

KLCCP Stapled Group (KLCCSS MK)

4Q21: Above expectations

Above expectations; U/G to BUY

4Q21 results and 4th interim gross DPU of 12.6sen (FY21: 33.6sen) were above our expectations. FY21 earnings was encouraged by stronger retail revenue and stable office rental income but offset by weaker performance at Mandarin Oriental. We adjust lower our FY22/23E forecasts by 3%/1%, but nudge up our DDM-TP by 21 sen to MYR7.14. We expect FY22E earnings will continue to be supported by stable office segment and recovery of retail and hotel segments. We U/G to BUY on recent share price weakness.

4Q21 lifted by mall and hotel

4Q21 core net profit was MYR191.6m (+24% YoY, +41% QoQ). FY21 core earnings was MYR617.1m (-1.8% YoY), accounting for 105%/103% of our and consensus' full-year forecasts. YoY, 4Q21 core earnings was supported by the resilient segments of: (i) office, as all office towers were 100%-tenanted, and (ii) retail, where Suria KLCC provided lower rental assistance, coupled with higher advertising income attributed by better footfall and retailers' turnover. These segments' core pretax profit grew 3% and 34% YoY respectively. Mandarin Oriental's pre-tax loss narrowed 36% YoY from higher occupancy of 29% (4Q20: 15%) and better performance in F&B revenue. YTD FY21 average room rate increased 10% YoY to MYR638.

Minor earnings tweak

We reduce our FY22/23E forecasts by 3%/1% after adjusting for full-year FY21 results and one-off Cukai Makmur (i.e. higher tax rate for Suria KLCC). Subsequently, we roll forward our DDM valuation base year to FY22 - resulting in a revised TP of MYR7.14 (+21sen).

Recovery momentum

We believe FY22 earnings would continue to be supported by the resilient office towers which are on long-term and triple net leases; as well as lower rental assistance to Suria KLCC's tenants from increasing footfall. Meanwhile, Mandarin Oriental is anticipated to recover at a slower pace, focussing on local market.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,239	1,171	1,452	1,589	1,621
Net property income	796	606	951	1,071	1,086
Core net profit	628	617	655	739	750
Core EPU (sen)	34.8	34.2	36.3	40.9	41.6
Core EPU growth (%)	(14.2)	(1.8)	6.2	12.8	1.6
Net DPU (sen)	28.6	31.1	30.4	34.9	35.4
Net DPU growth (%)	(19.5)	8.8	(2.4)	14.8	1.7
P/NTA (x)	1.0	0.9	0.8	0.8	0.8
Net DPU yield (%)	4.0	4.7	4.8	5.5	5.6
ROAE (%)	3.3	3.8	4.9	5.4	5.2
ROAA (%)	3.5	3.4	3.6	4.1	4.1
Debt/Assets (x)	0.13	0.13	0.13	0.13	0.13
Consensus Net DPU	-	-	29.2	32.4	na
MKE vs. Consensus (%)	-	-	4.1	7.6	na

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BUY

[Prior:HOLD]

Share Price MYR 6.37
 12m Price Target MYR 7.14 (+17%)
 Previous Price Target MYR 6.93

Company Description

KLCCP principally invests in and manages a portfolio of real-estate assets, such as offices, retail and hotels.

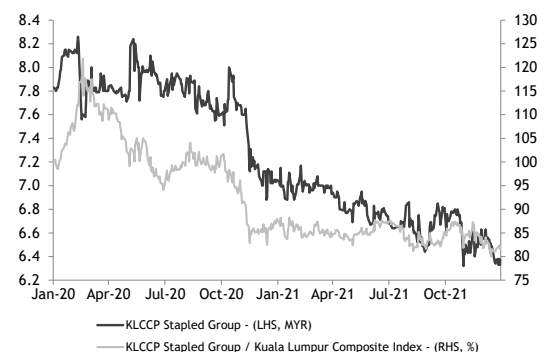
Statistics

52w high/low (MYR)	7.17/6.32
3m avg turnover (USDm)	0.1
Free float (%)	22.2
Issued shares (m)	1,805
Market capitalisation	MYR11.5B
	USD2.7B

Major shareholders:

