

KLCCP Stapled Group

9MFY19 Within Expectations

By Marie Vaz | msvaz@kenanga.com.my

9MFY19 RDI of RM544m came in well within our and consensus estimates, at 74% each. 9MFY19 NDPS of 24.5 sen is broadly within our estimate (at 68%) on traditionally stronger payout in 4Q. Maintain FY19-20E CNP of RM732-741m with earnings driven by organic growth on single-digit rental reversions and stable occupancy. Maintain MP and TP of RM8.25 (implied FY20 net yield of 4.4%).

9MFY19 realised distributable income (RDI) of RM544m is well within our and consensus estimates, at 74% each. 3Q19 GDPS of 8.80 sen (2.56 sen single-tier dividend plus 6.24 sen subject to 10% withholding tax), translates to 9MFY19 NDPS of 24.5 sen, coming in broadly within our FY19E NDPS of 36.0 sen at 68% (implying 4.5% net yield) as 4Q payout is historically higher.

Results highlight. YoY, top-line was up by 1.8% on all segments: (i) improvements from the retail segment (+3.2%) on improved rental and advertising income, (ii) better revenue from the hotel segment (+1.4%) on better occupancy and despite a decrease in the F&B segment (-3%), (iii) stable office segment (+0.3%), and (iv) better management services segment (+2.1%). This coupled with higher interest income (+10%) allowed RDI to increase by 6%. QoQ, top-line was flattish at 1% on the back of contributions from the hotel (+5%) and management services segment (+7%) due to similar reasons mentioned above, but partially weighed down by the flattish office segment (0%) and despite slight decline in the retail segment (-2%) due to tenant reconfiguration. This trickled straight to bottom-line which also increased by 1% despite a decrease in associate contributions, which was offset by lower tax rate (-5%).

Outlook. The Group had previously renewed its shareholders' approval for a 10% placement in Apr 2019, which is valid for one year. Phase 3 of Menara Dayabumi is expected to comprise a 60-storey tower of mixed development, consisting of retail, office and hotel spaces and will likely be completed in FY21-22. Phase 3 is still in the tendering process as management focuses on securing an anchor tenant before proceeding with the development. Lot 185 and Lot M are still under development and unlikely to be injected during the greenfield phase, with completion of construction scheduled in 2022.

Earnings unchanged. We maintain FY19-20E CNP of RM732-741m with forward earnings to be driven by organic growth from single-digit rental step-ups, and higher occupancy for Mandarin Oriental. FY19-20E NDPS of 36.0-36.5 sen implies 4-5-4.6% net yields.

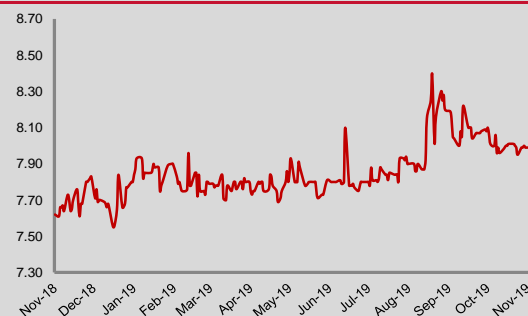
Maintain MARKET PERFORM and TP of RM8.25 on FY20E GDPS/NDPS of 39.0 sen/36.5 sen and an unchanged target gross/net yield of 4.7%/4.4% which represents a +1.3ppt yield spread to our 10-year MGS target of 3.40%. The applied spread is the lowest among MREITs under our coverage (+1.3ppt to +3.2ppt) given KLCC's premium asset quality profile for providing strong earnings stability, and as it is one of the few Shariah-compliant MREITs. We are keeping our MARKET PERFORM call due to limited potential upsides as its estimated net yield of 4.6% is at the lower end of large cap MREIT peers' average of 4.9%.

Risks to our call include: (i) bond yield compression/expansion, (ii) higher-or-lower-than-expected rental reversions, and (iii) stronger-or-weaker-than-expected occupancy rates.

