

24 January 2020

KLCCP Stapled Group

FY19 Within Expectations

By Marie Vaz | msvaz@kenanga.com.my

FY19 RDI of RM730m came in well within our and consensus estimates, at 100% each. FY19 NDPS of 35.5 sen is also within our estimate (at 97%). Maintain FY20E RDI of RM741m and introduce FY21E RDI of RM753m driven by organic growth on single-digit reversions and stable occupancy. Maintain MP and TP of RM8.25 (implied FY20E net yield of 4.4%).

FY19 realised distributable income (RDI) of RM730m is well within our and consensus estimates, at 100% each. 4QFY19 GDPS of 10.98 sen (5.35 sen single-tier dividend plus 6.25 sen subject to 10% withholding tax), accumulates to FY19 NDPS of 35.5 sen, meeting our FY19E NDPS of 36.0 sen (implying 4.5% net yield).

Results' highlight. YoY, top-line was up by 1% on all segments: (i) driven by the retail segment (+2%) on improved rental and advertising incomes, and (ii) better revenue from the hotel segment (+3%) on better occupancy and improvements in the F&B segment, while the office and management services segment remained flat. This coupled with mildly lower effective tax rate of 13.2% (vs. 13.3%) allowed RDI to increase by 5%. **QoQ**, top-line was up by 3% from growth in the retail (+5%) and hotel (+11%) segments due to similar reasons mentioned above while the office and management services segment remained flat. All in, bottom-line increased by 3%.

Outlook. Shareholders' approval for a 10% placement is valid until April 2020. Phase 3 of Menara Dayabumi is expected to comprise a 60-storey tower of mixed development, consisting of retail, office and hotel spaces. Phase 3 is still in the tendering process as management focuses on securing an anchor tenant before proceeding with the development.

Earnings unchanged. We maintain FY20E RDI of RM741m and introduce FY21E RDI of RM753m with forward earnings to be driven by organic growth from single-digit rental step-ups, and improved occupancy for Mandarin Oriental. FY20-21E NDPS of 36.5-37.0 sen imply 4.6-4.6% net yields.

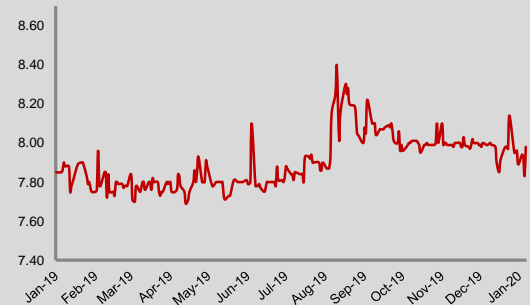
Maintain MARKET PERFORM and TP of RM8.25 on FY20E GDPS/NDPS of 39.0 sen/36.5 sen and an unchanged target gross/net yield of 4.7%/4.4% (at +1.3ppt yield spread to our 10-year MGS target of 3.40%). Our applied spread is the lowest among MREITs under our coverage (+1.3ppt to +3.2ppt) as we favour KLCC's premium asset quality profile, and triple-net-lease (TNL) structure which provide for strong earnings stability, and as it is one of the few Shariah-compliant MREITs. Our MARKET PERFORM call (with potential total return of 8%) is premised on limited potential upsides as its estimated net yield of 4.6% is at the lower end of large cap MREIT peers' average of 4.8%.

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: RM7.98
Target Price: RM8.25 ↔

Share Price Performance



KLCI 1,574.44
YTD KLCI chg -0.9%
YTD stock price chg 1.0%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker KLCCSS MK EQUITY
Market Cap (RM m) 14,406.6
Shares Outstanding 1,805.3
52-week range (H) 8.48
52-week range (L) 7.66
3-mth avg daily vol: 543,264
Free Float 10%
Beta 0.4

