

26 November 2024

# KLCCP Stapled Group

## Soft Sentiment in Luxury Spending

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KLCC's 9MFY24 results met expectations, with a 7% YoY rise in CNP driven by the acquisition of 40% remaining stake in Suria KLCC that was completed in April, and higher hotel occupancy. As the decline in Suria's overall tenant sales reflected a few continued quarters of weakness in luxury sentiment, this leads us to peg a higher target yield. The resultant TP change is a mild trim to RM8.33 from RM8.38 as we also reflected housekeeping changes in cost of debt. However, considering price action, we lower the call from OUTPERFORM to MARKET PERFORM.

**Within expectations.** Its 9MFY24 net profit made up 72% of our full-year forecast and the full-year consensus estimate. The group also declared an estimated after-tax dividend of 8.5 sen, adding up to 25.3 sen YTD, in line with our FY24 net dividend forecast of 43 sen as the group typically declares lumpier payout in 4Q.

**YoY,** 9MFY24 revenue rose 6% mainly driven by Suria mall following the completion of its acquisition of the remaining 40% stake in April 2024. Top line was further supported by improved occupancy in Mandarin Oriental at 63% (from 58% in 3QFY24). On that note, after deducting higher net financing costs (+57%) owing to higher comparative rates, net profit grew by 7%.

**QoQ,** its top line increased by 4% mainly contributed by improved performance from Mandarin Oriental. Boosted by the full quarter recognition of 100% Suria stake, it managed to register a sharper 8% increase in net profit.

**Outlook.** KLCC has been able to consistently sustain high occupancy alongside positive rental reversions for its retail segment. We are also expecting stronger growth in Mandarin Oriental in 4QCY24. However, in the quarter, KLCC saw a decline in Suria's overall tenant sales which was primarily weighed down by softer luxury sentiment. On that note, we hold the view that this could hinder the growth prospect of the group in the near term.

**Forecasts.** Our FY25 earnings forecast is increased by 4% as we refreshed the group's average cost of debt to 4.2% for FY25 as per latest management updates.

**Valuations.** Given a slowdown in luxury sales which we have observed for a few quarters, we adjust the target yield higher. We tuned down our TP slightly from RM8.38 to RM8.33 based on an increased target yield of 5.5% as we raise our yield spread from 1.50% to 1.75% (on top of our unchanged 10-year MGS assumption of 3.75%), but also after incorporating lower debt cost. Our distribution is based on a 95% payout, in line with its historical averages.

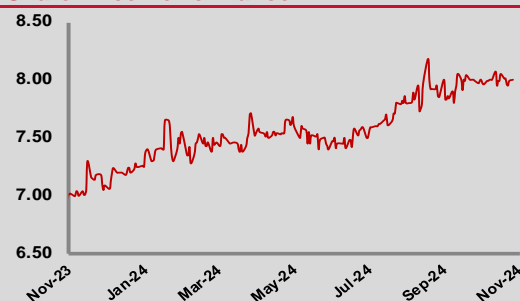
**Investment case.** We like KLCC for its prime asset portfolio anchored by its iconic office towers in the KLCC area and Suria KLCC mall. The group is likely able to sustain a steady income stream moving forward. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). However, we have turned cautious on the luxury space which could indicate decreasing appeal for KLCC, we downgrade it to **MARKET PERFORM**.

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

## MARKET PERFORM ↓

Price: **RM8.00**  
Target Price: **RM8.33** ↓

### Share Price Performance



KLCCP	1,597.45
YTD KLCCP chg	9.8%
YTD stock price chg	12.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KLCCSS MK EQUITY
Market Cap (RM m)	14,442.7
Shares Outstanding	1,805.3
52-week range (H)	8.21
52-week range (L)	6.90
3-mth avg. daily vol.	199,950
Free Float	25%
Beta	0.5

