7 August 2020, Friday

KLCCP Stapled Group's earnings to improve in H2

This is on retail segment beginning to build momentum

PROPERTY

By ZUNAIRA SAIEED
zunaira@thestar.com.my

"We are comfortable with our outperform call, as we anticipate better quarters ahead for KLCC."

Kenanga Research

PETALING JAYA: Despite KLCCP Stapled Group's softer earnings in the second quarter ended June 30, the group is likely to have promising recovery in the second half of this year from its retail segment, as shopper traffic begins to build momentum, while its office segment is expected to remain stable.

RHB Research said the group's retail segment is expected to improve in the coming quarters, as there is a steady pick-up in business activity and shopper volume at Suria KLCC.

KLCC Stapled Group consists of KLCC Property Holdings and KLCC REIT.

"We believe established malls such as Suria KLCC will see a gradual recovery in the second half of this year.

"Despite the delay in the progress of phase two of the facelift at Suria KLCC, the specialty stores will likely promise higher rental rates per square foot once completed – acting as a much-needed catalyst for this segment," it added.

As such, RHB Research is maintaining a buy call on KLCCP Stapled Group with a target price of RM8.43.

On the other hand, Kenanga Research has upgraded its call on the group to an outperform from market perform with a higher target price of RM8.55, as it favours KLCC for its premium asset quality, stable office segment and triple-net-lease (TNL) structure.

"We are comfortable with our outperform call, as we anticipate better quarters ahead for KLCC and believe most foreseeable downsides have been accounted for.

"We believe it will continue to be a favourite among institutional investors, as it is one of the few syariah-compliant mortgage real estate investment trusts (MREITs)," it added.

However, brokerage firms believe that the group's hotel segment will continue to be challenging, given the impact of the Covid-19 pandemic.

UOB Kay Hian Research noted that hotel operations may take a slower pace to break-even as long as international borders remain closed.

"We opine that the hotel segment will remain lacklustre amid the closure of international borders, coupled with lingering Covid-19 concerns," it said.

Mandarin Oriental recorded wider losses of RM17mil as the hotel was closed during the movement control order (MCO) period.

For the second quarter ended June 30, 2020, KLCC Stapled's net profit fell 22.68% to RM140.46mil from RM180.38mil a year ago due to the sharp decline in the performance of its hotel and retail segments following the implementation of the MCO.

Meanwhile, Kenanga Research noted that its realised distributable income (RDI) for the first half ended June 30 of RM315mil was within its and consensus estimates at 47% and 46%, respectively.

Quarter-on-quarter, the group's top-line was down 25%, mainly due to weakness from the retail, hospitality and management services segments, but the office segment remained fairly stable which resulted in RDI declining by 21%.

Kenanga Research is maintaining its core net profit for financial year 2020 (FY20) estimate of RM673mil and lower core net profit by 5% to RM699mil in FY21, as it expects weaker contribution from the hotel segment due to lower occupancy.

"Our retail and office segment forward earnings will continue to be driven by organic growth on flattish to low single-digit rental step-ups," it added.

(Source: The Star, Starbiz, 7 August 2020, Friday)