MARKET PERFORM ↔

Price: RM7.99
Target Price: RM8.25 ↔

Share Price Performance



KLCC
YTD KLCC chg 1,608.15
YTD stock price chg -4.9%
4.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLCCSS MK EQUITY
Market Cap (RM m)	14,424.6
Shares Outstanding	1,805.3
52-week range (H)	8.48
52-week range (L)	7.47
3-mth avg daily vol:	1,280,497
Free Float	10%
Beta	0.4

Major Shareholders

KLCC Sdn Bhd	64.7%
Petroleum Nasional Bhd	10.8%
Employees Provident Fund Board	5.8%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	1406	1483	1494
EBIT	1011	1092	1110
PBT	964	1013	1027
Net Profit (NP)	727	778	788
Core NP (RDI)*	698	732	741
Consensus (NP)	N.A.	730	765
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	38.7	40.5	41.0
Core EPS growth (%)	0%	5%	1%
NDPS (sen)	34.7	36.0	36.5
BVPS (RM)	7.3	7.3	7.3
Core PER (x)	20.7	19.7	19.5
Price/BV (x)	1.1	1.1	1.1
Net Gearing (x)	0.12	0.11	0.11
Net Div. Yield (%)	4.3	4.5	4.6

*Core NP refers to RDI



12 November 2019

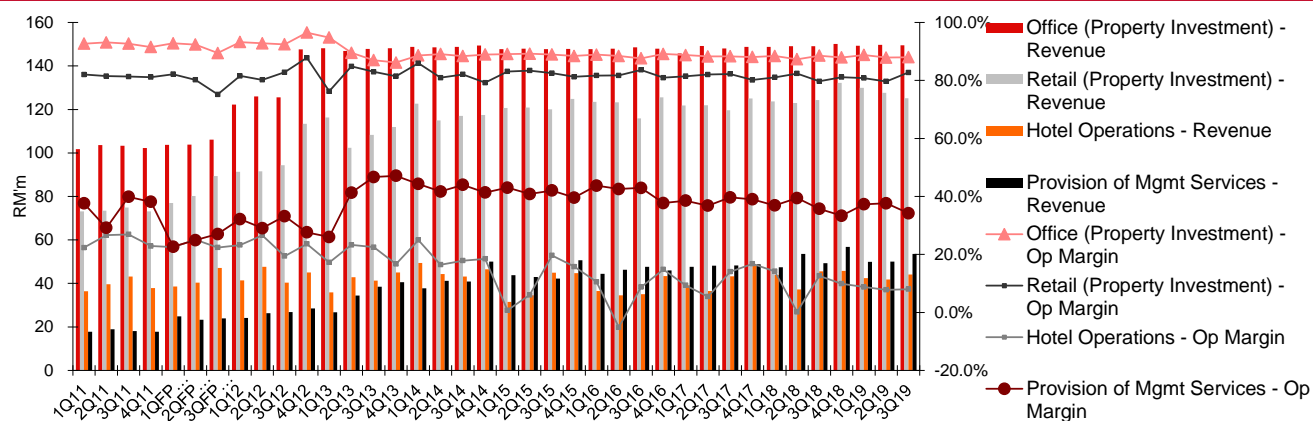
OTHER POINTS

Results Highlights

FYE: 31Dec (RMm)	3Q19	2Q19	QoQ%	3Q18	YoY%	9M18	9M19	Ytd-YoY%
Revenue	354	351	1%	349	1%	1,040	1,058	2%
Op costs w/o depn/amort	-92	-92	0%	-90	2%	-264	-272	3%
EBITDA	262	259	1%	259	1%	776	786	1%
EBIT	254	251	1%	251	1%	752	762	1%
Interest Income	8	7	6%	7	11%	20	22	10%
Interest Expense	-28	-28	0%	-27	3%	-81	-83	3%
Associate	2	3	-51%	3	-50%	10	8	-16%
Fair Value adjustments	0	0	n.a.	0	n.a.	0	0	n.a.
Pretax profit	235	234	1%	235	0%	701	709	1%
Taxation	-25	-26	-5%	-25	2%	-76	-78	3%
Minority Interests	-28.76	-27.32	5%	-28.52	1%	-83.58	-84.76	1%
Net profit	181	180	1%	181	0%	541	546	1%
Net Profit	181	180	1%	181	0%	541	546	1%
Realized Distributable Income	181	180	1%	172	5%	513	544	6%
EPS (sen)	10.05	9.99	1%	10.05	0%	29.98	30.23	1%
NDPS (sen)	8.18	8.18	0%	8.13	1%	24.39	24.53	1%
NTA/share (RM)	7.27	7.26		0.00		7.24	7.27	
Net gearing (x)	0.10	0.11		0.12		0.12	0.10	
EBITDA margin	74.0%	73.8%		74.2%		74.6%	74.3%	
Pretax margin	66.5%	66.7%		67.1%		67.4%	67.0%	
Effective tax rate	10.7%	11.2%		10.5%		10.9%	11.1%	

