AmInvestment Bank

PAVILION REIT

(PREIT MK EQUITY, PREI.KL)

BUY

(MAINTAINED)

Price: RM1.75
Target Price (% return): RM2.20 (32%)
52-week High/Low: RM2.03/RM1.56

REITs
Rationale for report: Company Result

Makeover to attract

Despite temporary lower occupancy at Pavilion KL from its ongoing makeover, PREIT's 2Q26 distributable income still grew 9% YoY. From here, stars are aligned: occupancy is set to recover, rental reversions are positive, while sticky electricity and refinancing savings provide additional tailwinds. Also, PREIT stands to benefit should the FBMKLCI expands to 50 constituents. Keep BUY and TP of RM2.20.

- **Maintain BUY and DDM-TP of RM2.20;** it implies gross target yield of 5.0% and a spread of 140bp vs 10yr MGS, where both are valued just marginally beneath their 10yr mean. The slight premium is warranted given PREIT's better operating profile as shown by its ROE expansion (+c.2ppt). We like the REIT for its well-diversified portfolio, consistent financial performance, and refinancing cost savings.
- **In line.** 2Q26 distributable income rose 9% YoY to RM93mil (-16% QoQ; seasonal), lifting 1H26 to RM203mil (+11% YoY); this accounts for 48-51% of our and consensus FY26 estimates. Growth was driven inorganically by Banyan Tree and Pavilion Hotel and aided by NPI margin gains at Pavilion KL (lower electricity expenditure) and Bukit Jalil (+3ppt YoY occupancy). However, DPU grew a slower clip of 4% YoY to 5.2sen on unit dilution from the hotel acquisitions. We retain FY26-28 forecasts.
- **The makeover.** PREIT put on a good show despite Pavilion KL (big contributor; 54/60% to revenue/NPI) occupancy eased by 6/2ppt YoY/QoQ to 91% amid reconfiguration of Parkson Level 3 (5% of NLA) to sub-let to 37 new fashion and F&B tenants; opening is targeted for first week of Nov-26, with rentals expected to double. Separately, another 2% of NLA are earmarked for tenant remixing from next year onwards and management is looking to court more flagship stores. PREIT still guides 5-6% rental reversion for FY26.
- **Cost heading south.** Kudos to management for securing a more favourable electricity tariff structure for Pavilion KL, translating into RM300-400k of monthly savings (c.4-5% of PREIT's annual utility expenses). In addition, with RM2.7bil of debt maturing over the next 1-3 years (c.69% of total borrowings) at an average cost of c.4.6% vs recent funding rates of 3.9% for its hotel assets, we see upside from refinancing-led interest savings; to be conservative, we have only baked in 20bp savings vs the full 70bp potential.

YE to Dec	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	901.5	929.8	979.1	1,007.1
Core profit (RM mil)	359.5	376.0	412.7	427.9
Distributable Income (RM mil)	380.3	398.6	435.8	451.5
EPU (sen)	9.2	9.6	10.5	10.8
EPU Growth (%)	8.2	4.4	9.6	3.5
Consensus core profit (RM mil)		400.5	414.0	435.3
DPU (sen)	10.0	10.1	11.1	11.4
PE (x)	19.1	18.3	16.7	16.1
P/NAV (x)	1.3	1.3	1.3	1.3
Div yield (%)	5.7	5.8	6.3	6.5
ROE (%)	6.8	6.9	7.5	7.8
Gearing (%)	40.1	40.3	40.5	40.6

Source: Pavilion REIT, AmInvestment Bank Bhd.

Analyst (s)

Chan Jit Hoong, CFA, CPA
chan.jit-hoong@ambankgroup.com
+603 2036 1407

Key Changes

Target Price:	⇔
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	3,928.0
Market Cap (RMmil)	6,834.6
NAV (RM/Share)	1.39
P/NAV (x)	1.3
ROE (%)	7.5
Net Gearing (%)	40.5
Free Float	41.3
Avg Daily Value (RMmil)	5.6

Major Shareholders

Qatar Investment	(25.7%)
Lim Siew Choon	(21.5%)
EPF	(12.6%)

Price performance	3mth	6mth	12mth
Absolute(%)	(3.8)	0.6	2.9
Relative(%)	(3.4)	(11.8)	(8.2)

Source: Pavilion REIT, AmInvestment Bank Bhd.

