

| Malaysia

HOLD (no change)

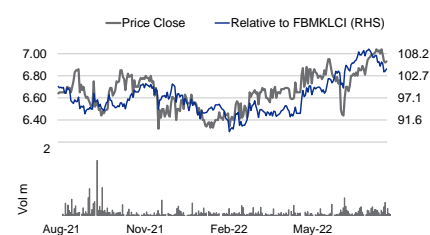
Consensus ratings*: Buy 6 Hold 7 Sell 0

Current price:	RM6.93
Target price:	RM7.24
Previous target:	RM6.93
Up/downside:	4.4%
CGS-CIMB / Consensus:	4.6%
Reuters:	KLCC.KL
Bloomberg:	KLCCSS MK
Market cap:	US\$2,808m RM12,511m
Average daily turnover:	US\$0.16m RM0.70m
Current shares o/s:	1,805m
Free float:	18.8%

*Source: Bloomberg

Key changes in this note

- TP raised to RM7.24.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.2	0.9	4.4
Relative (%)	-3.8	5.2	3.9

Major shareholders

	% held
KLCC (Holdings) Sdn Bhd	64.7
Petroleum Nasional Berhad	10.8
Skim Amanah Saham Bumiputera	5.7

Analyst(s)

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KLCCP Stapled Group

Stapling a better outlook to 2HFY22

- 1HFY22 results were in line; core net profit grew 12% yoy.
- Retail segment recovery remained robust; MO could break even in 4QFY22.
- Retain Hold rating with higher TP (FY22-23F dividend yield of 4.7-5.3%).

1HFY22 results in line; core net profit grew 12% yoy

KLCCP's 1HFY22 core net profit was in line with estimates, making up 49-51% of our and Bloomberg consensus full-year forecasts, anchored by continued improvement in operating conditions. This was on the back of: 1) full economic reopening since 4QCY21, 2) minimal rental assistance in 1QFY22 and 2QFY22, 3) increase in domestic tourism activities and international tourists and corporates for Mandarin Oriental Hotel (MO), and 4) resilient office assets, with triple net leases. 2QFY22 revenue grew 25% yoy (+8.9% qoq) on the back of vibrant (festivity-driven) retail activity and sequentially lower (qoq) rental assistance as well as a strong recovery in hotel revenue. Nevertheless, 2QFY22 core net profit grew at a slower pace than revenue, at +13.4% yoy (+1.2% qoq), due to additional operating expenses incurred for the facilities management division. Overall, 1HFY22 revenue climbed 19.5% yoy, supported by robust retail sales growth (1H22 retail sales at 104% of pre-pandemic levels). 1HFY22 core net profit advanced 12% yoy on lower interest cost (83% of debt on fixed cost) and higher interest income. 2QFY22 DPS of 8 sen brings 1HFY22 DPS to 16 sen, in line with our full-year forecast of 32 sen.

MO could break even in 4QFY22F

During the results conference call, the group indicated that hotel/hospitality activities have improved strongly for Mandarin Oriental (MO), driven by domestic and international tourism and corporate activities/events. Foreign tourists increased 82% yoy in 1HFY22, mainly from Singapore, UK, USA and Australia; occupancy rate stood at 32% (1H22: 18%). With these drivers gaining momentum in 2HFY22F, the group expects MO to potentially break even in 4QFY22F. 1HFY22 hotel revenue surged 195% yoy (2QFY22: +276% yoy) while pretax loss narrowed 39% yoy to RM21m (2QFY22: -55% yoy). For Suria KLCC, while we expect retail sales growth to taper off in 2HFY22F on OPR hikes and inflationary risks, tenant sales levels remain higher vs. pre-pandemic, partially compensating for the still-lagging footfall (30-40% below pre-covid levels). Currently, c.60% of Suria KLCC's footfall comes from domestic retail traffic; pre-pandemic, 70-75% of footfall came from tourists. With a 54% tenancy renewal rate in 1HFY22, the group projects lower-single-digit positive rental reversion in FY22F.

