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KLCC REIT bolstered by stable office segment

KLCC REIT is also a favourite among institutional investors, given its triple-net-lease (TNL) structure and syariah-compliant status, said Kenanga Research in a report.

PETALING JAYA: KLCC Real Estate Investment Trust's (KLCC REIT) premium asset quality and its stable office segment due to its location will continue to support the trust's market value, moving forward, in these uncertain times.

KLCC REIT is also a favourite among institutional investors, given its triple-net-lease (TNL) structure and syariah-compliant status, said Kenanga Research in a report.

"KLCC REIT remains bolstered by the extremely stable office segment, which makes up 50% of its topline, on long-term leases of more than 15 years.

"Given the resurgence of Covid-19 cases recently, we expect the retail segment to see some potential rental rebates in the second quarter of 2021 while the hospitality segment is expected to remain challenging.

"Suria KLCC will see a circa 30% of leases up for expiry this year and we are expecting flattish to mildly negative reversions for now, " it added.

Kenanga has maintained its "outperform" rating on KLCC REIT with a higher target price per unit of RM8.15 from RM7.55, after rolling forward its valuation base to the financial year 2022 estimated gross and net dividend per unit of 34.6 sen and 32.4 sen, respectively.

This is based on an unchanged +0.9 percentage points yield spread to its 10-year MGS target of 3.30%.

"Our applied spread is within the range among Malaysian Reits under our coverage of an average of up to +0.5 standard deviation, as we expect to see sector improvements in the second half of 2021 onwards and next year, " Kenanga said.

This is premised upon the assumption of looser movement restrictions and an effective rollout of the national vaccination programme by then, it noted.

CGS-CIMB, meanwhile, said it retained its "hold" call on KLCC REIT even as it remained cautious on the recovery of the hotel industry, which could continue to disrupt Mandarin Oriental KL's business.

"While a resurgence in Covid-19 cases would be negative for Suria KLCC, this would be mitigated by the resilience of the office segment, " CGS-CIMB said.

The research house retained its target price of RM7.25 on KLCC REIT, supported by the resilience of its office assets and an anticipated financial year 2021 (FY21) to FY23 forecast dividend yield of 4.9%-5.2%.

It noted that in the most recent reported first quarter, Mandarin Oriental KL had seen its losses narrowing to 18% from the last preceding quarter due to staycation packages that helped support occupancy rates at 25% in March 21.

(Source: https://www.thestar.com.my/business/business-news/2021/05/06/klcc-reit-bolstered-by-stable-office-segment)