Source: Company, Kenanga Research

Segment Trends



Source: Company, Kenanga Research

12 November 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<u>MREITs UNDER COVERAGE</u>																	
AXIS REIT	1.75	2,165.2	Y	12/2019	3.3%	7.8%	1.5%	11.6%	19.1	18.8	18.0	1.3	1.1	6.5%	4.3%	2.00	OP
CAPITALAND MALAYSIA MALL TRUST	1.04	2,133.8	N	12/2019	-2.3%	4.3%	-16.0%	3.8%	13.2	15.7	15.2	0.8	0.8	5.0%	5.7%	1.15	OP
IGB REIT	1.90	6,742.8	N	12/2019	3.9%	1.7%	2.8%	1.6%	22.1	21.6	21.3	1.8	1.8	8.3%	4.5%	2.05	MP
KLCCP STAPLED GROUP	7.99	14,424.6	Y	12/2019	5.5%	0.7%	4.9%	1.2%	20.7	19.7	19.5	1.1	1.1	6.0%	4.5%	8.25	MP
MRCB-QUILL REIT	1.00	1,071.8	N	12/2019	-2.2%	0.7%	-8.4%	1.2%	13.0	14.2	14.1	0.8	0.8	5.4%	6.3%	1.05	MP
PAVILION REIT	1.80	5,470.2	N	12/2019	10.8%	2.0%	4.5%	2.6%	21.4	20.5	20.0	1.4	1.4	6.8%	4.4%	1.90	MP
SUNWAY REIT	1.88	5,536.7	N	06/2020	8.1%	2.6%	2.5%	2.4%	19.6	19.2	18.6	1.2	1.3	6.6%	4.7%	1.90	MP
Simple Average					3.9%	2.8%	-1.2%	3.5%	18.3	18.5	18.1	1.2	1.2	6.4%	4.9%		
<i>* Core NP and Core PER</i>																	
<u>CONSENSUS NUMBERS</u>																	
YTL HOSPITALITY REIT	1.32	2,249.8	N	06/2020	7.4%	3.4%	44.3%	4.6%	21.5	14.9	14.2	0.8	0.8	0.0	6.3%	1.53	BUY
AL-'AQAR HEALTHCARE REIT	1.44	1,059.8	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	11.6	17.3	16.8	1.1	N.A.	0.1	5.5%	1.50	N.A.
AMANAHRAYA REIT	0.760	435.6	N	12/2019	25.3%	0.8%	-52.2%	2.1%	5.4	11.2	11.0	0.6	N.A.	0.1	7.8%	0.910	BUY
AMFIRST REIT	0.485	332.9	N	03/2020	N.A.	N.A.	N.A.	N.A.	14.9	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
HEKTAR REIT	0.990	457.3	N	12/2019	N.A.	N.A.	N.A.	N.A.	13.8	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.
TOWER REIT	0.850	238.4	N	06/2020	N.A.	N.A.	N.A.	N.A.	33.3	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
UOA REIT	1.24	524.4	N	12/2019	-0.6%	1.3%	-30.5%	0.0%	9.1	13.1	13.1	0.7	0.7	0.1	7.3%	N.A.	N.A.
ATRIUM REIT	1.06	219.2	N	12/2019	N.A.	N.A.	N.A.	N.A.	18.9	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.
AL-SALAM REIT	0.865	501.7	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	12.4	17.0	16.3	0.8	0.8	0.0	5.4%	0.865	N.A.
KIP REIT	0.850	429.5	N	06/2020	N.A.	N.A.	N.A.	N.A.	12.6	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Bloomberg, Kenanga Research

12 November 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