Retain Hold with higher TP; FY22-24F dividend yields of 4.7-5.3%

Potential acquisition/injection of new assets remains on the table but no details or timeline were revealed. Our Hold call is intact (FY22-24F dividend yield: 4.7-5.3%) given: 1) losses for MO, low tourist footfall and still minimal rental assistance likely in 2HFY22F. We raise DDM-based TP to RM7.24 on a lower COE of 6.6% (6.8% previously) as we impute a lower adjusted beta. Upside risk: turnaround in MO. Downside risk: negative rental reversions.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues (RMm)	1,239	1,171	1,361	1,411	1,429
Operating EBITDA (RMm)	764	785	953	988	1,001
Net Profit (RMm)	432.2	495.9	636.6	713.8	731.7
Core EPS (RM)	0.32	0.35	0.35	0.40	0.41
Core EPS Growth	(22.6%)	11.4%	(0.6%)	12.1%	2.5%
FD Core P/E (x)	21.77	19.54	19.65	17.53	17.10
DPS (RM)	0.30	0.34	0.32	0.36	0.37
Dividend Yield	4.33%	4.85%	4.68%	5.21%	5.31%
EV/EBITDA (x)	20.65	19.98	16.34	15.80	15.63
P/FCFE (x)	23.46	20.23	14.43	17.73	17.47
Net Gearing	9.80%	9.42%	8.71%	9.06%	9.38%
P/BV (x)	0.96	0.96	0.96	0.96	0.96
ROE	4.38%	4.92%	4.90%	5.50%	5.64%
% Change In Core EPS Estimates			0%	0%	0%
CGS-CIMB/Consensus EPS (x)			0.95	0.99	0.99

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results Comparison

FYE Dec (RM m)	2QFY22	2QFY21	yoy % chg	1QFY22	qoq % chg	2QFY22 cum	2QFY21 cum	yoy % chg	Prev. FY22F	Comments
Revenue	350.3	280.2	25.0	321.7	8.9	672.0	562.5	19.5	1,361	1) Minimal rental assistance in 1H22
Operating costs	(102.7)	(77.4)	32.7	(88.7)	15.8	(191.4)	(150.8)	26.9	(408)	2) Rebound in tenant sales and footfall in 1H22
EBITDA	247.6	202.8	22.1	233.0	6.3	480.7	411.7	16.7	953	3) 32% hotel occupancy rate in 1H22, 1H21: 14%
EBITDA margin (%)	70.7	72.4		72.4		71.5	73.2	-2.3	70	
Depn & amort.	(11.3)	(11.5)	-1.7	(11.4)	-0.9	(22.7)	(23.1)	-1.9	(47)	
EBIT	236.4	191.3	23.5	221.6	6.6	458.0	388.6	17.8	906	
EBIT margin (%)	67.5	68.3		68.9		68.2	69.1		67	
Interest expense	(26.2)	(26.4)	-0.7	(25.9)	1.2	(52.1)	(52.9)	-1.6	(106)	Total debt of RM2.4bn as at end-Jun
Interest & invt inc	5.1	4.3	19.1	4.6	11.2	9.7	8.4	15.5	31	Cash stood at RM951.4m as at end-Jun
Associates' contrib	3.5	3.5	0.1	3.5	0.3	7.1	6.7	4.6	12	Contribution from 33%-owned Menara Maxis
Exceptionals	0.4	(0.7)	nm	(1.4)	129	(1.0)	(3.2)	nm	-	
Pretax profit	219.3	172.1	27.4	202.5	8.3	421.7	347.8	21.3	843	
Tax	(31.1)	(16.6)	87.7	(21.8)	42.8	(52.8)	(33.4)	58.3	(113)	
Tax rate (%)	14.2	9.6		10.7		12.5	9.6	30.5	13	
Minority interests	(23.0)	(11.5)	99.8	(19.3)	19.3	(42.3)	(24.3)	74.4	(93)	
Net profit	165.2	144.0	14.7	161.4	2.3	326.6	290.1	12.6	637	1HFY22 core net profit made 49-51% of our and
Core net profit	164.8	144.7	13.8	162.9	1.2	327.6	293.3	11.7	637	consensus full-year forecasts
EPS (sen)	9.1	8.0	14.7	8.9	2.3	18.1	16.1	12.6	35	
Core EPS (sen)	9.1	8.0	13.8	9.0	1.2	18.1	16.2	11.7	35	
DPS	8.0	7.0	14.3	8.0	0.0	16.0	14.0	14.3	32	1HFY22 DPS made up 49% of our full-year forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: 1HFY22 segmental breakdown