Price Chart

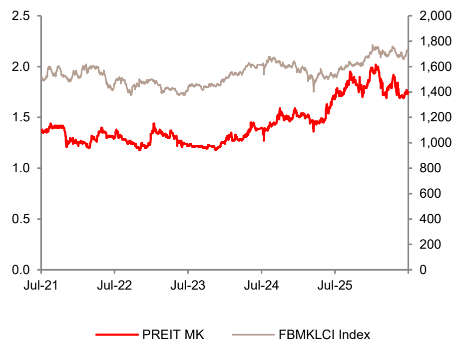


EXHIBIT 1. 2Q26 Results Summary

FYE Dec (RMmil)	2Q26	2Q25	YoY (%)	1Q26	QoQ (%)	1H26	1H25	YoY (%)
Revenue	221.0	213.3	3.6	245.9	-10.1	466.9	441.5	5.8
Opex	-78.7	-83.5	-5.7	-87.0	-9.5	-165.7	-168.9	-1.9
Net property income	**142.3**	**129.8**	**9.6**	**158.9**	**-10.5**	**301.2**	**272.6**	**10.5**
Management and trustee fees	-13.7	-11.6	18.1	-13.7	0.2	-27.4	-23.2	18.2
Others	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
EBIT	**128.6**	**118.2**	**8.8**	**145.3**	**-11.5**	**273.8**	**249.4**	**9.8**
Net interest costs	-39.5	-39.6	-0.1	-39.5	0.2	-79.0	-80.3	-1.7
Exceptionals	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Pre-tax profit	**89.0**	**78.7**	**13.2**	**105.8**	**-15.8**	**194.8**	**169.1**	**15.2**
Tax & minority interest	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Net Profit	**89.0**	**78.7**	**13.2**	**105.8**	**-15.8**	**194.8**	**169.1**	**15.2**
Core Profit	**89.0**	**78.7**	**13.2**	**105.8**	**-15.8**	**194.8**	**169.1**	**15.2**
Distributable Income	**92.7**	**84.9**	**9.1**	**110.3**	**-16.0**	**203.0**	**183.1**	**10.9**
Core EPU (sen)	**2.3**	**2.0**	**13.0**	**2.7**	**-15.8**	**5.0**	**4.3**	**15.0**
DPU (sen)	**5.2**	**5.0**	**4.0**	**0.0**	**nm**	**5.2**	**5.0**	**4.0**
NAV/share (RM)	**1.40**	**1.37**	**2.1**	**1.38**	**1.6**	**1.40**	**1.37**	**2.1**
Margins (%)			+/- ppt		+/- ppt			+/- ppt
NPI	64.4	60.9	3.5	64.6	-0.3	64.5	61.7	2.8
EBIT	58.2	55.4	2.8	59.1	-0.9	58.6	56.5	2.2
PBT	40.3	36.9	3.4	43.0	-2.7	41.7	38.3	3.4
Core Profit	40.3	36.9	3.4	43.0	-2.7	41.7	38.3	3.4
Distributable Income	41.9	39.8	2.1	44.9	-2.9	43.5	41.5	2.0

Source: PREIT, AmInvestment Bank Bhd.

