Apr 11. Extensive experience in retail, marketing, finance and strategic management. Executive Director of Malton Berhad
Dato' Lee Tuck Fook	69	Male	Non-Independent Executive Director	Appointed in Jul 11. Independent Non-Executive Chairman of Pesona Metro Holdings Berhad & Group Managing Director of WTC Holdings Bhd.
Ahmed Mohammed F Q Al-Khanji	39	Male	Non-Independent Non-Executive Director	Appointed in Jun 16. Currently the General Counsel of Qatar Investment Authority.
Mohd Abdulrazzaq A A Al-Hashmi	35	Male	Non-Independent Non-Executive Director	Appointed in Jun 16. Post Acquisition Director of the Real Estate Department of Qatar Investment Authority.
Navid Chamdia	50	Male	Non-Independent Non-Executive Director	Appointed in Aug 11. Head of real estate investment at Qatar Investment Authority.
Dato' Seri Mohamed Azahaari Bin Mohamed Kamil	64	Male	Independent Non-Executive Director	Appointed in Aug 23. Extensive experience in corporate governance and is a qualified chartered banker.
Dato' Choo Chuo Siong	58	Male	Independent Non-Executive Director	Appointed in Jun 12. Extensive experience in property development.
Dato' Mearia @ Massahariah Binti Hamzah	59	Female	Independent Non-Executive Director	Appointed in Jan 23. Extensive experience in property development, strategy, corporate planning, financial management and investor relations.
Baljeet Kaur Grewal A/P Jaswant Singh	47	Female	Independent Non-Executive Director	Appointed in Sep 22. Extensive experience in investment banking, strategy and corporate planning, etc.
Nor Rejina Binti Abdul Rahim	51	Female	Independent Non-Executive Director	Appointed in Aug 23. An Advisor to the institutional Investors Council of Malaysia and a Council Member of the MIFC.
Key management team:				
Dato' Philip Ho Yew Hong	57	Male	Chief Executive Officer (CEO)	Appointed in Dec 11. Over 35 years of experience in corporate planning, mergers & acquisitions, finance, property development, etc.
Dato' Joyce Yap Soh Ching	66	Female	Asset Manager (Retail)	Appointed in Dec 11. Over 42 years of experience in development, sales and marketing, leasing and assets management.
Lovell Ho Wai Hoong	55	Male	Asset Manager (Leasing)	Appointed in Dec 11. Over 30 years of experience in retail management, leasing and marketing.
Kung Suan Ai	52	Female	Asset Manager (Marketing)	Appointed in Dec 11. Job scopes include implementing strategic marketing and communication plans to increase the brand equity.
Francis Ong Heng Khai	55	Male	Asset Manager (Facilities Management)	Appointed in Dec 11. Over 30 years of experience in property management covering residential, commercial and industrial properties.
Lim Shoo Wenn	29	Female	Director - CEO Office	Appointed in May 23. Daughter of the Chairman. Over 6 years of experience in the retail and hospitality industry.
Ong Hui Ling	54	Female	Head of Corporate Planning	Appointed in Jan 12. Over 33 years of experience in finance of service, manufacturing, construction, development and retail industries.

SOURCES: CGSI RESEARCH, COMPANY REPORTS



ESG in a nutshell

Pavilion REIT has developed a Sustainability Policy, effective 24 Jan 2024. This policy serves as a roadmap to integrate sustainability matters into all aspect of Pavilion REIT’s business. It aims to: 1) provide clear direction for employees and stakeholders about Pavilion REIT’s commitment to sustainability and its strategic direction, 2) embed sustainability principles into all aspects of Pavilion REIT’s operations, 3) bring communities together and contribute to a vibrant and inclusive society. Its most notable effort includes energy-efficient upgrades, such as LED installations and the use of renewable electricity through the Green Electricity Tariff (GET) scheme. There has been significant yoy improvement in energy efficiency and a reduction in carbon intensity in FY21-23, with a targeted net-zero carbon goal by 2050. Future inflection points will focus on achieving a 20% reduction in Scope 2 emissions by 2030.

Keep your eye on

The integration of Pavilion Bukit Jalil in 2023 has affected overall energy and emission figures, making it crucial to monitor how the company handles this increase in energy consumption and emissions.

Implications

The inclusion of Pavilion Bukit Jalil has temporarily increased energy usage and carbon emissions; however, this trend is expected to be mitigated by the implementation of energy-saving initiatives and the focus on using renewable energy, positively impacting long-term asset valuations.

