

Diversification set to pay off for Pavilion-REIT

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Kenanga Research has made no changes to its earnings forecast for the financial year ending Dec 31, 2026.

PETALING JAYA: Pavilion Real Estate Investment Trust  's (Pavilion-REIT) crown jewel, the Pavilion Mall Kuala Lumpur (Pavilion KL mall), may see a slight spending ease for its first quarter of this year (1Q26), partially due to inflationary concerns relating to the Middle East war.

According to Kenanga Research, the ongoing conflict occurring since March 2026 could potentially have led to cautious sentiment around discretionary spending as well as international tourism.

In a note, the research house said anecdotal observations suggest that retail spending activities in Pavilion KL mall in 1Q26 were mildly softer on a year-on-year basis.

“We believe this could be due to the anxiety over the geopolitical tension in the Middle East and potentially more outbound travels following the strengthening of the Malaysian ringgit by about 8% since October 2025,” it said.

Nevertheless, it expects Pavilion KL mall's performance to remain stable for 2026, with the typical mid-single digit growth in net property income.

Meanwhile, the group's Pavilion Bukit Jalil mall has shown steady occupancy levels, at 90% as of March 2026, remaining unchanged from December 2025 with some movements in tenants.

Kenanga Research projected that the mall would be able to progressively achieve 95% tenant occupancy in the next 12 months.

"We remain optimistic on its Pavilion Bukit Jalil mall's growth prospects as it continues to curate and optimise tenant mix, underpinned by increasing footfalls from the bustling city at the heart of Bukit Jalil," it said.

The group's strategic move to diversify into hotel assets last year could also help fortify its portfolio's earnings resiliency, the research house added.

Pavilion KL hotel and Banyan Tree hotel, which were acquired in June 2025, have had stable occupancy rates of 80% on average, it said.

However, the research house noted that the group has not yet seen a notable increase in forward bookings, likely as a result of the spike in flight ticket prices due to geopolitical tensions abroad.

"While the group's acquisition of two five-star hotels will help diversify its income streams, we hold a 'neutral' stance on the segment as the potential increase in tourist arrivals on Visit Malaysia 2026 may be dampened by the Middle East geopolitical conflict that is hurting travel sentiment," it said.

Despite this, Kenanga Research has made no changes to its earnings forecast for the financial year ending Dec 31, 2026 (FY26).

Overall, it anticipates the group's 1Q26 results will make up 24%-26% of its full-year forecasts, given that both the Chinese New Year and Ramadan festive seasons took place during the quarter.

"Concurrently, we introduce new FY27 numbers which imply a 4% net profit growth, after our coverage on Pavilion-REIT has been lifted from our internal blackout list."

Kenanga Research has maintained its "market perform" rating on Pavilion-REIT, reflecting near-term cautious discretionary spending and potential pullbacks in international travel.

The research house also raised its target price slightly from RM1.67 to RM1.71, based on the forecast FY26 gross dividend per unit of 10.7 sen against the target yield of 6.25%.