

24 May 2024

KLCCP Stapled Group

Mall, Hotel Buoyed by Return of Tourists

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KLCC's 1QFY24 results met our expectations. Its core net profit rose 4% YoY driven by positive rental reversions at its mall and higher occupancy at its hotel. Its mall and hotel will continue to be buoyed by the return of tourists to Malaysia. We keep our forecasts relatively unchanged and maintain our TP of RM8.00 and OUTPERFORM call.

Its 1QFY24 net profit met expectations at 23% of both our full-year forecast and the full-year consensus estimate. It declared a dividend of 9 sen per unit, on track to meet our full-year forecast of 45.4 sen.

YoY, its 1QFY24 revenue rose 7% mainly driven by: (i) positive rental reversions at Suria Mall, and (ii) better performance from Mandarin Oriental with a higher occupancy rate of 58% (1QFY23: 50%). However, its core net profit grew by slower rate of 4% mainly due to higher operating expenses.

QoQ, its top line declined 8% from a high base in the preceding quarter (due to lumpy maintenance fees it typically charges its tenants in 4Q). However, its core net profit rose by 16%, thanks to lower expenses and lower MI, we believe, as it completed the buyout of certain minority shareholders of Suria Mall at some point during the quarter.

Outlook. KLCC has been able to consistently achieve high occupancy alongside positive rental reversions for its retail segment. As an iconic mall with a diverse range of offerings, the group is confident that the impacts to KLCC from the entry of new malls will be minimal. Given a weak MYR and the relaxation on visa application, tourist arrivals to Malaysia will remain robust. Also, both its Suria mall and Mandarin Oriental will benefit from higher tourist spending.

Forecasts. Largely unchanged.

Valuations. We maintain our TP to RM8.00 based on an unchanged target yield of 5.5% (derived from a 1.5% yield spread above our 10-year MGS assumption of 4.0%). Our distribution is based on a 95% payout, in line with historical averages.

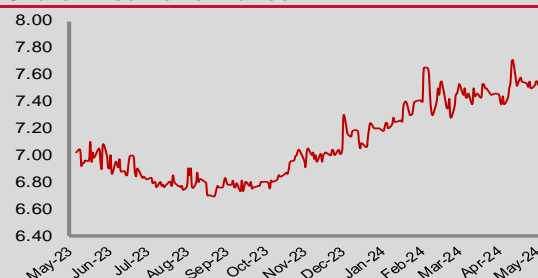
Investment case. We like KLCC for its prime asset portfolio anchored by its office towers in the KLCC area and Suria KLCC mall. Its target markets could be less affected by inflationary headwinds, proven by the increase in MAT reported by the group. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

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

OUTPERFORM ↔

Price: RM7.54
Target Price: RM8.00 ↔

Share Price Performance



KLCCP	1,629.18
YTD KLCCP chg	12.0%
YTD stock price chg	6.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLCCSS MK Equity
Market Cap (RM m)	13,612.2
Shares Outstanding	1,805.3
52-week range (H)	7.72
52-week range (L)	6.66
3-mth avg. daily vol.	219,216
Free Float	12%
Beta	0.5

Major Shareholders

Petroleum Nasional Bhd	64.7%
Amanah Saham Nasional	11.5%
Employees Provident Fund	10.6%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,619	1,719	1,795
Operating Profit	1,020	999	1,024
Profit Before Tax	1,187	898	926
Net Profit (NP)	931	820	844
Core net profit	709	820	844
Consensus (NP)	-	807	887
Earnings Revision	-	-	-
Core EPS (sen)	39.3	45.4	46.8
Core EPS Growth (%)	8.5	15.5	3.0
DPS (sen)	40.5	45.4	46.8
BVPS (RM)	2.9	42.7	44.0
Core PER (x)	18.6	8.52	8.52
Price/BV (x)	2.5	16.6	16.1
Net Gearing (x)	0.2	0.9	0.9
Net Div. Yield (%)	5.5	0.06	0.05

