

# KLCC REIT trading at premium with yields at 1%

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## KLCC Real Estate Investment Trust (REIT) (Sept 14, RM7.08)

*Maintain hold call with an unchanged target price of RM6.50:* The soft consumer spending outlook because of weak sentiment and the goods and services tax implementation could have an impact on KLCC REIT's retail and hospitality assets.

The former may be hurt by poorer rental reversions, and the latter by fewer visitations and bookings.

Relative to other Malaysian REITs, KLCC REIT has been trading at a substantial premium with yields at about 1% above the 10-year Malaysian Government Securities.

This could be attributed to its access to the super prime [KLCC](#) assets in the heart of [Kuala Lumpur](#), some of the best among peers.

That said, given the flat rental growth outlook, we see limited upside from current levels. About half of its operating profit is derived from office buildings, comprising four assets including Malaysia's iconic PETRONASTwin Towers.

They boast long lease terms of up to 15 years, triple net lease structures, and solid tenant profiles that include Petroliam Nasional Bhd and ExxonMobil Corp.

Fixed rental escalations (ranging from 9% to 14% every three years) built into the tenancies provide steady revenue growth for the stapled security.

Kompleks Dayabumi is expected to start construction of a new one million sq ft net lettable area (NLA) tower in 2015 comprising 500,000 sq ft NLA of office space, with the rest being retail and hospitality space.

The vacant Lot D1 (1.3 million-sq ft gross lettable area) is awaiting a suitable anchor tenant.

KLCC REIT also has rights of first refusal to parent KLCC Property Holdings Bhd's planned developments around the KLCC area. Given the low implied yields at the current price, the acquisition will be value-accretive to the REIT. — *AllianceDBS Research, Sept 14*

### KLCC Stapled Security

FYE DEC (RM MIL)	2014A	2015F	2016F	2017F
Revenue	1,354	1,360	1,423	1,481
Ebitda	1,036	1,066	1,107	1,146
Pre-tax profit	1,143	948	984	1,021
Net profit	800	710	734	757
Net profit (Pre ex)	689	710	734	757
EPS (sen)	44.3	39.3	40.7	41.9
EPS pre ex (sen)	38.2	39.3	40.7	41.9
EPS growth (%)	6	(11)	3	3
EPS growth pre ex (%)	10	3	3	3
Diluted EPS (sen)	38.2	39.3	40.7	41.9
Net DPS (sen)	33.6	33.4	35.8	37.0
BV per share (sen)	666.1	668.0	670.1	672.3
PER (x)	15.9	17.9	17.3	16.8
PER pre ex (x)	18.4	17.9	17.3	16.8
P/Cash flow (x)	15.1	14.9	13.7	13.3
EV/Ebitda (x)	22.7	22.1	21.4	20.7
Net div yield (%)	4.8	4.7	5.1	5.3
P/BV (x)	1.1	1.1	1.1	1.0
Net debt/Equity (x)	0.3	0.3	0.3	0.3
ROAE (%)	18.4	15.9	16.4	17.0

Source: Company, AllianceDBS, Bloomberg Finance L.P