EXHIBIT 2. 2Q26 Revenue Breakdown

FYE Dec (RMmil)	2Q26	2Q25	YoY (%)	1Q26	QoQ (%)	1H26	1H25	YoY (%)
Pavilion KL	119.5	123.0	-2.9	138.2	-13.5	257.6	256.3	0.5
Pavilion Bkt Jalil	61.1	58.2	4.9	62.6	-2.5	123.7	117.8	5.0
Intermark	7.8	7.5	3.2	7.7	0.4	15.5	15.1	2.6
DA MEN	3.0	2.3	34.0	0.6	nm	3.7	5.4	-31.7
Elite Pavilion	18.6	18.8	-1.1	25.3	-26.7	43.9	40.9	7.2
Retail	**209.9**	**209.8**	**0.0**	**234.5**	**-10.5**	**444.4**	**435.6**	**2.0**
Pavilion Tower	2.9	2.5	15.4	2.4	17.7	5.3	4.9	7.3
Office	**2.9**	**2.5**	**15.4**	**2.4**	**17.7**	**5.3**	**4.9**	**7.3**
Banyan Tree	2.5	0.3	nm	2.5	1.1	5.0	0.3	nm
Pavilion Hotel	5.8	0.7	nm	6.5	-11.6	12.3	0.7	nm
Hotel	**8.3**	**1.0**	**nm**	**9.0**	**-8.1**	**17.2**	**1.0**	**nm**
Total	**221.0**	**213.3**	**3.6**	**245.9**	**-10.1**	**466.9**	**441.5**	**5.8**
Revenue mix (%)			+/- ppt		+/- ppt			+/- ppt
Pavilion KL	54.1	57.7	-3.6	56.2	-2.1	55.2	58.1	-2.9
Pavilion Bkt Jalil	27.6	27.3	0.3	25.5	2.2	26.5	26.7	-0.2
Intermark	3.5	3.5	0.0	3.1	0.4	3.3	3.4	-0.1
DA MEN	1.4	1.1	0.3	0.3	1.1	0.8	1.2	-0.4
Elite Pavilion	8.4	8.8	-0.4	10.3	-1.9	9.4	9.3	0.1
Retail	**95.0**	**98.4**	**-3.4**	**95.4**	**-0.4**	**95.2**	**98.7**	**-3.5**
Pavilion Tower	1.3	1.2	0.1	1.0	0.3	1.1	1.1	0.0
Office	**1.3**	**1.2**	**0.1**	**1.0**	**0.3**	**1.1**	**1.1**	**0.0**
Banyan Tree	1.1	0.1	1.0	1.0	0.1	1.1	0.1	1.0
Pavilion Hotel	2.6	0.3	2.3	2.7	0.0	2.6	0.2	2.5
Hotel	**3.7**	**0.5**	**3.2**	**3.7**	**0.1**	**3.7**	**0.2**	**3.5**
Total	**100.0**	**100.0**	**0.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**

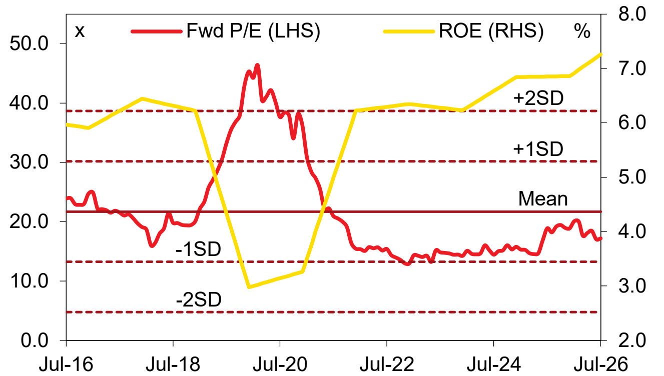
Source: PREIT, AmInvestment Bank Bhd.

