Pavilion REIT (PREIT MK)

2Q26: In Line; Improving Occupancies Towards Year-End

BUY (Maintained)	
Share Price	RM1.75
Target Price	RM2.10
Upside	20.0%

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Highlights

- 2Q26 results are within our expectations, with a dividend of 2.37 sen declared.
- Retail fundamentals remained healthy, with positive rental reversions and tenant sales, while management expects a better 3Q26 qoq amid improving occupancies, tourist footfall, and ongoing mid-year sales. Recurring electricity tariff savings provide an additional earnings and margin tailwind.
- Maintain BUY with an unchanged target price of RM2.10. PREIT currently offers a dividend yield of 5.9%/6.1% for 2026/27 respectively.

2Q26 Results

Year to 31 Dec (RMm)	2Q26 (RMm)	qoq % chg	yoy % chg	1H26 (RMm)	yoy % chg
Revenue	221.0	(10.1)	3.6	466.9	5.8
Property Expenses	(78.7)	(9.5)	(5.7)	(165.7)	(1.9)
Net Property Income (NPI)	142.3	(10.5)	9.6	301.2	10.5
Other Income	3.7	(13.0)	0.7	8.0	0.4
Trust expenses	(13.7)	0.2	18.1	(27.4)	18.2
Finance costs	(43.3)	(1.1)	(0.0)	(87.0)	(1.5)
Core Net Profit	89.0	(15.8)	13.2	194.8	15.2
EPU (sen)	2.27	(15.8)	13.0	5.0	10.9
DPU (sen)	2.37	(15.4)	3.5	5.2	4.0
Margins (%):		ppt chg	ppt chg		ppt chg
NPI	64.4	(0.3)	3.5	64.5	2.8
Core Net Profit	40.3	(2.7)	3.4	41.7	3.4

Source: Pavilion REIT, UOB Kay Hian

Analysis

- **Within expectations.** Pavilion REIT (PREIT) reported 2Q26 revenue of RM221m (-10% qoq, +4% yoy) and core net profit of RM89m (-16% qoq, +13% yoy). This brings 1H26 core net profit to RM195m (+15% yoy), which is in line and represents 50% and 49% of our and consensus full-year estimates respectively. Average cost of debt was flat qoq at 4.3% p.a..
- A dividend of 2.37 sen was declared for 2Q26 (+4% yoy), bringing 1H26 DPU to 5.17 sen, and representing 50% of our and consensus full-year forecasts. 1H26 DPU implies an annualised yield of 5.9%.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	845.9	901.5	962.0	1001.5	1042.8
Operating profit	477.3	517.9	556.0	571.5	602.7
Net profit (rep./act.)	409.9	466.9	386.8	409.5	442.7
Net profit (adj.)	310.0	359.5	386.8	409.5	442.7
EPU (sen)	8.5	9.2	9.6	9.9	10.5
DPU (sen)	9.3	10.0	10.4	10.7	11.3
PE (x)	20.7	19.1	18.2	17.6	16.7
P/B (x)	1.3	1.3	1.3	1.3	1.4
DPU Yld (%)	5.3	5.7	5.9	6.1	6.4
Net margin (%)	36.6	39.9	40.2	40.9	42.5
Net debt/(cash) to asset (%)	30.9	33.3	29.4	29.9	30.3
Interest cover (x)	2.9	3.3	3.3	3.5	3.8
Consensus DPU (sen)			10.3	11.0	11.2
UOBKH/Consensus (x)	-		1.0	1.0	1.0

Source: PREIT, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	PREIT MK
Shares issued (m):	3,928.0
Market cap (RMm):	6,952.5
Market cap (US$m):	1,707.1
3-mth avg daily t'over (US$m):	1.3

Price Performance (%)

52-week high/low: RM2.03/RM1.56

1mth	3mth	6mth	1yr	YTD
4.1	0.0	(6.3)	3.5	(2.2)

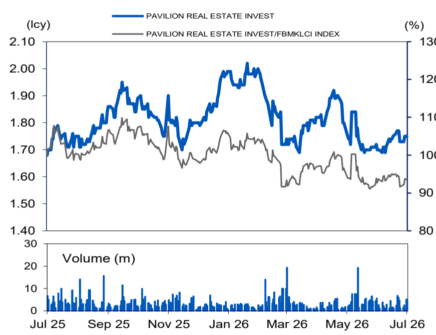
Major Shareholders

	%
Qatar Investment Authority	25.7
Lim Siew Choon	21.5
Employees Provident Fund	12.6

Balance Sheet Metrics

FY26 NAV/Share (RM)	1.1
FY26 Net Debt/Share (RM)	1.0

Price Chart



Source: Bloomberg

Company Description

Pavilion REIT is a real estate investment trust. Its portfolio includes the iconic Pavilion Shopping Mall and the Pavilion Office Tower.

