

RAM Affirms Pavilion REIT RM8 Billion MTN Programme On Strong Income Visibility

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By Editor

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RAM Ratings has affirmed Pavilion REIT Capital Berhad's unsecured RM8.0 bil MTN Programme and unsecured RM200.0 mil CP Programme at AA₃(s)/Stable and P1(s). The ratings agency said the secured MTNs remain rated one notch higher at AA₂(s)/Stable, reflecting the benefit of a strong 1.67 times minimum collateral coverage ratio.

The issue ratings reflect the credit strength of Pavilion REIT (PavREIT), for which the Issuer acts as funding conduit and ultimate obligor. The affirmation is underpinned by the REIT's resilient retail-focused portfolio, comprising prime mall assets with strong market positions, improved income visibility from master-leased properties, and a broader earnings mix following its diversification into hospitality assets. These strengths are balanced against its exposure to interest rate volatility given the still high proportion of

floating-rate debt. As at FY Dec 2025, PavREIT's eight assets were valued at RM9.1 bil. Master leases for its hotels and Da Men Mall support income stability, while providing upside through profit-sharing arrangements. Da Men Mall's ongoing repositioning and improving tenant profile should add support to its operating performance over time, although execution risks remain relevant until stabilisation is fully demonstrated.

In fiscal 2025, PavREIT's revenue grew 6.6% y-o-y to RM901.5 mil, alongside portfolio occupancy improvement to 94.5% from 90.4% a year earlier. The stronger performance was driven by a lease renewal rate of over 90% and mid-single-digit positive rental reversions, indicating sustained tenant demand across its key assets. Tenant concentration risk remains low, with the top 10 tenants accounting only 17.2% of gross rental income, supporting earnings resilience. The reconfiguration of Level 3 at Pavilion Kuala Lumpur following Parkson's exit is expected to support further rental growth once completed by December 2026. However, the benefits of the asset enhancement initiative, will depend on timely execution and the REIT's ability to secure replacement tenants at targeted rates.

The REIT's financial profile strengthened in FY Dec 2025, with fixed charge coverage improving to 2.99 times from 2.62 times in FY Dec 2024, and further to 3.36 times in 1Q FY Dec 2026, aided mainly by lower borrowing costs. While leverage increased following the RM500 mil MTN drawdown to fund hotel acquisitions and deferred payment for Pavilion Bukit Jalil, we expect its debt metrics to remain commensurate with the current rating, underpinned by moderate earnings growth and limited near-term funding needs.

RAM adds that financial flexibility remains constrained by the high share of floating-rate debt, which stood at 77% as of end-March 2026. However, the current interest rate environment should keep its funding costs manageable—noting that debt maturities are well-spread, with no more than one-third maturing annually, reducing refinancing pressure.