EXHIBIT 3. 2Q26 NPI Breakdown

FYE Dec (RMmil)	2Q26	2Q25	YoY (%)	1Q26	QoQ (%)	1H26	1H25	YoY (%)
Pavilion KL	85.3	84.3	1.2	92.6	-7.9	178.0	176.1	1.1
Pavilion Bkt Jalil	35.4	31.1	14.0	38.4	-7.8	73.8	67.2	9.9
Intermark	2.9	3.6	-19.2	3.1	-7.5	6.0	6.0	-0.5
DA MEN	-0.1	-0.3	-63.4	0.1	nm	-0.1	-2.8	nm
Elite Pavilion	10.3	9.8	5.2	15.3	-32.4	25.6	23.5	9.0
Retail	**133.9**	**128.4**	**4.2**	**149.5**	**-10.5**	**283.4**	**270.0**	**5.0**
Pavilion Tower	0.8	0.4	87.5	1.0	-24.7	1.8	1.6	12.3
Office	**0.8**	**0.4**	**87.5**	**1.0**	**-24.7**	**1.8**	**1.6**	**12.3**
Banyan Tree	2.3	0.3	nm	2.2	1.2	4.5	0.3	nm
Pavilion Hotel	5.4	0.7	nm	6.1	-12.4	11.5	0.7	nm
Hotel	**7.6**	**1.0**	**nm**	**8.4**	**-8.8**	**16.0**	**1.0**	**nm**
Total	**142.3**	**129.8**	**9.6**	**158.9**	**-10.5**	**301.2**	**272.6**	**10.5**
NPI mix (%)			**+/- ppt**		**+/- ppt**			**+/- ppt**
Pavilion KL	60.0	64.9	-5.0	58.3	1.7	59.1	64.6	-5.5
Pavilion Bkt Jalil	24.9	23.9	1.0	24.2	0.7	24.5	24.6	-0.1
Intermark	2.0	2.8	-0.7	2.0	0.1	2.0	2.2	-0.2
DA MEN	-0.1	-0.3	0.2	0.0	-0.1	0.0	-1.0	1.0
Elite Pavilion	7.3	7.6	-0.3	9.6	-2.4	8.5	8.6	-0.1
Retail	**94.1**	**98.9**	**-4.8**	**94.1**	**0.0**	**94.1**	**99.1**	**-5.0**
Pavilion Tower	0.5	0.3	0.2	0.6	-0.1	0.6	0.6	0.0
Office	**0.5**	**0.3**	**0.2**	**0.6**	**-0.1**	**0.6**	**0.6**	**0.0**
Banyan Tree	1.6	0.2	1.4	1.4	0.2	1.5	0.1	1.4
Pavilion Hotel	3.8	0.5	3.3	3.9	-0.1	3.8	0.3	3.6
Hotel	**5.4**	**0.7**	**4.6**	**5.3**	**0.1**	**5.3**	**0.4**	**5.0**
Total	**100.0**	**100.0**	**0.0**	**100.0**	**0.0**	**100.0**	**100.0**	**0.0**
NPI margin (%)			**+/- ppt**		**+/- ppt**			**+/- ppt**
Pavilion KL	71.4	68.5	2.9	67.0	4.4	69.1	68.7	0.4
Pavilion Bkt Jalil	58.0	53.3	4.7	61.3	-3.3	59.7	57.0	2.7
Intermark	37.3	47.6	-10.4	40.4	-3.2	38.8	40.1	-1.2
DA MEN	-3.9	-14.3	10.4	9.5	-13.4	-1.6	-52.2	50.6
Elite Pavilion	55.6	52.3	3.3	60.3	-4.7	58.3	57.4	0.9
Retail	**63.8**	**61.2**	**2.6**	**63.8**	**0.0**	**63.8**	**62.0**	**1.8**
Pavilion Tower	27.3	16.8	10.5	42.6	-15.4	34.3	32.8	1.5
Office	**27.3**	**16.8**	**10.5**	**42.6**	**-15.4**	**34.3**	**32.8**	**1.5**
Banyan Tree	90.7	93.7	-3.0	90.6	0.1	90.6	93.7	-3.1
Pavilion Hotel	93.4	93.5	-0.1	94.2	-0.8	93.8	93.5	0.3
Hotel	**92.5**	**93.6**	**-1.0**	**93.2**	**-0.6**	**92.9**	**93.6**	**-0.7**
Total	**64.4**	**60.9**	**3.5**	**64.6**	**-0.3**	**64.5**	**61.7**	**2.8**

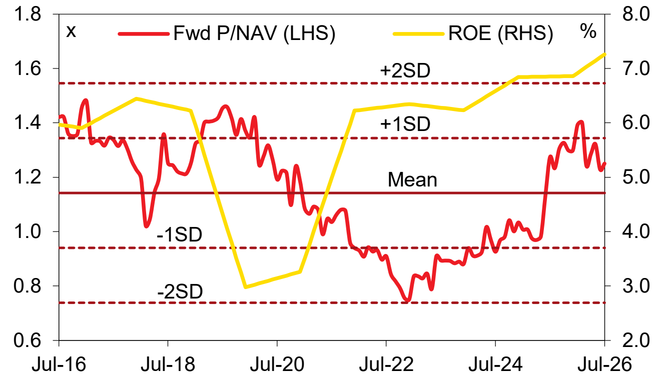
Source: PREIT, AmInvestment Bank Bhd.

