

26 November 2024

Property | REITS

KLCCP Stapled (KLCCSS MK)

Neutral (Maintained)

Stable, But With Limited Upside

- **Keep NEUTRAL and DDM-derived MYR8.20 TP, 3% upside.** KLCCP Stapled's 9M24 results were in line, with its earnings driven by the retail and hospitality segments. Suria KLCC is practically full, with a 99% occupancy rate, but upside may be limited with management maintaining a low-single digit rental reversion guidance. Growth for the hotel segment may be capped as well, from the higher base. With gearing at only 32%, we think further acquisitions would be a positive to drive its inorganic growth.
- **Results in line.** 3Q24 core profit of MYR206.5m (+28% QoQ, +11% YoY) was in line with our and Street's estimates, at 72% of our full-year forecasts. QoQ earnings grew from a seasonally slower quarter, while on a YoY basis, revenue rose 7% with higher occupancy rates from the hotel and retail segments. Earnings growth was also supported by a lower charge-out in minority interests (-95% YoY) after the acquisition of the remaining stake in Suria KLCC. The average cost of debt fell to 4.2% (FY23: 4.6%) after a MYR455m *sukuk* refinancing in April. Management is confident the better rate can be maintained after it refinances another MYR627m of *sukuk* maturing on 31 Dec 2024. 9M24 DPU reached 27.4 sen (9M23: 26.10 sen).
- **Retail and office underpin earnings.** Suria KLCC's occupancy rate remains strong at 99% (Sep 2023: 96%), with footfall improving by 5% YTD. Moving annual turnover (MAT) tenant sales, on the other hand, fell 3% from a high base, attributed to lower spending at its fashion tenants. KLCCSS continues to refresh its offerings with new tenants such as Dockers, APT Signature, and Mr Bean. Despite the high occupancy rate, management maintained its low-single-digit rental reversion guidance for the segment. Turnover rent only made up 2% of its revenue YTD, which suggests limited room to grow over the medium term. The office segment, backed by its long-term triple net lease, recorded a marginal 0.2% and 0.4% revenue and PBT growth YTD.
- **Strong improvement for Mandarin Oriental.** After recording an LBT of MYR1.4m in the seasonally slower 2Q24, the hotel segment saw a strong MYR6m PBT in 3Q24. Revenue per available room (RevPar) grew 28% YoY to MYR606 with an increase in bookings for higher yielding rooms, while occupancy rate improved to 58% in 9M24 compared to 52% in 9M23.
- **Earnings revision.** We lower our FY24F earnings by 3% after adjusting our cost assumptions. Our TP includes a 4% ESG premium. Key upside/downside risks include changes in consumer sentiment, higher/lower rental reversions, as well as new acquisitions.

Target Price (Return):	MYR8.20 (+3%)
Price (Market Cap):	MYR8.00 (USD3,243m)
ESG score:	3.2 (out of 4)
Avg Daily Turnover (MYR/USD)	1.49m/0.35m

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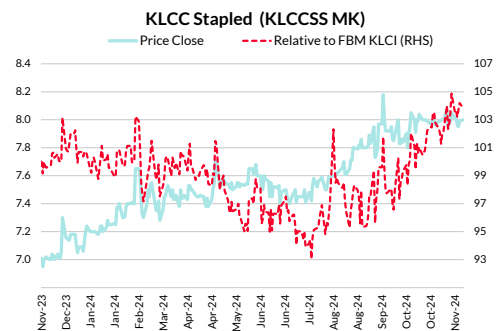


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.8	0.1	2.6	4.6	15.1
Relative	3.0	1.4	5.0	6.0	5.2
52-wk Price low/high (MYR)	6.95 -8.18				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	1,459	1,619	1,636	1,665	1,696
Recurring net profit (MYRm)	654	709	801	860	881
Recurring net profit growth (%)	2.1	8.5	12.8	7.5	2.4
Recurring EPS (MYR)	0.36	0.39	0.44	0.48	0.49
DPS (MYR)	0.38	0.41	0.42	0.45	0.46
Recurring P/E (x)	22.08	20.36	18.04	16.79	16.40
P/B (x)	1.10	1.08	1.08	1.08	1.08
Dividend Yield (%)	4.8	5.1	5.3	5.6	5.8
Return on average equity (%)	6.0	7.0	6.0	6.4	6.6
Net debt to equity (%)	8.4	7.6	8.4	8.8	9.3

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

KLCCSS' efforts within the Environmental sphere are commendable, as it continues to actively track and successfully reduce the GHG emissions and water wastage within the premises of its assets, in addition to also committing to proper waste sorting.

S: GOOD

In addition to the workshops and on-the-job training made available to employees, 43% of leadership roles are taken up by female senior management leaders – a testament to KLCCSS' efforts to prioritise diversity in the workforce.