Major Shareholders

KLCC Sdn Bhd 64.7%
Petroleum Nasional Bhd 10.8%
Employees Provident Fund Board 6.0%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	1423	1494	1513
EBIT	1020	1110	1133
PBT	1071	1027	1045
Net Profit (NP)	790	788	801
Core NP (RDI)*	730	741	753
Consensus (NP)	n.a.	764	786
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	40.4	41.0	41.7
Core EPS growth (%)	5	1	2
NDPS (sen)	35.5	36.5	37.1
BVPS (RM)	7.3	7.3	7.3
Core PER (x)	19.7	19.4	19.1
Price/BV (x)	1.1	1.1	1.1
Net Gearing (x)	0.11	0.11	0.10
Net Div. Yield (%)	4.4	4.6	4.6

*Core NP refers to RDI

24 January 2020

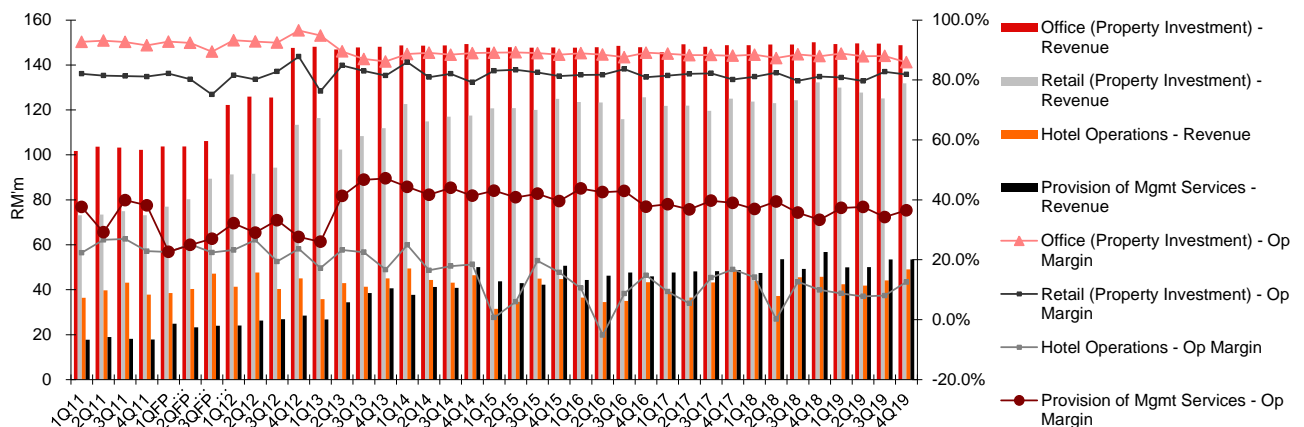
OTHER POINTS

Results Highlights

FYE: 31Dec (RM m)	4Q19	3Q19	QoQ%	4Q18	YoY%	FY18	FY19	Ytd-YoY%
Revenue	365	354	3%	366	0%	1,406	1,423	1%
Op costs w/o depn/amort	-99	-92	7%	-99	0%	-363	-371	2%
EBITDA	266	262	2%	267	0%	1,043	1,052	1%
EBIT	258	254	2%	259	0%	1,011	1,020	1%
Interest Income	9	8	17%	7	29%	28	32	15%
Interest Expense	-28	-28	0%	-27	3%	-108	-111	3%
Associate	5	2	179%	4	24%	13	13	-5%
Fair Value adjustments	118	0	n.a.	20	491%	20	118	491%
Pretax profit	362	235	54%	263	38%	964	1,071	11%
Taxation	-47	-25	89%	-49	-3%	-125	-126	0%
Minority Interests	-70.8	-28.8	146%	-30.4	133%	-114.0	-155.5	36%
Net profit	244	181	35%	184	33%	725	790	9%
Net Profit	126	181	-31%	164	-23%	705	672	-5%
Realized Distributable Income	186	181	3%	185	1%	698	730	5%
EPS (sen)	6.97	10.05	-31%	10.26	-32%	39.04	37.21	-5%
NDPS (sen)	10.98	8.18	34%	10.27	7%	34.67	35.50	2%
NTA/share (RM)	7.32	7.27		7.25		7.25	7.32	
Net gearing (x)	0.11	0.10		0.12		0.12	0.11	
EBITDA margin	73.0%	74.0%		73.0%		74.2%	73.9%	
Pretax margin	66.9%	66.5%		66.3%		67.1%	67.0%	
Effective tax rate	19.4%	10.7%		20.1%		13.3%	13.2%	

