TheStar

Tuesday, 2 February 2021

Outlook for KLCCP office assets to remain stable

Kenanga Research, in a report yesterday, said Suria KLCC would see around 30% of leases up for expiry this year, adding that it expected flattish-to-mildly negative reversions for now.

PETALING JAYA: KLCCP Stapled Group's (KLCCP) office assets are expected to remain stable on long-term leases, while its retail and hospitality segments are anticipated to remain challenging in the first half of 2021 due to the resurgence of Covid-19 cases.

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“Meanwhile the office assets have locked in long-term leases with the recent extension of the triple net lease agreements for Petronas Twin Towers and Menara 3 Petronas for a further 15 years to 2042.

“This reinforces the group’s stability, with Menara ExxonMobil securing lease renewal for the next three years of its 18-year lease tenure.

“Phase three of its Menara Dayabumi development (likely to comprise a 60-storey tower of mixed development consisting of retail, office and hotel spaces) is still in the tendering process as management focuses on securing an anchor tenant before proceeding with the development.”

Kenanga Research noted that KLCCP’s 2020 realised distributable income of RM550mil came in below the research house’s and consensus estimates of 91% and 87%, respectively.“The deviation was due to a weaker-than-expected top-line of 94% on a weak retail and hospitality segment.

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“This was further dragged down by lower-than-expected realised distributable income contribution, due to an impairment of RM81.5mil for Dayabumi phase three as a result of anticipated increase in development cost.

“Fourth quarter 2020 net dividend per share of 6.13 sen brings 2020 dividends to 27.65 sen, deemed below our 2020 net dividend per share of 29.8 sen, in tandem with the weaker earnings.” Kenanga Research added that KLCCP’s top-line was down by 13% year-on-year due to weak contributions from the retail and hospitality segment, as both were severely affected by the movement control order.

“The office segment was fairly flattish (-1%) while the management services segment was up by 22% due to the group’s new business approach.

“All in, realised distributable income was down by 24%, given the lower distributable income from KLCCP (-63% year-on-year) due to the impairment.

“Quarter-on-quarter, top-line was down by 3% due to the hotel (-17%) and retail (-7%) segments, but was lifted slightly by contributions from the management services segment (+13%).”

Kenanga Research said distributable income was down by 49% to RM79.2mil, as impairment cost of RM81.5mil dragged KLCCP’s contribution into the red to a loss of RM34.1mil, while KLCC REIT’s contribution of RM113.3mil remained flattish (from RM111.5mil in the third quarter of 2020).Kenanga Research anticipated weaker contributions in the near term from the retail segment (flattish-to-low single-digit negative reversions) for the leases up for expiry and rental rebates in coming months.

It expected weaker occupancy for the hospitality segment (to 25% from 45%) given the re-emergence of Covid-19 cases in the Klang Valley as well additional cost incurred due to the prolongation of property development projects.

(Source: https://www.thestar.com.my/business/business-news/2021/02/02/outlook-for-klccp-office-assets-to-remain-stable)