EXHIBIT 4. 10yr forward P/E band



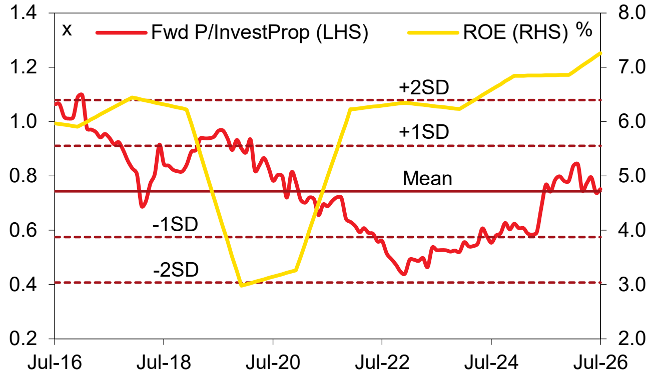
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. 10yr forward P/NAV band



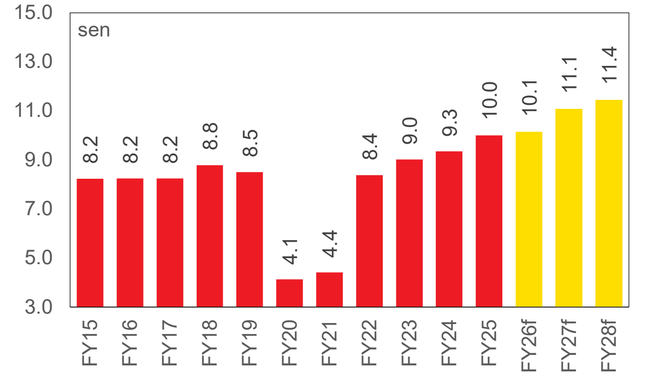
Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10yr price-to-investment properties band



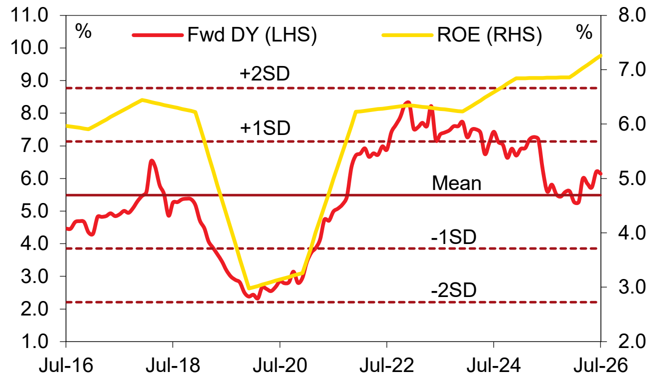
Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. DPU trajectory over time