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	408.9	442.6	-7.6%	380.7	7.4%	408.9	380.7	7.4%
Operating Expenses	-142.7	-182.5	-21.8%	-129.4	10.3%	-142.7	-129.4	10.3%
Net Property Income	266.2	260.1	2.3%	251.4	5.9%	266.2	251.4	5.9%
Net Fair Value Changes	0.0	221.9	-100.0%	0.0	N.M.	0.0	0.0	N.M
Net Interest Income/(Expense)	-17.8	-14.7	20.9%	-18.3	-2.6%	-17.8	-18.3	-2.6%
Contribution from Associates	3.7	3.1	21.1%	3.7	0.8%	3.7	3.7	0.8%
Profit before tax	252.1	470.4	-46.4%	236.8	6.5%	252.1	236.8	6.5%
Taxation	-32.1	-35.9	-10.6%	-28.2	13.9%	-32.1	-28.2	13.9%
Minority interest	-32.0	-49.9	-35.9%	-28.0	14.1%	-32.0	-28.0	14.1%
Net Profit	188.0	384.6	-51.1%	180.6	4.1%	188.0	180.6	4.1%
Distributable Income	204.6	203.8	0.4%	195.0	4.9%	204.6	195.0	4.9%
Core Net Profit	188.0	162.7	15.6%	180.6	4.1%	188.0	180.6	4.1%
Core Earnings Per Unit (sen)	10.42	9.01	15.6%	10.00	4.1%	10.42	10.00	4.1%
Distribution Per Unit (sen)	9.00	14.40	-37.5%	8.50	5.9%	9.00	8.50	5.9%
Net Asset Value Per Unit (RM)	8.48	8.52	-0.5%	8.36	1.5%	8.48	8.36	1.5%
Key Operating Metrics:								
Net property income margin	65.1%	58.8%		66.0%		65.1%	66.0%	
Pretax margin	61.7%	106.3%		62.2%		61.7%	62.2%	
Net Gearing (x)	0.07	0.06		0.08		0.07	0.08	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Property investment:	286.7	283.6	1.1%	276.1	3.8%	286.7	276.1	3.8%
- Office	146.2	146.5	-0.2%	146.3	-0.1%	146.2	146.3	-0.1%
- Retail	140.5	137.1	2.5%	129.8	8.3%	140.5	129.8	8.3%
Hotel operations	58.3	65.2	-10.5%	46.1	26.5%	58.3	46.1	26.5%
Management services	82.5	113.8	-27.5%	77.4	6.6%	82.5	77.4	6.6%
Eliminations/adjustments	-18.6	-19.9	-6.6%	-18.9	-1.4%	-18.6	-18.9	-1.4%
Total Revenue	408.9	442.6	-7.6%	380.7	7.4%	408.9	380.7	7.4%
Property investment:	229.7	218.5	5.1%	220.3	4.3%	229.7	220.3	4.3%
- Office	120.8	114.5	5.5%	120.6	0.1%	120.8	120.6	0.1%
- Retail	108.9	104.0	4.7%	99.7	9.3%	108.9	99.7	9.3%
Hotel operations	1.8	6.2	-71.7%	-2.3	-176.4%	1.8	-2.3	-176.4%
Management services	19.9	22.8	-12.6%	19.2	4.0%	19.9	19.2	4.0%
Eliminations/adjustments	0.7	0.9	-22.7%	-0.4	-294.2%	0.7	-0.4	-294.2%
Total Profit Before Tax	252.1	248.5	1.5%	236.8	6.5%	252.1	236.8	6.5%
Property investment:	80.1%	77.1%		79.8%		80.1%	79.8%	
- Office	82.6%	78.1%		82.4%		82.6%	82.4%	
- Retail	77.5%	75.9%		76.8%		77.5%	76.8%	
Hotel operations	3.0%	9.6%		-5.0%		3.0%	-5.0%	
Management services	24.1%	20.0%		24.7%		24.1%	24.7%	
Eliminations/adjustments	-3.8%	-4.6%		1.9%		-3.8%	1.9%	
Total Pretax Margin	61.7%	56.1%		62.2%		61.7%	62.2%	

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	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	1.86	1.74	-6.5%	3,250.3	Y	12/2024	9.4	10.4	10.1%	10.7%	19.8	18.0	1.2	5.8%	8.7	4.7%
Capitaland Malaysia Mall Trust	MP	0.675	0.580	-14.1%	1,913.1	N	12/2024	4.4	4.7	8.7%	5.5%	15.3	14.5	0.8	5.0%	4.3	6.4%
IGB REIT	MP	1.83	1.68	-8.2%	6,604.9	N	12/2024	10.5	10.7	-2.5%	2.3%	17.5	17.1	1.7	9.8%	9.7	5.3%
KLCCP Stapled Group	OP	7.54	8.00	6.1%	13,612.2	Y	12/2024	44.7	46.3	13.6%	3.7%	16.9	16.3	1.0	5.2%	42.5	5.6%
Pavilion REIT	OP	1.36	1.59	16.9%	4,973.3	N	12/2024	9.7	10.4	23.7%	7.4%	14.1	13.1	1.1	7.2%	9.0	6.6%
SUNWAY REIT	OP	1.56	1.65	5.8%	5,342.7	N	12/2024	10.5	11.2	2.7%	6.6%	14.9	14.0	1.0	6.5%	8.8	5.6%
SECTOR AGGREGATE					35,696.6					9.5%	5.1%	16.4	15.6	1.1	6.6%		5.7%

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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