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Decent start to the year for KLCC Stapled Group

KLCC Stapled Group
(May 9, RM7.85)
Maintain hold with a higher target price (TP) of RM8.14: KLCC Stapled Group, comprising KLCC Property Holdings Bhd and KLCC Real Estate Investment Trust, reported a moderate set of results — first quarter of financial year 2019 (1QFY19) revenue grew by 2.4% year-on-year (y-o-y) on higher contributions from the retail (+5.1% y-o-y) and management services segments (+5.2% y-o-y), more than offsetting the lower hotel revenue amid stiff competition in the luxury hotel market.

The notable growth in retail revenue was driven by higher average base rent (+2% y-o-y), improving occupancy and additional revenue from digital advertising. KLCC's 1QFY19 core net profit (CNP) grew by 1.8% to RM184 million on higher revenue and the manager increased its 1QFY19 distribution per unit (DPU) by 1.1% to 8.8 sen. Overall, the results were within market and our expectations — its 1QFY19 CNP accounted for 25% of the street's and our full-year forecasts.

KLCC's 1QFY19 CNP contracted by a marginal 0.8% quarter-on-quarter (q-o-q) to RM184 million as all segments reported lower revenues due to seasonality. Lower maintenance expenses and higher recovery of utility charges cushioned the impact of lower revenues. The management has historically paid out uniform DPUs during 1Q to 3Q, followed by a bumper distribution in 4Q. This explains the sharp q-o-q decline in 1QFY19 DPU.

We maintain our "hold" rating on KLCC with a higher sum-of-the-parts valuation-derived TP of RM8.14 as we roll over our valuation horizon and incorporate a lower cost of equity of 7.6% (from 7.9%) in anticipation of higher investor demand for defensive assets, taking our cue from the compression in Malaysian Government Securities (MGS) yields and Bank Negara Malaysia's overnight policy rate (OPR) cut. At a 5% FY19 estimated yield, KLCC is trading near its five-year historical average — valuation looks fair. Upside risks include further compression in MGS yields/OPR cuts. Downside risks include deterioration in the retail mall and hospitality markets. — Affin Hwang Capital, May 8

(Source : https://www.theedgemarkets.com/article/decent-start-year-klcc-stapled-group)