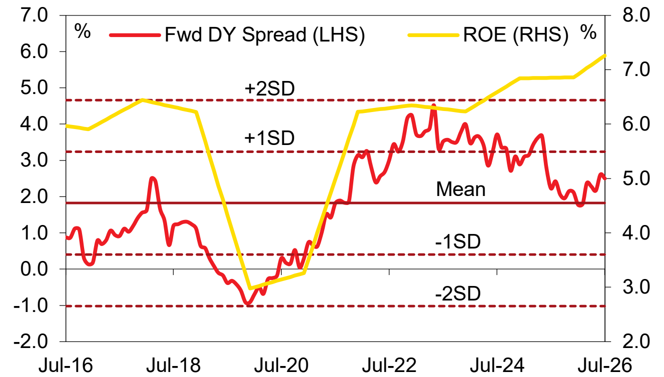
Source: AmInvestment Bank, Bloomberg

EXHIBIT 8. 10yr forward gross DY band



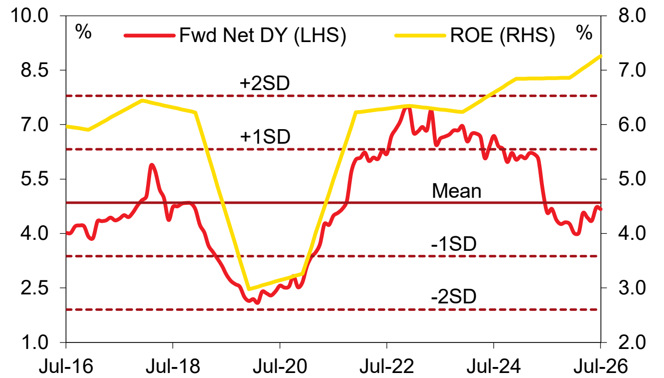
Source: AmInvestment Bank, Bloomberg

EXHIBIT 9. 10yr forward gross yield spread band



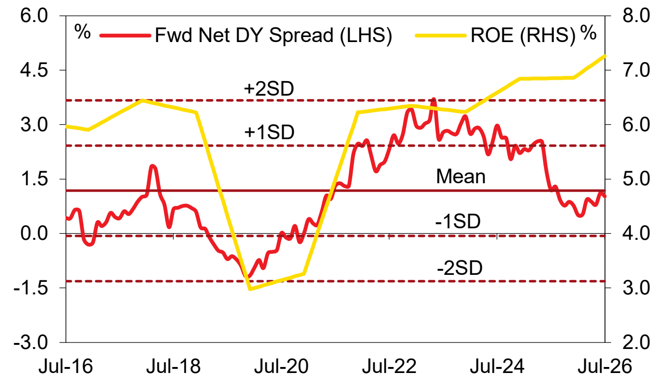
Source: AmInvestment Bank, Bloomberg

EXHIBIT 10. 10yr forward net DY band



Source: AmInvestment Bank, Bloomberg

EXHIBIT 11. 10yr forward net yield spread band



Source: AmInvestment Bank, Bloomberg

Company profile

PREIT is a diversified REIT with retail, office and hospitality assets. Its retail portfolio, which consist of Pavilion KL (RM5.3bn valuation), Elite Pavilion (RM565m), Pavilion BJ (RM2.3bn), Intermark (RM200m), and Da Men (RM160m), are focused in Klang Valley and operates at >90% occupancy. This segment anchors the earnings base, contributing 97/96% of FY25 gross revenue/NPI.

The office segment comprises Pavilion Tower in KL (RM130m), with occupancy of 78% and accounted for 1% of gross revenue/NPI. For hospitality, it includes Banyan Tree (RM140m) and Pavilion Hotel KL (RM350m), both on master leases and accounting for 2/3% of gross revenue/NPI.

As at FY25, gearing is 40%. The debt profile is predominantly variable-rate (c.77%) with an average cost of 4.6%. We note approximately 80% of borrowings will mature over the next 1-3 years. Interest coverage ratio stood at 3.0x.

Investment thesis and catalysts

We favour PREIT for its well-diversified portfolio, anchored by flagship retail assets such as Pavilion KL, Bukit Jalil, together with Elite, all delivering >90% occupancy and consistent financial showing. Crucially, its KL assets are top-tier malls where luxury brands compete for presence and prioritize brand visibility. Also, they are primed to capture tourism-driven spend within the Bukit Bintang shopping belt.

Moreover, we see organic growth driven by active asset optimization, via space reshaping and remixing of tenants, which provide a capital-efficient pathway to rental uplift. Besides, with c.69% of debt due for refinancing over the next 1-3 years, there is scope for interest cost savings (c.70bp). In addition, we see tourism-driven tailwind from the extended Visit Malaysia 2026-27 campaign.

Valuation methodology

We value PREIT using the Dividend Discount Model (DDM), considering it consolidates the REIT's distribution outlook, growth prospects, and risk profile into a single framework. As a sanity check, the implied yield is cross-referenced against its historical trading band to ensure the valuation is grounded and reasonable.

We derived a TP of RM2.20 and it implies gross target yield of 5.0% and a spread of 140bp vs 10yr MGS, where both are valued just marginally beneath their 10yr average. The slight premium is fair given PREIT's better operating profile, as evidenced by a c.2ppt expansion in ROE over the past decade.

Risk factors

Key downside risks include:

i) Softer consumer spending and economic growth could weigh on GTO collection and moderate rental reversions.

ii) OPR hikes may drive higher borrowing costs and push up 10yr MGS yields, tightening yield spreads and pressuring valuations.

iii) Steeper-than-expected electricity costs drag on bottom-line performance.

EXHIBIT 12. Valuations

Weighted average cost of capital (WACC)	7.5%
Long-term growth rate (LTG)	2.5%
Implied yield / spread	5.0% / 140bp
FY27 DPU	11.1sen
ESG premium	-
12-month target price	RM2.20