- **Retail fundamentals remained healthy.** Rental reversions remained positive in 1H26 at 5-6% for Pavilion Kuala Lumpur (PKL) and 4% for Pavilion Bukit Jalil (PBJ). Footfall at PKL was broadly flattish yoy in 2Q26, partly affected by road closures during the three-day water music festival at Bukit Bintang, while PBJ recorded a 10% yoy increase. Tenant sales remained positive yoy in May 26, rising 3-4% at PKL and 5-6% at PBJ. In 2Q26, utilities expenses declined to RM14m (-31% qoq; -41% yoy), partly due to PKL's migration to a more favourable commercial tariff. Looking ahead, management expects consumer spending to improve qoq in 3Q26, supported by mid-year sales and VMY26 campaigns targeting nearby regional markets. The revised tariff, which is tied to committed electricity usage during specified periods, is expected to generate recurring savings of RM300,000-400,000 per month (~RM1m per quarter).
- **Phased reconfiguration to refresh PKL ahead of the mall's 20th anniversary in 2027.** PKL reported 2Q26 revenue of RM120m (-3% yoy) and NPI of RM85m (+1% yoy). The mall's occupancy rate was lower at 90.9%, mainly due to the ongoing reconfiguration of 68,000sf Parkson Elite Level 3 into 37 multi-tenanted fashion and F&B lots. Management has secured tenants for >50% of the new space, with the remainder under negotiation, and expects the space to commence operations at 80-90% occupancy in the first week of Nov 26. Overall mall occupancy is forecast to normalise to 95-96% by end-26, and we project that the AEIs will contribute about 2% to 2027 earnings. Management is also planning two subsequent AEI phases involving around 15,000sf and 10,000sf, aimed at introducing more international flagship stores.
- **Stronger suburban mall performance.** PBJ reported stronger revenue of RM61m (+5% yoy) and NPI of RM35m (+14% yoy), with occupancy improving to 93.9% in 2Q26 (vs 1Q26/2Q25: 93.4%/90.1% respectively). Pavilion Elite posted stable revenue of RM19m (-1% yoy) and NPI of RM10m (+5% yoy), with occupancy expected to improve to 95-96% by Oct 26 (vs 94.8% as of end 2Q26). PREIT is forecast to benefit from profit sharing under the master lease at Easyhome mall @ Da Men by year-end, as retail occupancy is guided to reach 80-85% by 4Q26.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM2.10.** Our DDM-based target price implies a dividend yield of 4.9% for 2026 and 5.1% for 2027 (vs 10-year mean of 5.4%). PREIT is poised to benefit from the extended Visit Malaysia Year, ongoing AEIs and tenant remixing at Pavilion KL to keep up with the changing demand. It currently offers a 12-month forward yield spread of 237bp, higher than the 10-year historical mean of 169bp.

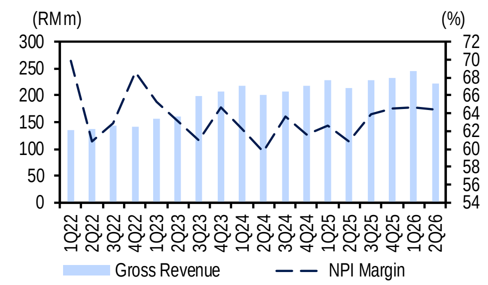
Earnings Revision/Risk

- No earnings revision.

