KLCCP Stapled Group

Rock Steady

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MARKET PERFORM ↓

Price:	**RM6.95**
Target Price:	**RM7.18** ↔

KLCC's 9MFY23 results met expectations. It registered sustained growth across its primary businesses with most substantial gains seen in the hotel segment. We maintain our forecasts and TP of RM7.18 but downgrade our call to MARKET PERFORM from OUTPERFORM as its valuations have become rich after the recent run-up in its share price.

Within expectations. KLCC's net profit for 9MFY23 of RM546.7m met expectations, representing 76% and 74% of our full-year forecast and consensus full-year estimates, respectively. An interim distribution per unit of 8.8 sen (YTD: 26.1 sen) is on track to achieve our FY23 DPS of 36.3 sen.

YoY, 9MFY23 revenue of RM1.18b grew by 13% largely due to its: (i) hotel operations (+49%) with higher occupancy of 64% from international guests, that were mainly from China, Singapore, and UK, and (ii) management services (+30%) as higher maintenance activities were undertaken. Despite the higher revenue, pre-tax profit only increased by 9% as operating expenses increased from higher utility costs owing to ICPT adjustments. Overall, 9MFY23 net profit came in at RM546.7m (+9%).

QoQ, revenue increased by 2%, mainly attributed to higher occupancy and higher room rates for Mandarin Oriental, and the increasing footfall to their malls. As operating expenses were relatively stable, this cascaded to a 3QFY23 net profit of RM185.3m (+3%).

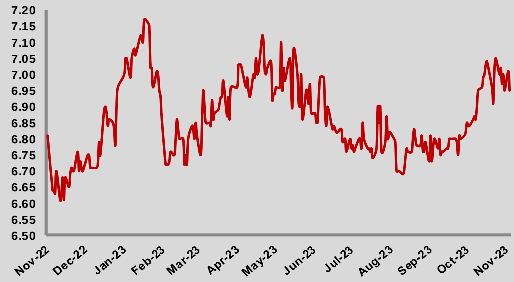
Outlook. We anticipate a positive outlook for the upcoming quarter, driven by the approaching festive seasons. With businesses now operating close to pre-pandemic levels, the earnings pattern seen in 9MFY23 is expected to hold up in the coming quarters. YoY, retail footfall climbed by 39%, indicating that consumer spending is likely to remain robust. We opine that forward earnings will continue to be supported by: (i) the office division's high occupancy rate (100% at end-Sept 2023, given its long-term, locked-in leases with high-quality tenants), (ii) the retail division's eight new tenants that increased the mall's occupancy rate during 3QFY23, (iii) the hotel operation's stride to hopefully break even in the medium term as the occupancy ratio picks up (52% from c.62% prior to Covid-19), as well as (iv) the management services' improved performance during the quarter with the rise in transient (+8% YoY) and season car park customers (11% YoY). Meanwhile, the group has expressed interest to explore global assets to add to its portfolio but would prioritise improving the efficiency of local operations first.

Forecasts. Maintained.

We also maintain our TP of RM7.18 based on our FY24F gross DPU of 39.5 sen against an unchanged target yield of 5.5% (derived from a 1.5% yield spread above our 10-year MGS assumption of 4.0%. The low yield spread reflects KLCC's prime asset portfolio (as anchored by its office towers in the KLCC area and Suria KLCC mall). We opine that the group's target markets could be less affected by inflationary headwinds, proven by the increase in MAT reported by the group. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Downgrade to **MARKET PERFORM** from **OUTPERFORM** as its valuations have become rich after the recent run-up in its share price.

Share Price Performance



KLCI	1,448.02
YTD KLCI chg	-3.2%
YTD stock price chg	3.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLCCSS MK Equity
Market Cap (RM m)	12,547.1
Shares Outstanding	1,805.3
52-week range (H)	7.17
52-week range (L)	6.61
3-mth avg daily vol:	107,190
Free Float	12%
Beta	0.4

Major Shareholders

Petroliam Nasional Bhd	64.7%
Amanah Saham Nasional	11.4%
Employees Provident Fund	10.2%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1,459	1,458	1,566
EBIT	959	1,011	1,035
PBT	1,019	926	959
Net Profit (NP)	**783**	**723**	**748**
Core net profit	**783**	**723**	**748**
Consensus (NP)	697	749	769
Earnings Revision	-	-	-
Core EPS (sen)	43.4	40.0	41.4
Core EPS growth (%)	57.8	-7.7	3.6
DPS (sen)	38.0	36.3	39.5
BVPS (RM)	2.83	2.9	2.9
Core PER (x)	15.6	16.9	16.3
Price/BV (x)	2.39	2.4	2.3
Net Gearing (x)	0.2	0.2	0.2
Net Div. Yield (%)	5.6	5.4	5.8