G: GOOD

The rolling out of a policy statement on anti-bribery and corruption earlier in May this year upholds KLCCSS' standards of integrity and ethical conduct – in addition to having a dedicated in-house investor relations team that ensures accessibility and decent transparency.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.36	0.39	0.44	0.48	0.49
Property	EPS	0.43	0.52	0.44	0.48	0.49
KLCCP Stapled	DPS	0.38	0.41	0.42	0.45	0.46
KLCCSS MK	BVPS	7.27	7.39	7.39	7.39	7.39
Neutral	Return on average equity (%)	6.0	7.0	6.0	6.4	6.6
	Return on average assets (%)	4.3	5.1	4.2	4.3	4.4
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Dividend discount model.	Recurring P/E (x)	22.08	20.36	18.04	16.79	16.40
	P/B (x)	1.1	1.1	1.1	1.1	1.1
	Dividend Yield (%)	4.8	5.1	5.3	5.6	5.8
	EV/EBITDA (x)	0.17	0.10	0.06	0.01	(0.02)
Key drivers	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Stable earnings arising from KLCCSS' robust pool of quality assets unperturbed by oversaturation issues, in addition to the newly-opened reconfigured space at Suria that is expected to boost earnings.	Total turnover	1,459	1,619	1,636	1,665	1,696
	Gross profit	1,099	1,170	1,248	1,294	1,318
	EBITDA	1,004	1,053	1,105	1,147	1,168
	Depreciation and amortisation	(45)	(33)	(33)	(33)	(33)
	Operating profit	959	1,020	1,072	1,114	1,135
	Net interest	(79)	(69)	(114)	(148)	(146)
	Pre-tax profit	1,019	1,187	972	981	1,004
	Taxation	(107)	(121)	(99)	(100)	(102)
	Reported net profit	783	931	801	860	881
	Recurring net profit	654	709	801	860	881
Key risks	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
The upside/downside risks to our call:	Change in working capital	29	(8)	3	5	5
i. Stronger-/weaker-than-expected consumer sentiment, which impacts the recovery in the retail and hotel segments.	Cash flow from operations	868	868	894	904	924
	Capex	(17)	(35)	0	(8)	0
	Cash flow from investing activities	(46)	(81)	(189)	(297)	(80)
	Dividends paid	(607)	(686)	(731)	(759)	(815)
	Cash flow from financing activities	(579)	(693)	(731)	(759)	(815)
	Cash at beginning of period	960	1,105	1,192	3,026	2,963
	Net change in cash	243	94	(26)	(152)	30
	Ending balance cash	1,203	1,199	1,166	2,874	2,992
Company Profile	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
KLCC Stapled Group (KLCCSS) consists of KLCC Property Holdings (KLCCP) and KLCC REIT. KLCCP's primary focus is on property development and investment, while KLCC REIT is a Shariah-compliant REIT that owns the iconic Petronas Twin Towers, among others.	Total cash and equivalents	1,105	1,192	3,026	2,963	2,900
	Tangible fixed assets	571	548	515	482	449
	Total investments	15,988	16,220	16,300	16,380	16,460
	Total other assets	334	275	275	275	275
	Total assets	18,109	18,334	20,215	20,200	20,186
	Short-term debt	23	1,075	1,075	1,075	1,075
	Total long-term debt	2,356	1,290	3,240	3,240	3,240
	Total liabilities	2,942	2,944	4,898	4,904	4,910
	Shareholders' equity	13,132	13,339	13,339	13,339	13,339
	Minority interests	2,036	2,050	1,978	1,957	1,936
	Total equity	15,167	15,389	15,317	15,296	15,275
	Total liabilities & equity	18,109	18,334	20,215	20,200	20,186
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	24.6	11.0	1.1	1.8	1.9
	Recurring net profit growth (%)	2.1	8.5	12.8	7.5	2.4
	Recurrent EPS growth (%)	2.1	8.5	12.8	7.5	2.4
	Gross margin (%)	75.3	72.3	76.3	77.7	77.7
	Recurring net profit margin (%)	44.8	43.8	48.9	51.6	51.9
	Dividend payout ratio (%)	87.7	78.5	94.8	94.8	94.8

Source: Company data, RHB

Results At a Glance

Figure 1: KLCCSS' results summary

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)	Comments
Revenue	401.2	413.2	429.6	4.0	7.1	1,176.5	1,251.8	6.4	Earnings grew sequentially from a seasonally stronger quarter. YoY growth was led by the retail and hotel segments with higher occupancy rates
EBIT	257.9	259.5	273.0	5.2	5.8	760.1	798.7	5.1	
Interest expense	(27.9)	(45.6)	(46.8)	2.6	67.7	(83.3)	(120.8)	44.9	Higher borrowing costs for the acquisition of the remaining 40% stake in Suria KLCC, but the average cost of debt reduced to 4.2% from 4.6% in FY23
Interest income	10.1	14.0	11.5	(18.0)	13.6	29.1	35.9	23.2	
Associates	3.7	3.7	3.8	2.7	1.3	11.1	11.2	0.4	
EI/Others	0.0	0.0	0.0	nm	nm	0.0	0.0	nm	
PBT	243.9	231.5	241.4	4.3	(1.0)	717.0	725.0	1.1	
Core PBT (ex-EI)	243.9	231.5	241.4	4.3	(1.0)	717.0	725.0	1.1	
Tax	(28.7)	(33.0)	(33.3)	1.1	16.3	(85.2)	(98.4)	15.5	
Minority Interest	(29.8)	(7.4)	(1.5)	(79.4)	(94.9)	(85.2)	(41.0)	(51.9)	Minority interests dropped YoY post acquisition
Net Profit	185.3	191.1	206.5	8.1	11.4	546.7	585.6	7.1	Met expectations
Core Profit	185.3	191.1	206.5	8.1	11.4	546.7	585.6	7.1	
Dividend Per Share	8.80	9.20	9.20	0.0	4.5	26.10	27.4	5.0	
EBIT Margin (%)	64.3	62.8	63.5			64.6	63.8		
Pretax Margin (%)	60.8	56.0	56.2			60.9	57.9		
Effective tax rate (%)	11.8	14.2	13.8			11.9	13.6		
Net Margin (%)	46.2	46.2	48.1			46.5	46.8		