ESG highlights

Pavilion REIT has made considerable progress in its sustainability initiatives, notably subscribing to the GET scheme for Pavilion Kuala Lumpur Mall and Intermark Mall, resulting in the avoidance of 20,193 tonnes of CO2 emissions in 2023. The REIT’s Scope 1 and Scope 2 emissions have shown a downward trend, except for the impact of the Pavilion Bukit Jalil acquisition. The company has already achieved significant energy savings through its LED lighting upgrades and the GET scheme.

Implications

The successful reduction in carbon emissions aligns with global trends in sustainability and is likely to positively impact Pavilion REIT’s operational cost structure.

Trends

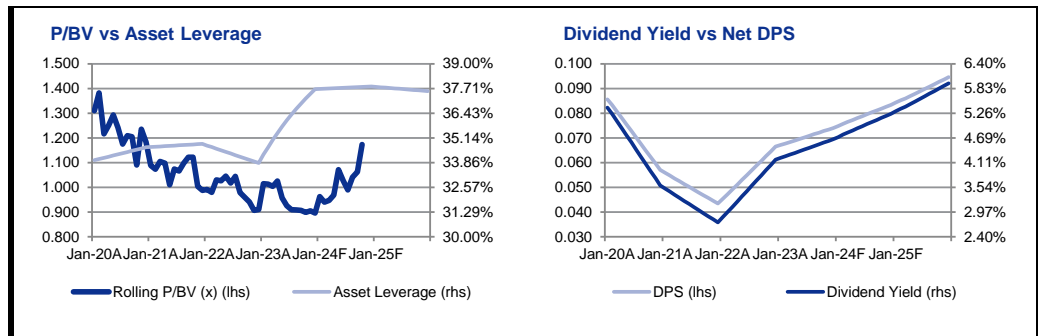
In 2023, Pavilion REIT’s total Scope 1 and 2 emissions reached 94,757 tCO2e, with energy consumption increasing by 13.3% due to Pavilion Bukit Jalil. However, excluding this acquisition, emissions fell by 14.5% compared to 2019 levels. According to the Jun 2024 ESG rating review, Pavillion REIT falls within the FTSE4Good ESG rating band of 2.5 to 3.6.

Implications

Energy-saving measures and emission reductions are expected to enhance Pavilion REIT’s reputation among ESG-focused investors, potentially increasing its market value. Continued progress in energy consumption reductions and renewable energy use will likely enhance financial performance and investor confidence. Pavilion REIT’s FTSE4 Good ESG rating band suggests that while Pavilion REIT has made notable advancements in its ESG practices, there remains potential for improvement in specific areas to attain higher ESG scores.

SOURCES: CGSI RESEARCH, LSEG

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Rental Revenues	498.9	651.4	765.7	814.1	836.8
Other Revenues	52.4	72.4	85.1	90.5	93.0
Gross Property Revenue	551.3	723.8	850.7	904.6	929.8
Total Property Expenses	(187.1)	(264.7)	(324.5)	(331.7)	(335.2)
Net Property Income	364.2	459.1	526.3	572.9	594.6
General And Admin. Expenses					
Management Fees	(30.4)	(37.9)	(40.0)	(41.4)	(42.1)
Trustee's Fees	(1.4)	(1.8)	(1.1)	(1.1)	(1.1)
Other Operating Expenses	(0.2)	(0.3)	(0.3)	(0.2)	(0.0)
EBITDA	332.2	419.1	484.9	530.3	551.5
Depreciation And Amortisation	(0.3)	(0.6)	(0.6)	(0.8)	(1.0)
EBIT	331.9	418.4	484.3	529.4	550.5
Net Interest Income	(85.5)	(133.2)	(157.7)	(157.0)	(154.3)
Associates' Profit					
Other Income/(Expenses)	151.4	146.5	0.0	0.0	0.0
Exceptional Items					
Pre-tax Profit	397.8	431.8	326.6	372.4	396.2
Taxation	0.0	0.0	0.0	0.0	0.0
Minority Interests					
Preferred Dividends					
Net Profit	397.8	431.8	326.6	372.4	396.2
Distributable Profit	255.8	307.4	339.2	385.5	409.7

