

Parkson Exit Dents Pavilion REIT Otherwise Stellar Occupancy Levels

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By Editor

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Pavilion Real Estate Investment Trust (Pavilion REIT) delivered first-half financial results that met market expectations, supported by contributions from its newly acquired hospitality assets and lower electricity costs, according to Kenanga Research.

The research house said Pavilion REIT's net profit for the first half of FY2026 accounted for 47% of its full-year earnings forecast and 49% of consensus estimates, which it considered broadly in line with expectations. The REIT also declared a gross distribution of 5.17 sen per unit, keeping it on track to achieve Kenanga's full-year dividend forecast of 11.3 sen.

Revenue for the six-month period rose 6% year-on-year, driven primarily by maiden earnings contributions from Pavilion Hotel Kuala Lumpur and Banyan Tree Kuala Lumpur, which were acquired in June 2025, as well as stronger income from Pavilion Bukit Jalil.

Net profit increased at a faster pace of 15%, helped by lower utility expenses following the implementation of a revised electricity tariff structure from FY2026.

However, tenant sales across most of Pavilion REIT's retail assets remained largely flat during the period, with Pavilion Bukit Jalil being the notable exception as it continued to record growth.

On a quarter-on-quarter basis, revenue and net profit declined by 10% and 16% respectively, mainly due to seasonal factors, as Chinese New Year and Ramadan celebrations had boosted retail activity in the preceding quarter.

Kenanga also highlighted that Pavilion REIT secured a new electricity tariff arrangement with Tenaga Nasional Bhd (TNB) during the second quarter, which is expected to generate annual cost savings of approximately RM4 million.

A key development at Pavilion Kuala Lumpur involves anchor tenant Parkson surrendering approximately 68,000 sq ft of net lettable area, allowing the mall to reconfigure the space to accommodate 37 new fashion and food-and-beverage tenants by November 2026.

The redevelopment temporarily reduced Pavilion Kuala Lumpur's occupancy rate to 91% from 97%, but Kenanga believes the exercise will strengthen the mall's long-term earnings profile.

The research house expects the incoming tenants to command significantly higher rental rates than the previous anchor tenant while enhancing the mall's attractiveness through a refreshed retail mix aligned with current consumer trends.

Meanwhile, Pavilion Bukit Jalil continued its positive leasing momentum, with occupancy improving to 94% as at June 2026 from 92% at the end of 2025.

Kenanga expects the mall to achieve its targeted 95% occupancy by year-end, supported by rising shopper traffic, an improving tenant mix and sustained leasing demand.

Reflecting the benefits of the tenant reconfiguration exercise and lower electricity costs, Kenanga raised its FY2027 earnings forecast for Pavilion REIT by 4% while leaving its FY2026 estimates unchanged.

The research house maintained its positive outlook on the REIT, citing improving operational efficiency, resilient retail assets and stronger rental prospects following the ongoing optimisation of Pavilion Kuala Lumpur's tenant mix.