### Major Shareholders

Petroleum Nasional Bhd	64.7%
Employees Provident Fund	11.2%
Amanah Saham Nasional	9.4%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,619	1,719	1,795
Net Property Income	1,020	999	1,024
Pretax Profit	1,187	898	965
<b>Net Profit</b>	<b>1,066</b>	<b>820</b>	<b>880</b>
<b>Core Net Profit</b>	<b>709</b>	<b>820</b>	<b>880</b>
Consensus (NP)	-	810	871
Earnings Revision	-	-	+4%
Core EPS (sen)	39.3	45.4	48.8
Core EPS Growth (%)	8.5	15.5	7.4
GDPS (sen)	40.5	45.4	48.8
NDPS (sen)	37.9	42.7	45.8
BVPS (RM)	8.52	8.52	8.52
PER (x)	20.4	17.6	16.4
PBV (x)	0.9	0.9	0.9
Net Asset Gearing (x)	0.06	0.06	0.05
Net Div. Yield (%)	4.7	5.3	5.7

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## Results Highlights

	3Q FY24	2Q FY24	QoQ Chg	3Q FY23	YoY Chg	9M FY24	9M FY23	YoY Chg
<b>FYE Dec (RM m)</b>								
Revenue	429.6	413.2	4.0%	401.2	7.1%	1,251.8	1,176.5	6.4%
Operating Expenses	-156.6	-153.8	1.8%	-143.2	9.4%	-453.1	-416.5	8.8%
<b>Net Property Income</b>	<b>273.0</b>	<b>259.5</b>	<b>5.2%</b>	<b>257.9</b>	<b>5.8%</b>	<b>798.7</b>	<b>760.1</b>	<b>5.1%</b>
Net Fair Value Changes	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Interest Income/(Expense)	-35.4	-31.7	11.7%	-17.8	98.4%	-84.9	-54.2	56.6%
Contribution from Associates	3.8	3.7	2.7%	3.7	1.3%	11.2	11.1	0.4%
<b>Profit before tax</b>	<b>241.4</b>	<b>231.5</b>	<b>4.3%</b>	<b>243.9</b>	<b>-1.0%</b>	<b>725.0</b>	<b>717.0</b>	<b>1.1%</b>
Taxation	-33.3	-33.0	1.1%	-28.7	16.3%	-98.4	-85.2	15.5%
Minority interest	-1.5	-7.4	-79.4%	-29.8	-94.9%	-41.0	-85.2	-51.9%
<b>Net Profit</b>	<b>206.5</b>	<b>191.1</b>	<b>8.1%</b>	<b>185.3</b>	<b>11.4%</b>	<b>585.6</b>	<b>546.7</b>	<b>7.1%</b>
<b>Distributable Income</b>	<b>223.8</b>	<b>208.1</b>	<b>7.6%</b>	<b>199.8</b>	<b>12.0%</b>	<b>636.4</b>	<b>590.1</b>	<b>7.9%</b>
<b>Core Net Profit</b>	<b>206.5</b>	<b>191.1</b>	<b>8.1%</b>	<b>185.3</b>	<b>11.4%</b>	<b>585.6</b>	<b>546.7</b>	<b>7.1%</b>
Core Earnings Per Unit (sen)	11.44	10.58	8.1%	10.27	11.4%	32.44	30.28	7.1%
Distribution Per Unit (sen)	9.20	9.20	0.0%	8.80	4.5%	27.40	26.10	5.0%
Net Asset Value Per Unit (RM)	7.45	7.42	0.3%	8.39	-11.3%	23.35	25.12	-7.1%
<b>Key Operating Metrics:</b>								
Net property income margin	63.5%	62.8%		64.3%		63.8%	64.6%	
Pretax margin	56.2%	56.0%		60.8%		57.9%	60.9%	
Net Gearing (x)	0.17	0.17		0.07		0.17	0.07	