Source: Company, Kenanga Research

Segment Trends



Source: Company, Kenanga Research

24 January 2020

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																		
AXIS REIT	1.86	2,669.6	Y	12/2020	5.4%	2.9%	16.9%	2.0%	20.3	20.0	19.2	1.4	1.2	7.6%	4.1%	2.00	OP	
CAPITALAND MALAYSIA MALL TRUST	1.02	2,092.8	N	12/2020	1.2%	1.4%	1.6%	0.8%	16.5	16.2	15.9	0.8	0.8	4.8%	5.6%	1.05	OP	
IGB REIT	1.93	6,849.2	N	12/2020	2.5%	2.0%	0.4%	2.0%	21.7	21.7	21.4	1.8	1.8	8.5%	4.5%	2.05	OP	
KLCCP STAPLED GROUP	7.98	14,406.6	Y	12/2020	5.0%	1.3%	1.5%	1.6%	19.7	19.4	19.1	1.1	1.1	6.0%	4.6%	8.25	MP	
MRCB-QUILL REIT	0.980	1,050.3	N	12/2020	-2.2%	0.7%	-8.4%	1.2%	12.7	14.0	13.9	0.8	0.8	5.4%	6.4%	1.05	MP	
PAVILION REIT	1.73	5,257.5	N	12/2020	4.5%	2.0%	3.6%	3.8%	21.2	20.5	19.8	1.3	1.3	6.8%	4.6%	1.80	MP	
SUNWAY REIT	1.84	5,418.9	N	06/2020	8.1%	2.6%	2.5%	2.4%	19.2	18.8	18.2	1.2	1.2	6.6%	4.8%	1.90	MP	
Simple Average					3.5%	1.8%	2.6%	2.0%	18.8	18.7	18.2	1.2	1.2	6.5%	4.9%			
<i>* Core NP and Core PER</i>																		
CONSENSUS NUMBERS																		
YTL HOSPITALITY REIT	1.36	2,318.0	N	06/2020	5.6%	3.1%	24.9%	6.8%	22.1	17.7	16.6	0.9	0.8	0.0	6.2%	1.51	BUY	
AL-'AQAR HEALTHCARE REIT	1.35	993.6	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	10.9	16.2	15.7	1.0	n.a.	0.1	5.8%	1.54	BUY	
AMANAHRAYA REIT	0.740	424.2	N	12/2019	25.3%	0.8%	-52.2%	2.1%	5.2	10.9	10.7	0.5	n.a.	0.1	8.0%	0.790	N.A.	
AMFIRST REIT	0.510	346.6	N	03/2020	n.a.	n.a.	n.a.	n.a.	15.5	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	-4.8%	-2.3%	n.a.	n.a.	13.8	n.a.	n.a.	0.7	n.a.	n.a.	7.1%	n.a.	N.A.	
TOWER REIT	0.800	224.4	N	06/2020	n.a.	n.a.	n.a.	n.a.	31.3	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	1.05	216.6	N	12/2019	n.a.	n.a.	n.a.	n.a.	18.7	n.a.	n.a.	0.8	n.a.	n.a.	n.a.	n.a.	N.A.	
AL-SALAM REIT	0.855	495.9	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	12.3	16.8	16.1	0.8	0.8	0.0	5.5%	0.865	N.A.	
KIP REIT	0.910	459.8	N	06/2020	25.6%	0.3%	n.a.	n.a.	13.5	n.a.	n.a.	0.9	0.9	n.a.	7.8%	n.a.	N.A.	

Source: Bloomberg, Kenanga Research

24 January 2020

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