Source: Company data, RHB

Figure 2: KLCCP's segmental revenue

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)
Prop investment - office	145.6	146.3	146.3	0.0	0.5	437.4	438.8	0.3
Prop investment - retail	133.3	138.8	144.6	4.2	8.5	391.5	423.9	8.3
Hotel operations	55.0	50.3	63.3	25.8	15.2	145.8	171.9	18.0
Management services	86.1	98.0	97.7	(0.3)	13.5	259.1	278.2	7.4
Intercompany eliminations	(18.8)	(20.1)	(22.3)	11.2	18.9	(57.2)	(61.1)	6.7
Total revenue	401.2	413.2	429.6	4.0	7.1	1,176.5	1,251.8	6.4

Source: Company data

Figure 3: KLCCP's segmental operating profit

FYE Dec (MYRm)	3Q23	2Q24	3Q24	QoQ (%)	YoY (%)	9M23	9M24	YoY (%)
Prop investment - office	127.0	127.8	128.1	0.2	0.9	383.6	384.7	0.3
Prop investment - retail	108.6	114.8	120.5	5.0	11.0	319.0	351.1	10.1
Hotel operations	6.8	3.5	11.0	211.0	61.4	12.0	21.4	78.8
Management services	19.2	19.6	19.8	1.0	3.2	58.7	58.8	0.2
Intercompany eliminations	(3.6)	(6.2)	(6.3)	1.8	76.4	(13.2)	(17.4)	32.2
Total EBIT	257.9	259.5	273.0	5.2	5.8	760.1	798.7	5.1

Source: Company data

Emissions And ESG

Trend analysis

2023 saw a 3% increase in total GHG emissions YoY, but compared to 2015 (baseline year), the group has reduced GHG emission by 23%.

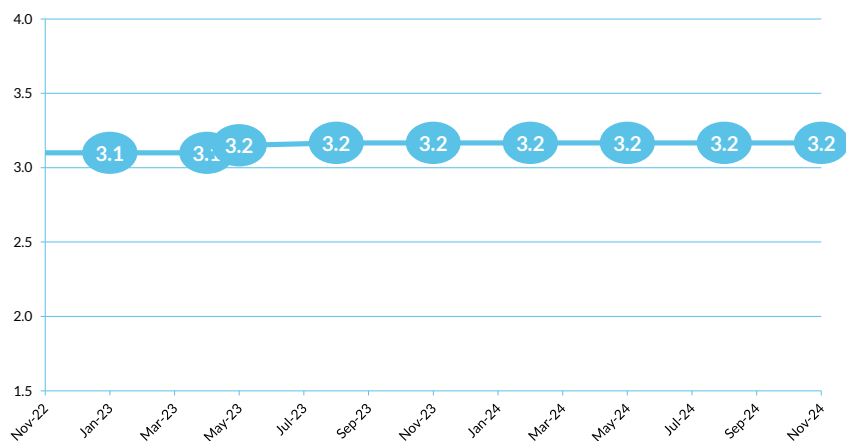
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	14	23	51
Scope 2	23,565	29,063	29,936
Scope 3	58,450	67,964	70,375
Total emissions	82,029	97,051	100,362

Source: Company data, RHB

Latest ESG-Related Developments

- Three of KLCCP Stapled’s office towers – Petronas Twin Towers (Gold), Menara 3 Petronas (Silver), and Menara Maxis (Silver) – have received Green Building Index certifications.
- Engaged industry experts to align KLCCP’s disclosures with the Task Force on Climate-Related Financial Disclosures.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-05	Neutral	8.20	7.99
2024-08-29	Neutral	8.20	7.86
2024-05-24	Neutral	7.96	7.65
2024-02-08	Neutral	7.59	7.38
2024-01-29	Neutral	7.74	7.26
2023-11-29	Neutral	7.37	7.00
2023-10-16	Neutral	7.27	6.80
2023-08-15	Buy	7.57	6.90
2023-05-30	Buy	7.79	7.10
2023-02-01	Neutral	7.30	7.05
2022-11-11	Neutral	7.08	6.80
2022-08-10	Neutral	7.08	7.02
2022-05-25	Neutral	6.91	6.80
2022-01-31	Neutral	6.90	6.40
2021-10-20	Neutral	7.04	6.79

Source: RHB, Bloomberg

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