Source: Company, Kenanga Research

## Segmental Breakdown

	3Q FY24	2Q FY24	QoQ Chg	3Q FY23	YoY Chg	9M FY24	9M FY23	YoY Chg
<b>FYE Dec (RM m)</b>								
Property investment:	290.9	285.0	2.1%	278.9	4.3%	862.7	828.9	4.1%
- Office	146.3	146.3	0.0%	145.6	0.5%	438.8	437.4	0.3%
- Retail	144.6	138.8	4.2%	133.3	8.5%	423.9	391.5	8.3%
Hotel operations	63.3	50.3	25.8%	55.0	15.2%	171.9	145.8	18.0%
Management services	97.7	98.0	-0.3%	86.1	13.5%	278.2	259.1	7.4%
Eliminations/adjustments	-22.3	-20.1	11.2%	-18.8	18.9%	-61.1	-57.2	6.7%
<b>Total Revenue</b>	<b>429.6</b>	<b>413.2</b>	<b>4.0%</b>	<b>401.2</b>	<b>7.1%</b>	<b>1,251.8</b>	<b>1,176.5</b>	<b>6.4%</b>
Property investment:	234.6	227.9	2.9%	220.7	6.3%	692.2	657.8	5.2%
- Office	120.4	119.9	0.4%	119.0	1.2%	361.1	359.2	0.5%
- Retail	114.2	108.0	5.7%	101.7	12.3%	331.1	298.6	10.9%
Hotel operations	6.1	-1.4	-550.4%	1.7	258.4%	6.5	-3.2	-302.3%
Management services	20.6	20.3	1.4%	20.0	3.2%	60.9	60.5	0.6%
Eliminations/adjustments	-19.9	-15.4	29.4%	1.5	-1472.7%	-34.7	1.9	-1910.6%
<b>Total Profit Before Tax</b>	<b>241.4</b>	<b>231.5</b>	<b>4.3%</b>	<b>243.9</b>	<b>-1.0%</b>	<b>725.0</b>	<b>717.0</b>	<b>1.1%</b>
Property investment:	80.6%	80.0%		79.1%		80.2%	79.4%	
- Office	82.3%	82.0%		81.7%		82.3%	82.1%	
- Retail	79.0%	77.8%		76.3%		78.1%	76.3%	
Hotel operations	9.7%	-2.7%		3.1%		3.8%	-2.2%	
Management services	21.1%	20.8%		23.2%		21.9%	23.4%	
Eliminations/adjustments	89.2%	76.7%		-7.7%		56.8%	-3.3%	
<b>Total Pretax Margin</b>	<b>56.2%</b>	<b>56.0%</b>		<b>60.8%</b>		<b>57.9%</b>	<b>60.9%</b>	

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.				
<b>Stocks Under Coverage</b>																	
AXIS REIT	MP	1.73	1.80	4.0%	3,478.2	Y	12/2024	9.4	10.1	10.1%	23.8%	18.4	17.1	1.1	5.8%	8.7	5.0%
CAPITALAND MALAYSIA TRUST	MP	0.650	0.700	7.7%	1,872.0	N	12/2024	4.7	5.1	18.1%	10.1%	13.9	12.6	0.6	4.7%	4.3	6.6%
IGB REIT	MP	2.04	2.00	-2.0%	7,375.4	N	12/2024	10.8	12.2	8.2%	13.4%	18.9	16.7	1.9	9.7%	10.1	5.0%
KLCCP STAPLED GROUP	MP	8.00	8.38	4.8%	14,442.7	Y	12/2024	44.7	46.3	13.6%	3.7%	17.9	17.3	1.1	5.2%	42.5	5.3%
PAVILION REIT	OP	1.52	1.66	9.2%	5,564.2	N	12/2024	9.3	10.4	19.6%	11.1%	16.3	14.6	1.2	6.9%	8.7	5.7%
SUNWAY REIT	OP	1.86	2.01	8.1%	6,370.1	N	12/2024	11.0	13.1	7.9%	19.0%	16.9	14.2	1.2	6.8%	9.1	4.9%
<b>SECTOR AGGREGATE</b>					<b>39,102.6</b>					<b>12.5%</b>	<b>11.1%</b>	<b>17.7</b>	<b>16.0</b>	<b>1.2</b>	<b>6.5%</b>		<b>5.4%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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