	2QFY22	2QFY21	%	1QFY22	%	1HFY22	1HFY21	%	Comments
Revenue	(RM m)	(RM m)	yoy	(RM m)	qoq	(RM m)	(RM m)	yoy	
Office	145.4	145.1	0.2%	145.3	0%	290.8	290.1	0.2%	Anchored by Triple Net lease's (TNL) 15 years extension
Retail	125.2	85.5	46.4%	110.8	13%	236.0	175.9	34.2%	1H22 tenant sales at 104% of pre-Covid 19 levels; footfall at 60%
Hotel	32.1	8.5	275.9%	20.0	61%	52.1	17.6	195.2%	82% increase in foreign tourists since reopening of international borders
Management services	66.6	59.7	11.5%	63.8	4%	130.4	114.4	14.0%	Car park income improved substantially in line with stronger footfall
Elimination	(19.0)	(18.7)	1.7%	(18.3)	4%	(37.2)	(35.5)	4.9%	
Total	350.3	280.2	25.0%	321.7	9%	672.0	562.5	19.5%	
Pretax profit	(RM m)	(RM m)	yoy	(RM m)	qoq	(RM m)	(RM m)	yoy	
*Office	118.4	117.6	0.7%	118.8	0%	237.2	235.1	0.9%	Stable contribution; no surprises
Retail	95.6	56.5	69.3%	79.6	20%	175.3	115.0	52.4%	1H22 occupancy rate: 92%, higher rental from new leases
Hotel	(8.3)	(18.2)	-54.7%	(12.9)	-36%	(21.1)	(34.3)	-38.5%	Higher F&B income, corporate events and increase in foreign tourists
Management services	16.0	17.6	-8.8%	16.9	-5%	33.0	33.4	-1.2%	Additional operating expenses incurred
Elimination	(2.6)	(1.4)	90.1%	(0.0)	nm	(2.6)	(1.4)	85.2%	
Total	219.3	172.1	27.4%	202.5	8%	421.7	347.8	21.3%	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

KLCCP's 5-Year Sustainability Roadmap (2019-2023) is aligned to its strategies for longer-term benefits, commitment towards advancing sustainability focusing on building a smart, safe and sustainable KLCC precinct, efforts to build an agile, inclusive and sustainable workforce, combating climate change, and reducing its environmental impact. Its long-term sustainable goals are linked to economic, environment, social (EES) and corporate governance (CG) aspects. Its five sustainability pillars are focused on: a) corporate governance, b) environmental stewardship, c) security, safety and health, d) people/workforce, and e) reliable partnerships.

Keep your eye on

The group tracks its sustainability performance against the five United Nations Sustainable Development Goals (UNSDGs) it prioritises: 1) ensuring a more focused commitment towards a lower-carbon future (efficient energy use and reducing the footprint of operations), 2) providing access to a safe, secure and conducive environment, 3) creating growth opportunities, and 4) operating with the highest standard of integrity and respect for human rights.

Implications

Suria KLCC, being one of the premier retail centres in Kuala Lumpur, will continue to maintain operations that are aligned to sustainability initiatives; it should be able to capitalise on the likely recovery in consumer and travel sentiment in a post-Covid-19 world.

ESG highlights

KLCCP's overall ESG efforts are also guided by the PETRONAS Sustainability Agenda (PSA), which focuses on continued value creation, safeguarding the environment, positive social impact and responsible governance. Its overall ESG efforts/initiatives are led by a Sustainability Steering Committee (SSC) comprising members of its senior leadership.

Key highlights for 2020: 1) rooftop solar panel of Suria KLCC mall contributed to electricity savings of 16.3m kWh – equivalent to a total savings of RM1.8m since 2014, 2) Suria KLCC recycled 97.9m metric tonnes of food waste to help reduce waste disposal at landfills, and 3) reduction of 4.2% in greenhouse gas (GHG) emission as a result of proactive measures in minimising its carbon footprint.