Cash Flow

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Pre-tax Profit	397.8	431.8	326.6	372.4	396.2
Depreciation And Non-cash Adj.	85.8	133.8	158.3	157.9	155.2
Change In Working Capital	24.9	48.4	(73.9)	6.0	1.3
Tax Paid					
Others	(146.6)	(138.7)	10.0	10.3	10.5
Cashflow From Operations	361.8	475.2	421.0	546.6	563.3
Capex	(13.8)	(8.8)	(9.8)	(9.9)	(10.0)
Net Investments And Sale Of FA	0.0	(1,817.8)	0.0	0.0	0.0
Other Investing Cashflow	5.3	(20.1)	11.9	12.3	12.8
Cash Flow From Investing	(8.4)	(1,846.7)	2.1	2.4	2.8
Debt Raised/(repaid)	20.0	1,200.0	0.0	(6.8)	(85.1)
Equity Raised/(Repaid)	0.0	720.0	0.0	0.0	0.0
Dividends Paid	(203.2)	(270.5)	(305.3)	(347.0)	(368.7)
Cash Interest And Others	(84.7)	(144.1)	(157.7)	(157.0)	(154.3)
Cash Flow From Financing	(268.0)	1,505.5	(462.9)	(510.8)	(608.1)
Total Cash Generated	85.4	134.0	(39.9)	38.2	(42.0)
Free Cashflow To Firm	359.9	(1,360.1)	434.9	561.4	578.9
Free Cashflow To Equity	289.4	(292.6)	265.4	385.2	326.8

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Investments	6,045	8,390	8,398	8,406	8,414
Intangible Assets	0	0	0	0	0
Other Long-term Assets	1	3	4	5	6
Total Non-current Assets	6,046	8,393	8,402	8,411	8,420
Total Cash And Equivalents	392	546	495	521	466
Inventories	3	4	5	5	5
Trade Debtors	42	55	64	68	69
Other Current Assets					
Total Current Assets	438	606	564	593	540
Trade Creditors	185	592	508	514	514
Short-term Debt	800	100	102	102	99
Other Current Liabilities	0	0	0	0	0
Total Current Liabilities	985	692	609	615	613
Long-term Borrowings	1,394	3,291	3,289	3,283	3,200
Other Long-term Liabilities	44	84	105	108	110
Total Non-current Liabilities	1,438	3,375	3,394	3,391	3,310
Shareholders' Equity	4,060	4,931	4,963	4,999	5,037
Minority Interests					
Preferred Shareholders Funds					
Total Equity	4,060	4,931	4,963	4,999	5,037

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Gross Property Revenue Growth	12.8%	31.3%	17.5%	6.3%	2.8%
NPI Growth	53.9%	26.1%	14.6%	8.9%	3.8%
Net Property Income Margin	66.1%	63.4%	61.9%	63.3%	63.9%
DPS Growth	53.1%	11.3%	12.6%	13.4%	6.0%
Gross Interest Cover	3.61	2.89	2.86	3.13	3.29
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	51.1%	62.6%	93.5%	93.2%	93.1%
Current Ratio	0.44	0.88	0.93	0.96	0.88
Quick Ratio	0.44	0.87	0.92	0.96	0.87
Cash Ratio	0.40	0.79	0.81	0.85	0.76
Return On Average Assets	6.25%	5.58%	3.64%	4.14%	4.41%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Occupancy rates (%)	83.8%	87.3%	89.7%	91.8%	92.3%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2024

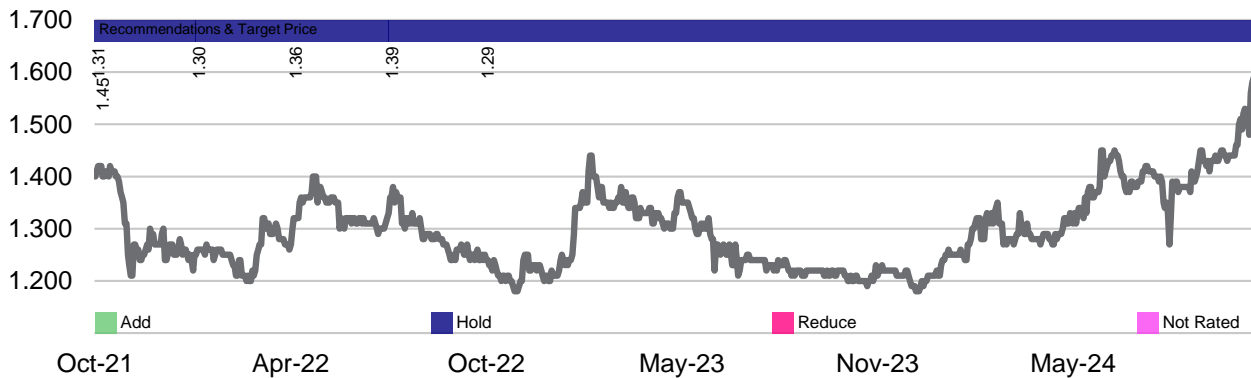
588 companies under coverage for quarter ended on 30 September 2024

	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

Spitzer Chart for stock being researched (2 year data)

Pavilion REIT (PREIT MK)

— Price Close



Recommendation Framework

Stock Ratings

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.