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PETALING JAYA: An increase in tourist arrivals in the third quarter of this year (3Q25), compared with the previous quarter, has provided a boost for Pavilion Real Estate Investment Trust (Pavilion-REIT) and its newly-acquired hotel assets, analysts say.

The hotels contributed a full quarter of earnings for the first time in 3Q25, according to CIMB Research.

The research house said the rise in tourist numbers was driven by the mid-year holiday season.

"This recovery translated into higher footfall at Pavilion Kuala Lumpur, where foreign visitors typically account for around 30% of total traffic. The pickup in tourist arrivals also benefitted Pavilion-REIT's hotel assets, namely Banyan Tree Kuala Lumpur and Pavilion Hotel Kuala Lumpur, which recorded a full-quarter earnings contribution in 3Q25," CIMB Research said in a report following a recent meeting with the REIT's management.

The research house has resumed coverage on the REIT with a "buy" rating and a target price of RM2.04, implying 14% upside to the RM1.87 price that the stock was trading at recently.

Based on an estimated net property income yield of 7% for the initial five-year lease term, the research house projects that the hotel segment will contribute approximately between 2% and 3% of the REIT's total rental income from this year to 2027.

"We expect Pavilion-REIT's 3Q25F core net profit to register stronger quarter-on-quarter (q-o-q) and year-on-year growth, driven by the full-quarter earnings contribution from its hotel assets.

"In addition, utilities costs, which accounts for roughly 30% of the REIT's total operating expenses, is anticipated to decline q-o-q, as Tenaga Nasional Bhd's automatic fuel adjustment mechanism had resulted in a cumulative discount of 2.55 sen per kilowatt-hour for the July to September period," the research house said.

It pointed out that the REIT's current 12-month forward distribution yield spread over the 10-year Malaysian Government Securities stands at 1.9%, in line with its 10-year historical average.

The research house noted other encouraging developments across the REIT's portfolio, one being the expectation that the Pavilion Bukit Jalil mall achieving 93% occupancy by end-4Q25, supported by the opening of new tenants ahead of major festive seasons in 4Q25 and 1Q26.

Occupancy at the mall stood at 90.1% as of end-2Q25.

Secondly, Easyhome Mall's performance is expected to improve, with losses anticipated to narrow this year and the asset projected to return to profitability next year.

"Notably, the mall is master leased to Easyhome International (M) Sdn Bhd, with all operating costs borne by the tenant, thereby mitigating downside risks for Pavilion-REIT," the research house said.