Implications

We believe KLCCP has the ability to maintain and improve ESG initiatives over the longer term. KLCCP has been recognised locally and globally via several awards: 1) The Asset ESG Corporate Awards 2020 – Excellence in Environmental, Social and Governance (ESG) (Platinum Award), 2) MalaysiaGBC Leadership in Sustainability Awards 2020 – Best Sustainability Leadership for Facility Management (Gold Award), 3) International Large Urban Parks Award 2020 – World's Top Urban Park (KLCC Park – Silver Award), 4) Bureau Veritas Supported by Ministry of Tourism, Arts and Culture of Malaysia – Clean and Safe Hotel Certification for MOKL, 5) Lloyds Register – MOKL; Stay Safe Mark Standard Certificate.

Trends

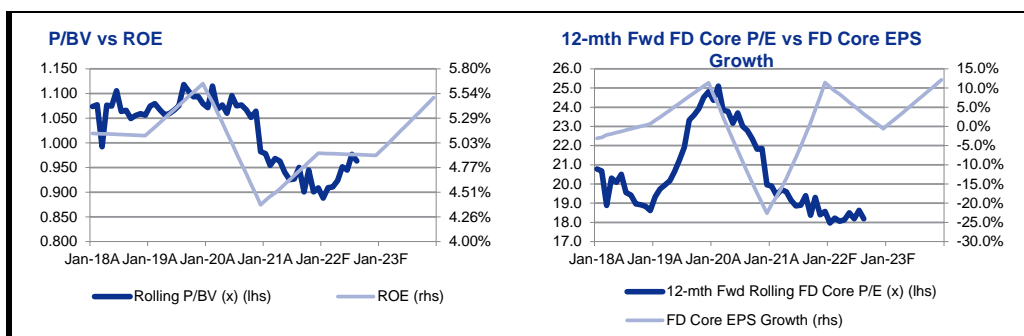
KLCCP has been part of FTSE4Good but was excluded from the index subsequent to the Jun 2021 review (primarily due to liquidity reasons). Track record wise, KLCCP was included as a FTSE4Good constituent in 2015 and was positioned as the top 11th percentile among sector peers in 2019 and top 8th percentile in 2020.

Implications

We regard KLCCP as having the most comprehensive and detailed ESG disclosures among REITs under our coverage. Its achievements in 2020 that are aligned to its ESG goals are well documented and linked to operational performance across all its assets.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	1,239	1,171	1,361	1,411	1,429
Gross Profit	1,239	1,171	1,361	1,411	1,429
Operating EBITDA	764	785	953	988	1,001
Depreciation And Amortisation	(50)	(47)	(47)	(47)	(48)
Operating EBIT	714	739	906	941	953
Financial Income/(Expense)	(37)	(40)	(75)	(76)	(75)
Pretax Income/(Loss) from Assoc.	13	12	12	12	12
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	689	710	843	876	890
Exceptional Items	(143)	(144)	0	0	0
Pre-tax Profit	547	566	843	876	890
Taxation	(72)	(32)	(113)	(71)	(69)
Exceptional Income - post-tax					
Profit After Tax	475	534	730	805	821
Minority Interests	(43)	(38)	(93)	(91)	(89)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	432	496	637	714	732
Recurring Net Profit	575	640	637	714	732
Fully Diluted Recurring Net Profit	575	640	637	714	732