Government of Malaysia	66.9%
Employees Provident Fund	10.0%
Permodalan Nasional Bhd.	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(6)	(9)
Relative to index (%)	(3)	(3)	(6)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	12MFY21	12MFY20	% YoY
Revenue	348.2	304.7	14.3	260.3	33.7	1,171.1	1,239.2	(5.5)
EBIT	227.6	117.0	94.5	172.1	32.3	785.2	764.5	2.7
Interest income	5.6	6.0	(7.1)	4.5	25.8	18.5	23.0	(19.6)
Finance costs	(26.3)	(27.5)	(4.4)	(26.0)	0.9	(105.2)	(110.7)	(5.0)
Exceptional items	(144.5)	(142.5)	1.3	0.0	NM	(144.5)	(142.5)	1.3
Share of associates profit	1.5	2.2	(33.5)	3.5	(57.8)	11.8	12.6	(6.3)
Pretax profit	64.0	(44.7)	<-100	154.1	(58.5)	565.8	546.8	3.5
Tax	14.1	(8.9)	<-100	(12.5)	<-100	(31.8)	(72.1)	(56.0)
Minority interest	(7.7)	11.8	<-100	(6.2)	25.4	(38.2)	(42.5)	(10.3)
Net profit	70.3	(41.8)	<-100	135.4	(48.1)	495.9	432.2	14.7
Net profit ex-EI	191.6	154.4	24.1	135.4	41.5	617.1	628.4	(1.8)
EPU (sen)	3.9	(2.3)	<-100	7.5	(48.0)	27.3	23.9	13.9
Gross DPU (sen)	12.6	6.7	88.1	7.0	80.0	33.6	30.0	12.0
	4QFY21	4QFY20	+/- ppt	3QFY21	+/- ppt	12MFY21	12MFY20	+/- ppt
EBIT margin (%)	65.4	38.4	27.0	66.1	(0.7)	67.0	61.7	5.4
Net income ex-EI margin (%)	55.0	50.7	4.3	52.0	3.0	52.7	50.7	2.0
SEGMENTAL	4QFY21	4QFY20	% YoY	3QFY21	% QoQ	12MFY21	12MFY20	% YoY
Revenue								
Office	145.4	142.8	1.8	144.9	0.3	580.4	591.6	(1.9)
Retail	120.0	98.6	21.7	68.1	76.1	364.0	413.8	(12.0)
Hotel	23.0	9.7	>100	5.9	>100	46.5	52.9	(12.0)
Management services	80.5	71.4	12.6	58.1	38.6	252.9	253.2	(0.1)
Intercompany adjustments	(20.7)	(17.8)	16.2	(16.7)	23.9	(72.8)	(72.2)	0.8
Total	348.2	304.7	14.3	260.3	33.7	1,171.1	1,239.2	(5.5)
Pretax profit								
Office	117.4	32.7	>100	118.0	(0.5)	470.5	396.4	18.7
Retail	87.2	64.9	34.4	39.7	>100	241.9	290.4	(16.7)
Hotel	(11.6)	(18.0)	(35.7)	(20.0)	(42.1)	(66.0)	(63.6)	3.7
Management services	16.6	17.5	(5.3)	16.3	2.0	66.2	67.4	(1.7)
Intercompany adjustments	(1.2)	0.7	<-100	0.2	<-100	(2.4)	(1.2)	97.8
Fair value adjustments	(144.5)	(142.5)	1.3	0.0	NM	(144.5)	(142.5)	1.3
Total	64.0	(44.7)	(243.1)	154.1	(58.5)	565.8	546.9	3.5

