

30 May 2023

KLCCP Stapled Group

Earnings Holding Up

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KLCC's 1QFY23 core net profit of RM180.6m (+12% YoY) is on track to meet full-year expectations. The first quarter performance was mainly underpinned by stronger contribution from the retail segment and narrower losses from the hotel operation. After rolling over our valuation window to FY24F, we have upped our TP to RM7.18 based on an unchanged target yield of 5.5% (which implies a 1.0% yield spread above our 10-year MGS yield assumption of 4.5%). Still a **MARKET PERFORM**.

Results' highlights. 1QFY23 core net profit of RM180.6m (up 12% YoY) met expectations, representing 25%/24% of our/consensus full-year forecasts. 1QFY23 DPS of 8.5 sen is also on track to achieve our FY23F DPS of 36.3 sen.

On the back of revenue of RM380.7m (+18% YoY), pre-tax profit was up 17% YoY to RM236.8m, consisting of contributions from: (i) the office segment (+2% YoY at RM120.6m), (ii) the retail division (+25% YoY to RM99.7m), and (iii) the hotel operation, which logged pre-tax loss of RM2.3m (compared with pre-tax losses of RM12.9m in 1QFY22 and RM0.1m in 4QFY22).

Outlook. With business as usual now, the earnings pattern seen in 1QFY23 is expected to hold up in the coming quarters. During the first quarter, retail tenant sales have already exceeded the pre-Covid level (by 17%) while footfall stood at around 85% of the pre-Covid threshold. Forward earnings will be underpinned by: (i) the office division's high occupancy rate (which stood at 100% end-March 2023, given its long-term, locked-in leases with high quality tenants), (ii) the retail segment's steady occupancy rate (at 96% end-March 2023 versus 92% end-December 2022), and (iii) the hotel operation's improving occupancy rate (after rising from 21% in 1QFY22 to 44% in 4QFY22 and 50% in 1QFY23).

Forecasts update. Notwithstanding the anticipated return of overseas tourists (whose arrivals have been slower than expected thus far), the prevailing backdrop of elevated inflationary environment and uncertain economic prospects may dampen travelling activity and consumer spending power. Post results, our net profit forecasts remain at RM726m for FY23 and RM751m for FY24. Correspondingly, our DPS projections stay at 36.3 sen this year and 39.5 sen next year, implying yields of 5.2% and 5.7%, respectively.

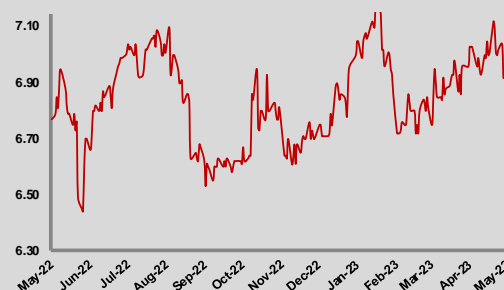
Still a MARKET PERFORM. We have tweaked our TP to RM7.18 (from RM6.60 previously) after rolling over our valuation window to FY24F. This is based on an unchanged target yield of 5.5% (which is derived from a 1.0% yield spread above our 10-year MGS yield assumption of 4.5%) on FY24F DPS, reflecting KLCC's prime asset portfolio (as anchored by its office towers in the KLCC area and Suria KLCC mall). With total expected returns of 8.4% (comprising share price upside of 3.2% and FY23F dividend yield of 5.2%), we are maintaining our MARKET PERFORM call. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

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

MARKET PERFORM ↔

Price: **RM6.96**
Target Price: **RM7.18** ↑

Share Price Performance



KLCC 1,404.93
YTD KLCC chg -6.1%
YTD stock price chg 3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLCCSS MK Equity
Market Cap (RM m)	12,565.1
Shares Outstanding	1,805.3
52-week range (H)	7.17
52-week range (L)	6.44
3-mth avg daily vol:	65,749
Free Float	12%
Beta	0.5

