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KLCCPSG offers defensive earnings, sustainable yields, says Affin Hwang

KUALA LUMPUR: KLCC Property Stapled Group could be an ideal bond proxy for investors on the lookout for sustainable yield due to its defensive rental income and high occupancy at Suria KLCC.

Affin Hwang Capital research said in a note it expects KLCC to re-rate on the back of higher demand for defensive assets and solid earnings recovery.

The research house upgraded the counter to buy from hold with a higher target price of RM8.55 from RM8.14 previously.

"We believe KLCC can continue to grow its dividend over 2019-21E.

"Our price target implies a fair 2020E yield of 4.7%, -1SD from KLCC's 5-year average of 5.0% and comparable to its peak valuation of 4.4%-4.7% during 4Q16-2017," it said.

According to the research house, KLCC has one of the most defensive earnings profiles among the MREITs.

It said about 74% of its 2018 net profit was contributed by triple net and long-term leases with reputable companies while rentals for triple net leases are subject to 10% increment every three years.

The highly successful Suria KLCC Shopping Mall also has consistently maintained its occupancy rate between 96%-99% and continues to grow its base rent.

KLCC has a strong balance sheet and its gearing ratio of 12.7% is the lowest among MREITs.

It has continually grown its dividend, raising its dividend per share by 1-3% pa since 2014.

(Source:https://www.thestar.com.my/business/business-news/2019/07/09/klccpsg-offers-defensive-earnings-sustainable-yields-says-affin-hwang/#f8a3LrHPKxpzpMQE.99)