Source: AmInvestment Bank

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Gross revenue	**845.9**	**901.5**	**929.8**	**979.1**	**1,007.1**
Property opex	-323.1	-333.6	-341.2	-351.4	-361.9
Net property income	**522.8**	**567.9**	**588.7**	**627.7**	**645.1**
Property mgmt fees	-43.1	-45.8	-47.2	-48.6	-50.1
Trustee-related fees	-2.4	-4.2	-4.3	-4.5	-4.6
Other operating expenses	0.0	0.0	0.0	0.0	0.0
Earnings b4 interest & tax	**477.3**	**517.9**	**537.1**	**574.6**	**590.4**
Interest income	14.8	15.2	16.9	17.6	18.3
Borrowing cost	-182.1	-173.6	-178.0	-179.6	-180.8
Non-operating gains/(losses)	99.9	107.4	0.0	0.0	0.0
Profit before tax	**409.9**	**466.9**	**376.0**	**412.7**	**427.9**
Taxation	0.0	0.0	0.0	0.0	0.0
Profit after tax	**409.9**	**466.9**	**376.0**	**412.7**	**427.9**
Core Profit	**310.0**	**359.5**	**376.0**	**412.7**	**427.9**
Distributable income	**341.7**	**380.3**	**398.6**	**435.8**	**451.5**

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash	571.3	665.5	686.8	724.3	737.5
Trade & other debtors	67.4	64.2	67.0	70.2	72.0
Current Assets	**638.7**	**729.7**	**753.8**	**794.4**	**809.5**
Trade & other Creditors	634.4	305.4	313.9	323.3	333.0
Short term Borrowings	80.0	1,073.1	500.0	500.0	500.0
Current Liabilities	**714.4**	**1,378.5**	**813.9**	**823.3**	**833.0**
Fixed assets	8,492.2	9,098.8	9,100.0	9,101.1	9,102.1
Other Long term assets	0.0	0.0	0.0	0.0	0.0
Long-term Assets	**8,492.2**	**9,098.8**	**9,100.0**	**9,101.1**	**9,102.1**
Total Assets	**9,130.9**	**9,828.6**	**9,853.8**	**9,895.5**	**9,911.5**
Term loans	3,312.7	2,863.5	3,473.7	3,507.6	3,526.7
Other Long term Liabilities	85.3	95.2	95.5	98.4	101.3
Long-term Liabilities	**3,398.0**	**2,958.6**	**3,569.2**	**3,606.0**	**3,628.0**
Share Capital	3,673.1	4,038.2	4,038.2	4,038.2	4,038.2
Reserves	1,345.3	1,453.2	1,432.5	1,428.0	1,412.3
Shareholders' Funds	**5,018.5**	**5,491.4**	**5,470.7**	**5,466.2**	**5,450.5**
Total Liab & SF	**9,130.9**	**9,828.6**	**9,853.8**	**9,895.5**	**9,911.5**

Cash Flow (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	**409.9**	**466.9**	**376.0**	**412.7**	**427.9**
Working Capital	23.3	44.7	6.0	9.1	10.8
Others	73.3	57.2	161.9	162.9	163.6
Operating cash flows	**506.6**	**568.8**	**543.9**	**584.6**	**602.4**
Capex	0.0	-2.4	-2.0	-2.0	-2.0
Enchancement exp.	-0.1	0.0	0.0	0.0	0.0
Others	8.3	-847.8	16.9	17.6	18.3
Investing cash flows	**8.3**	**-850.2**	**14.9**	**15.6**	**16.3**
Issue of shares	0.0	360.0	0.0	0.0	0.0
Dividend paid	-333.7	-359.0	-396.7	-417.2	-443.7
Borrowings	0.0	543.7	37.1	34.0	19.0
Others	-162.8	-171.9	-178.0	-179.6	-180.8
Financing cash flow	**-496.5**	**372.8**	**-537.6**	**-562.8**	**-605.4**
Net inflows/(outflows)	**18.4**	**91.4**	**21.3**	**37.5**	**13.2**

Key ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	16.9	6.6	3.1	5.3	2.9
NPI growth (%)	13.9	8.6	3.7	6.6	2.8
Core profit growth (%)	8.7	16.0	4.6	9.7	3.7
NPI margin (%)	61.8	63.0	63.3	64.1	64.1
Core profit margin (%)	36.6	39.9	40.4	42.1	42.5
DPU payout (%)	100.0	100.0	100.0	100.0	100.0
Interest coverage ratio (x)	2.6	3.0	3.0	3.2	3.3
Gearing (%)	37.2	40.1	40.3	40.5	40.6

Source: Company, AmInvestment Bank Bhd.

DISCLOSURE AND DISCLAIMER