Environment, Social, Governance (ESG) Updates

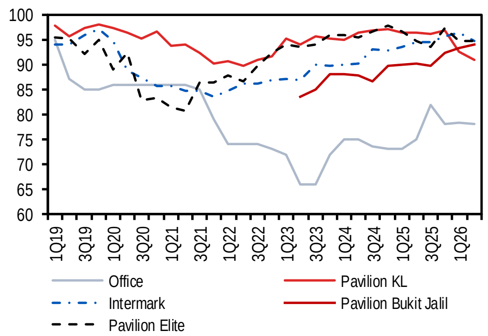
- **Environment** – Pavilion KL secured 20% of renewable energy from Tenaga Nasional to date.
- **Social** – PREIT hosts over 500 events annually at its properties.
- **Governance** – Put in place an Anti-Bribery & Corruption policy.

Revenue And NPI Margin



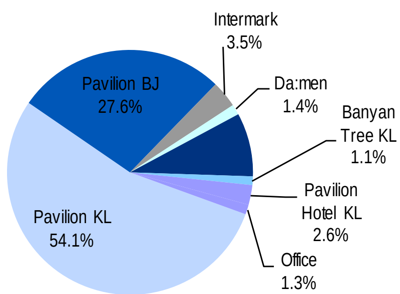
Source: PREIT, UOB Kay Hian

Occupancy Trend



Source: PREIT, UOB Kay Hian

Revenue Breakdown (2Q26)



Source: PREIT, UOB Kay Hian

12-month Forward Yield Spread To MGS

Source: PREIT, Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	901	962	1,002	1,043
EBITDA	519	557	573	604
Deprec. & amort.	1	1	1	1
EBIT	518	556	572	603
Associate contributions	0	0	0	0
Net interest income/(expense)	(158)	(169)	(162)	(160)
Pre-tax profit	467	387	410	443
Tax	0	0	0	0
Minorities	0	0	0	0
Net profit	467	387	410	443
Net profit (adj.)	360	387	410	443

Balance Sheet

Year to 31 Dec (RMm)	2025	2026	2027	2028
Fixed assets	9,095	9,114	9,132	9,151
Other LT assets	4	4	4	4
Cash/ST investment	666	951	919	885
Other current assets	64	121	125	128
Total assets	9,829	10,190	10,180	10,168
ST debt	1,073	1,073	1,073	1,073
Other current liabilities	305	687	715	745
LT debt	2,863	2,874	2,885	2,896
Other LT liabilities	95	80	48	14
Shareholders' equity	5,491	5,475	5,458	5,440
Minority interest	0	0	0	0
Total liabilities & equity	9,829	10,190	10,180	10,168

Cash Flow

Year to 31 Dec (RMm)	2025	2026	2027	2028
Operating	569	932	597	630
Pre-tax profit	467	387	410	443
Tax	0	0	0	0
Deprec. & amort.	1	1	1	1
Associates	0	0	0	0
Working capital changes	45	375	25	26
Other operating cashflows	56	169	162	160
Investing	(850)	(20)	(20)	(20)
Capex (growth)	(2)	(20)	(20)	(20)
Investments	(860)	0	0	0
Others	12	0	0	0
Financing	373	(589)	(609)	(644)
Distribution to unitholders	(359)	(418)	(442)	(477)
Issue of shares	360	0	0	0
Proceeds from borrowings	725	11	11	11
Loan repayment	(181)	0	0	0
Others/interest paid	(172)	(182)	(178)	(179)
Net cash inflow (outflow)	91	323	(32)	(34)
Beginning cash & cash equivalent	536	628	951	919
Changes due to forex impact	38	0	0	0
Ending cash & cash equivalent	666	951	919	885

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	57.5	57.9	57.2	57.9
Pre-tax margin	51.8	40.2	40.9	42.5
Net margin	51.8	40.2	40.9	42.5
ROA	4.6	4.9	5.2	5.6
ROE	7.6	8.2	8.7	9.4
Growth				
Turnover	6.6	6.7	4.1	4.1
EBITDA	8.5	7.5	2.8	5.4
Pre-tax profit	8.5	7.4	2.8	5.5
Net profit	13.9	(17.2)	5.9	8.1
Net profit (adj.)	16.0	7.6	5.9	8.1
EPU	8.2	4.9	3.3	5.5
Leverage				
Debt to total capital	71.7	72.1	72.5	73.0
Debt to equity	71.7	72.1	72.5	73.0
Net debt/(cash) to asset	33.3	29.4	29.9	30.3
Interest cover (x)	3.3	3.3	3.5	3.8