


Pavilion-REIT outlook brightens

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PETALING JAYA: Pavilion Real Estate Investment Trust  (Pavilion-REIT) has had its earnings forecast raised after posting stronger first quarter ended March 31, 2026 (1Q26), results.

Lower financing costs and full-year hotel contributions are expected to support earnings growth this year.

CIMB Research said Pavilion-REIT's core net profit rose 17% year-on-year (y-o-y) and 10.4% quarter-on-quarter to RM105.8mil in 1Q26, accounting for 27% of its full-year forecast and 26% of consensus estimates.

Sequentially, the research house expects the REIT's earnings to soften in 2Q26 as variable rental income moderates following the absence of the Chinese New Year and Hari Raya festive periods.

In the financial year ended Dec 31, 2025 (FY25), Pavilion-REIT's variable lease income amounted to RM63.7mil, representing about 7% of its gross rental income.

"Nevertheless, on a y-o-y basis, we forecast earnings to remain resilient, supported by full-quarter contributions from the newly acquired hotels," it said.

CIMB Research raised its FY26 to FY28 net profit forecasts by 2% to 3% after Pavilion-REIT's blended borrowing costs eased to 4.3% in 1Q26 from 4.6% in 2025.

"We are positive on the company's earnings prospects, underpinned by rental reversions, improved occupancy rates, and the extension of the Visit Malaysia 2026 campaign until Dec 31, 2027."

The research house maintained its "buy" call with a higher target price of RM2.13 from RM2.09 previously.

Meanwhile, Hong Leong Investment Bank Research sees "moderate upside" to FY26 from the full-year contribution of Banyan Tree Kuala Lumpur Hotel and Pavilion Hotel Kuala Lumpur, which were acquired in June 2025, alongside sustained footfall at Pavilion Kuala Lumpur, which contributes 56% of total revenue.

The research house added that the full-year benefit of lower interest costs will further support earnings growth in FY26.

"With FY26 debt maturity profile standing at 27% and historically, Pavilion-REIT has managed to refinance at a progressively lower rate (5.3% in 1Q25 to 4.4% in 4Q25), we believe FY26 is poised to capture the full-year effect of lower interest cost.

"Complementing these tailwinds with mid-single-digit rental reversion, we estimate FY26 earnings delivery to stay intact."

It revised its FY26 and FY27 earnings forecasts upward by 2.3% and 2.2%, respectively, and maintained its "buy" call with a higher target price of RM1.97 from RM1.91.

Similarly, UOB Kay Hian Research, which has maintained its "buy" call with an unchanged target price of RM2.10, said it fine-tuned its FY26 to FY28 distribution per unit forecasts by 1% to 3%, noting that the company has reiterated its guidance for 2026's rental reversion to exceed the 5% to 6% achieved in 2025.

"We expect the tenant space reconfiguration for Pavilion Kuala Lumpur to drive a 2% uplift to earnings from 2027 onwards," said the research house.

"Pavilion-REIT expects to introduce new-to-market overseas brands and deliver over 70% rental reversion versus existing rents."