Major Shareholders

Petroleum Nasional Bhd	64.7%
Amanah Saham Nasional	11.4%
Employees Provident Fund	10.0%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1,459	1,457	1,566
EBIT	959	1,011	1,035
PBT	1,019	926	959
Net Profit (NP)	782.7	726	751
Core net profit	690.8	726	751
Consensus (NP)	697	745	782
Earnings Revision	-	-	-
Core EPS (sen)	38.3	40.2	41.6
Core EPS growth (%)	13.3	5.0	3.5
DPS (sen)	38.0	36.3	39.5
BVPS (RM)	7.27	7.30	7.32
Core PER (x)	18.2	17.3	16.7
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.18	0.18	0.18
Net Div. Yield (%)	5.5	5.2	5.7

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Results Highlights

FYE 31 Dec (RM m)	1Q23	1Q22	YoY	4Q22	QoQ
Revenue	380.7	321.7	18%	413.3	-8%
Operating expenses	-129.4	-101.5	27%	-165.1	-22%
Operating profit	251.4	220.2	14%	248.2	1%
Interest/profit income	9.3	4.6	102%	10.7	-13%
Financing costs	-27.6	-25.9	7%	-27.3	1%
Profit from associate	3.7	3.5	4%	-0.7	-649%
FV adjustments to invmt properties	0.0	0.0	n.m.	128.7	n.m.
Pretax profit	236.8	202.5	17%	359.6	-34%
Taxation	-28.2	-21.8	29%	-23.0	23%
Non-controlling interest	-28.0	-19.3	45%	-57.2	-51%
Net profit	180.6	161.4	12%	279.5	-35%
Core net profit	180.6	161.4	12%	187.6	-4%
Div/Inc Distribution	153.5	144.4	6%	252.7	-39%
EPS (sen)	10.00	8.94	12%	15.48	-35%
DPS (sen)	8.50	8.00	6%	14.00	-39%
Segmental breakdown:					
Property investment:					
- Office	146.3	145.3	1%	146.0	0%
- Retail	129.8	110.8	17%	125.4	3%
Hotel operations	46.1	20.0	131%	49.1	-6%
Management services	77.4	63.8	21%	112.1	-31%
Eliminations/adjustments	-18.9	-18.3	3%	-19.3	-2%
Revenue	380.7	321.7	18%	413.3	-8%
Property investment:					
- Office	120.6	118.8	2%	110.5	9%
- Retail	99.7	79.6	25%	96.9	3%
Hotel operations	-2.3	-12.9	-82%	-0.1	2207%
Management services	19.2	16.9	13%	21.5	-11%
Eliminations/adjustments	-0.4	0.0	n.m.	130.8	n.m.
Pretax profit	236.8	202.5	17%	359.6	-34%

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Gross Div. (sen)	Gross Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
AXIS REIT	MP	1.84	1.84	0.00%	3,203.5	Y	12/2023	9.3	10.2	-3.1%	9.7%	19.8	18.0	1.2	6.4%	9.3	5.1%
CAPITALAND MALAYSIA MALL TRUST	MP	0.500	0.530	6.00%	1,349.1	N	12/2023	3.9	4.0	-4.9%	2.6%	12.8	12.5	0.5	4.5%	3.9	7.8%
IGB REIT	MP	1.60	1.80	12.50%	5,750.8	N	12/2023	10.1	10.4	7.4%	3.0%	15.8	15.4	1.1	9.5%	10.5	6.6%
KLCCP STAPLED GROUP	MP	6.96	7.18	3.16%	12,565.1	Y	12/2023	40.2	41.6	5.0%	3.5%	17.3	16.7	1.0	5.2%	36.3	5.2%
SENTRAL REIT	MP	0.855	0.790	-7.60%	916.4	N	12/2023	6.7	6.6	-2.9%	-1.5%	12.8	12.9	0.7	5.4%	6.3	7.4%
PAVILION REIT	OP	1.29	1.47	13.95%	3,945.8	N	12/2023	8.0	8.5	1.2%	6.2%	16.1	15.2	1.0	6.1%	8.2	6.4%
SECTOR AGGREGATE					33,107.6					10.5%	5.5%	16.1	15.3	0.9	6.2%		6.3%

Source: Company, Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Effluent/Waste Management	★	★	★	☆	
	Water Management	★	★	★		
	Energy Efficiency	★	★	★	☆	
	Green Buildings	★	★	★	☆	
	Tenant Management	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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.**

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