Source: KLCCP Stapled Group

Risk statement

There are several risks to our earnings estimates, target price and rating for KLCCP. Changes in rental rates, occupancy rates and operating expenses may lead to lower earnings for KLCCP. We estimate about 1/3 of Suria KLCC's NLA is due for lease renewal in FY22, while about 17% of KLCCP's debt is on floating rates. Another earnings risk would be if the impact from Covid-19 becomes prolonged. There are potential DPU impacts due to changes in long-term or triple net leases.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Price/DPU(x)	24.8	21.1	21.0	18.3	18.0
P/BV (x)	1.0	0.9	0.8	0.8	0.8
P/NTA (x)	1.0	0.9	0.8	0.8	0.8
DPU yield (%)	4.2	5.1	5.1	5.8	5.9
FCF yield (%)	6.3	6.6	7.3	7.4	7.5
INCOME STATEMENT (MYR m)					
Revenue	1,239.2	1,171.1	1,452.4	1,589.4	1,620.8
Net property income	795.8	606.1	951.1	1,071.4	1,086.4
Net financing costs	(87.7)	(86.7)	(82.9)	(79.2)	(77.7)
Associates & JV	12.6	11.8	16.7	18.3	18.3
Exceptionals	(142.5)	(144.5)	0.0	0.0	0.0
Pretax profit	546.8	565.8	837.2	962.7	979.1
Income tax	(72.1)	(31.8)	(102.5)	(112.9)	(115.6)
Minorities	(42.5)	(38.2)	(79.6)	(111.0)	(113.2)
Net profit	432.2	495.9	655.1	738.8	750.3
Core net profit	628.4	617.1	655.1	738.8	750.3
Distributable inc to unitholders	550.2	638.4	600.1	683.6	694.9
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	871.7	959.5	1,082.1	1,132.4	1,187.4
Accounts receivable	81.5	89.3	71.6	78.4	79.9
Property, Plant & Equip (net)	638.3	605.0	603.2	605.6	608.8
Investment properties	15,693.2	15,586.6	15,586.6	15,586.6	15,586.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	266.3	271.4	288.1	306.4	324.7
Other assets	444.5	425.2	425.8	425.9	426.0
Total assets	17,995.5	17,937.1	18,057.4	18,135.3	18,213.4
ST interest bearing debt	430.2	27.4	27.4	27.4	27.4
Accounts payable	257.7	236.9	290.3	299.2	307.9
LT interest bearing debt	1,919.3	2,348.5	2,348.5	2,348.5	2,348.5
Other liabilities	310.3	284.8	284.8	284.8	284.8
Total Liabilities	2,917.5	2,897.6	2,950.9	2,959.9	2,968.6
Shareholders Equity	13,014.1	13,009.8	13,539.6	14,078.2	14,621.7
Minority Interest	2,063.9	2,029.6	1,566.9	1,097.2	623.1
Total shareholder equity	15,078.0	15,039.5	15,106.5	15,175.4	15,244.8
Total liabilities and equity	17,995.5	17,937.1	18,057.4	18,135.3	18,213.4
CASH FLOW (MYR m)					
Cash flow from operations	808.5	774.8	837.1	847.1	862.3
Capex	(40.1)	(47.0)	(43.6)	(47.7)	(48.6)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	11.9	6.6	28.8	32.5	34.0
CF from investing activities	(28.2)	(40.4)	(14.8)	(15.2)	(14.7)
Dividends paid	(690.5)	(572.0)	(588.1)	(669.9)	(681.0)
Interest expense	(104.4)	(102.0)	(111.7)	(111.7)	(111.7)
Change in debt	7.0	32.4	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(4.2)	(6.0)	0.0	0.0	0.0
CF from financing activities	(792.1)	(647.7)	(699.8)	(781.6)	(792.6)
Net cash flow	(11.8)	86.8	122.6	50.3	55.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.9)	(5.5)	24.0	9.4	2.0
Net property income growth	(21.8)	(23.8)	56.9	12.7	1.4
Core net profit growth	(14.2)	(1.8)	6.2	12.8	1.6
Distributable income growth	(24.6)	16.0	(6.0)	13.9	1.7
Profitability ratios (%)					
Net property income margin	64.2	51.8	65.5	67.4	67.0
Core net profit margin	50.7	52.7	45.1	46.5	46.3
Payout ratio	119.4	113.2	83.7	85.2	85.3
DuPont analysis					
Total return margin (%)	34.9	42.3	45.1	46.5	46.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.4	1.4	1.3	1.3	1.2
ROAE (%)	3.3	3.8	4.9	5.4	5.2
ROAA (%)	3.5	3.4	3.6	4.1	4.1
Leverage & Expense Analysis					
Asset/Liability (x)	6.2	6.2	6.1	6.1	6.1
Net gearing (%) (excl. perps)	9.8	9.4	8.6	8.2	7.8
Net interest cover (x)	8.7	9.1	10.9	12.9	13.4
Debt/EBITDA (x)	2.9	2.9	2.5	2.2	2.2
Capex/revenue (%)	3.2	4.0	3.0	3.0	3.0
Net debt/ (net cash)	1,477.8	1,416.4	1,293.8	1,243.5	1,188.5
Debt/Assets (x)	0.13	0.13	0.13	0.13	0.13

Source: Company; Maybank

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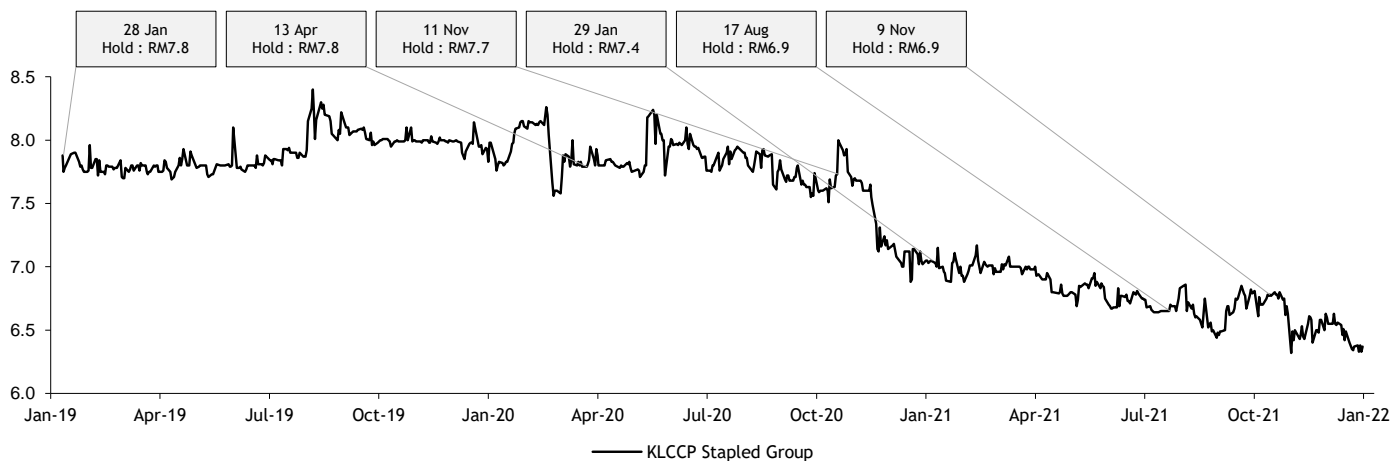
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