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	764.5	785.2	952.9	987.9	1,000.6
Cash Flow from Invt. & Assoc.	(12.6)	(11.8)	(11.8)	(11.8)	(11.8)
Change In Working Capital	(37.7)	(28.5)	249.2	14.6	5.3
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(87.7)	(86.7)	(75.0)	(76.0)	(75.0)
Tax Paid	(72.1)	(31.8)	(112.9)	(71.2)	(68.8)
Cashflow From Operations	554.4	626.4	1,002.3	843.4	850.3
Capex	(40.1)	(47.0)	(41.9)	(44.4)	(43.1)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	1.0
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	1.0
Other Investing Cashflow	11.9	6.6	6.7	6.7	6.8
Cash Flow From Investing	(28.2)	(40.3)	(35.2)	(37.7)	(34.3)
Debt Raised/(repaid)	7.0	32.4	(100.0)	(100.0)	(100.0)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(630.3)	(499.4)	(585.1)	(652.1)	(664.7)
Preferred Dividends					
Other Financing Cashflow	(113.9)	(113.9)	(113.9)	(113.9)	(113.9)
Cash Flow From Financing	(737.2)	(580.9)	(799.0)	(866.0)	(878.6)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	872	960	1,068	1,016	968
Properties Under Development					
Total Debtors	82	89	104	108	109
Inventories	1	1	2	2	2
Total Other Current Assets	0	0	0	0	0
Total Current Assets	955	1,050	1,174	1,126	1,080
Fixed Assets	658	620	582	544	506
Total Investments	15,959	15,858	16,247	16,294	16,340
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	428	394	394	394	394
Total Non-current Assets	17,045	16,872	17,223	17,232	17,239
Short-term Debt	430	27	27	27	27
Current Portion of Long-Term Debt					
Total Creditors	258	237	502	520	527
Other Current Liabilities	17	0	0	0	0
Total Current Liabilities	705	264	529	547	554
Total Long-term Debt	1,919	2,348	2,348	2,348	2,348
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	293	285	510	453	407
Total Non-current Liabilities	2,213	2,633	2,859	2,801	2,755
Total Provisions	0	0	0	0	0
Total Liabilities	2,918	2,898	3,388	3,348	3,309
Shareholders' Equity	13,014	13,010	12,980	12,980	12,980
Minority Interests	2,064	2,030	2,030	2,030	2,030
Total Equity	15,078	15,039	15,009	15,009	15,009

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(12.9%)	(5.5%)	16.2%	3.7%	1.3%
Operating EBITDA Growth	(25.1%)	2.7%	21.4%	3.7%	1.3%
Operating EBITDA Margin	61.7%	67.0%	70.0%	70.0%	70.0%
Net Cash Per Share (RM)	(0.82)	(0.78)	(0.72)	(0.75)	(0.78)
BVPS (RM)	7.21	7.21	7.19	7.19	7.19
Gross Interest Cover	6.45	7.02	8.56	8.89	9.01
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	92.2%	90.3%	78.1%	83.1%	83.0%
Accounts Receivables Days	19.86	26.63	25.90	27.35	27.75
Inventory Days	N/A	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A	N/A
ROIC (%)	60%	62%	78%	121%	135%
ROCE (%)	4.20%	4.35%	5.38%	5.58%	5.66%
Return On Average Assets	3.96%	4.12%	4.95%	5.08%	5.16%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Portfolio occupancy rate (%)	88.0%	87.9%	87.9%	87.9%	87.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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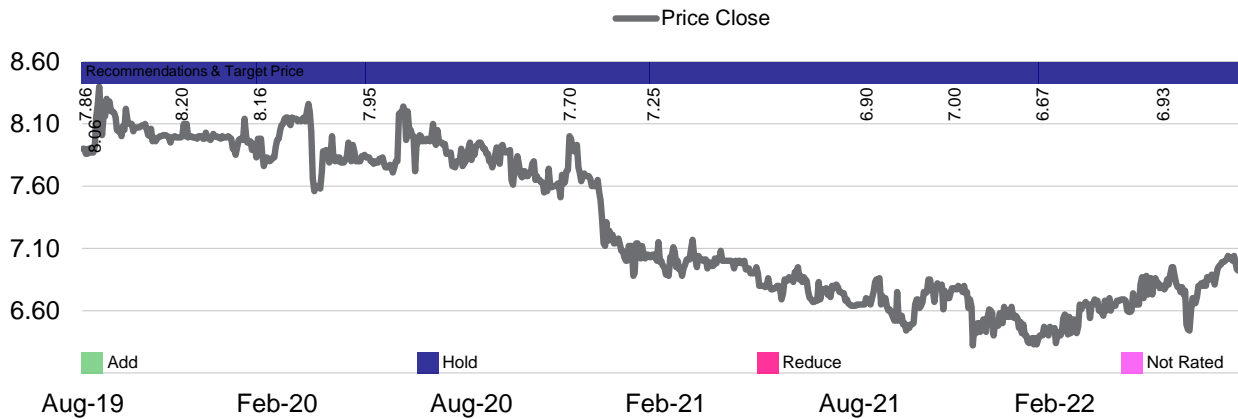
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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

KLCCP Stapled Group (KLCCSS MK)



Recommendation Framework

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Add The stock's total return is expected to exceed 10% over the next 12 months.

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