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

Results Highlights

FYE Dec (RM m)	3Q FY23	2Q FY23	QoQ Chg	3Q FY22	YoY Chg	9M FY23	9M FY22	YoY Chg
Revenue	**401.2**	**394.6**	**1.7%**	**374.0**	**7.3%**	**1,176.5**	**1,046.0**	**12.5%**
Operating Expenses	-143.2	-143.9	-0.5%	-120.3	19.0%	-416.5	-335.4	24.2%
Operating Profit	**257.9**	**250.8**	**2.9%**	**253.6**	**1.7%**	**760.1**	**710.6**	**7.0%**
FV adjustments to investment properties	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Interest/profit income	10.1	9.7	3.4%	6.6	52.9%	29.1	6.6	341.7%
Financing Cost	-27.9	-27.8	0.4%	-26.4	5.8%	-83.3	-78.4	6.2%
Associate contribution	3.7	3.7	0.7%	3.7	0.9%	11.1	10.8	3.5%
Profit Before Tax	**243.9**	**236.4**	**3.1%**	**237.6**	**2.6%**	**717.0**	**659.3**	**8.8%**
Taxation	-28.7	-28.3	1.2%	-31.5	-9.1%	-85.2	-84.4	0.9%
Minority Interest	-29.8	-27.3	9.4%	-29.4	1.4%	-85.2	-71.7	18.8%
Net Profit	**185.3**	**180.8**	**2.5%**	**176.6**	**5.0%**	**546.7**	**503.2**	**8.6%**
Distributable Income	**158.9**	**158.9**	**0.0%**	**144.4**	**10.0%**	**471.2**	**433.3**	**8.7%**
Core Net Profit	**185.3**	**180.8**	**2.5%**	**176.6**	**5.0%**	**546.7**	**503.2**	**8.6%**
Core Earnings Per Unit (sen)	10.27	10.01	2.5%	9.78	5.0%	30.28	27.87	8.6%
Distribution Per Unit (sen)	8.80	8.80	0.0%	8.00	10.0%	26.10	24.00	8.8%
Net Asset Value Per Unit (RM)	7.26	7.25	0.2%	4.35	67.0%	7.26	4.35	67.0%
Key Operating Metrics:								
Operating margin	64.3%	63.5%		67.8%		64.6%	67.9%	
Pretax margin	60.8%	59.9%		63.5%		60.9%	63.0%	
Net Gearing	11.8%	12.0%		13.3%		11.9%	12.8%	

Source: Company, Kenanga Research

Segmental Breakdown

	3Q FY23	2Q FY23	QoQ Chg	3Q FY22	YoY Chg	9M FY23	9M FY22	YoY Chg
Property investment:	278.9	273.9	1.8%	278.8	0.0%	828.9	805.6	2.9%
- Office	145.6	145.4	0.1%	145.2	0.3%	437.4	436.0	0.3%
- Retail	133.3	128.5	3.8%	133.6	-0.2%	391.5	369.6	5.9%
Hotel operations	55.0	44.7	23.0%	45.8	20.1%	145.8	97.8	49.0%
Management services	86.1	95.6	-10.0%	68.4	25.8%	259.1	198.8	30.3%
Eliminations/adjustments	-18.8	-19.6	-4.1%	-19.0	-1.0%	-57.2	-56.2	1.8%
Total Revenue	**401.2**	**394.6**	**1.7%**	**374.0**	**7.3%**	**1,176.5**	**1,046.0**	**12.5%**
Property investment:								
- Office	145.6	145.4	0.1%	145.2	0.3%	437.4	436.0	0.3%
- Retail	133.3	128.5	3.8%	133.6	-0.2%	391.5	369.6	5.9%
Hotel operations	55.0	44.7	23.0%	45.8	20.1%	145.8	97.8	49.0%
Management services	86.1	95.6	-10.0%	68.4	25.8%	259.1	198.8	30.3%
Eliminations/adjustments	-18.8	-19.6	-4.1%	-19.0	-1.0%	-57.2	-56.2	1.8%
Other expenses	-14.1	-14.3	-1.7%	-16.1	-12.3%	-43.0	-51.3	-16.2%
Total Profit Before Tax	**243.9**	**236.4**	**3.1%**	**237.6**	**2.6%**	**717.0**	**659.3**	**8.8%**

Source: Company, Kenanga Research

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 (%)	Net. Div. (sen)	Net 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	1.82	1.58	-13.2%	3,168.7	Y	12/2023	9.3	10.2	-3.1%	9.7%	19.6	17.8	1.3	5.4%	7.8	4.3%
CAPITALAND MALAYSIA MALL TRUST	MP	0.560	0.530	-5.4%	1,530.7	N	12/2023	3.9	4.0	-4.9%	2.6%	14.4	14.0	0.5	4.5%	3.9	7.0%
IGB REIT	MP	1.71	1.66	-2.9%	6,158.8	N	12/2023	10.1	10.4	7.4%	3.0%	16.9	16.4	1.2	9.5%	10.5	6.1%
KLCCP STAPLED GROUP	OP	6.95	7.18	3.3%	12,547.1	Y	12/2023	40.2	41.6	5.0%	3.5%	17.3	16.7	0.8	5.2%	36.3	5.2%
PAVILION REIT	OP	1.21	1.47	21.5%	4,419.3	N	12/2023	8.0	8.5	1.2%	6.0%	15.1	14.2	1.0	7.3%	8.2	6.8%
SUNWAY REIT	OP	1.53	1.63	6.5%	5,240.0	N	12/2023	10.2	10.9	6.5%	6.9%	15.0	14.0	0.9	5.4%	8.8	5.8%
SECTOR AGGREGATE					**33,064.6**					**0.4%**	**9.5%**	**17.2**	**15.7**	**0.9**	**6.2%**		**5.9%**

Source: 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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