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**The Edge Billion Ringgit Club 2016: Highest Return on Equity Over Three Years**



YBhg. Datuk Hashim Wahir, Chief Executive Officer for KLCC Property Holdings Berhad receiving the award for the Highest Return on Equity over Three Years in the REIT category.

HIGHEST RETURN ON EQUITY OVER THREE YEARS

REITS

# KLCCP Stapled Group

Superior properties with secure tenancies

BY KAMARUL ANWAR

**T**un Dr Mahathir Mohamad said he was only joking when he told then president and group CEO of Petronas Nasional Bhd (Petronas), the late Tan Sri Azizan Zainul Abidin, that the structure which would become the Petronas Twin Towers should be the tallest in the world. But Azizan took the words to heart and told the buildings' architect, César Pelli, to increase the number of floors to 88 — an auspicious number for Asians — in each tower.

By the time the Petronas Twin Towers opened on Aug 1, 1996, they got the world's attention. The sheer stature and the design's infusion of postmodernism and Islamic architecture forever changed Kuala Lumpur's skyline.

Now, the towers' owner, KLCC Real Estate Investment Trust (REIT) — an entity stapled with KLCC Property Holdings Bhd since May 9, 2013 — is one of the largest companies on Bursa Malaysia

with a market capitalisation of RM13.54 billion.

Together, the stapled structure's portfolio consists of several buildings that make up the Kuala Lumpur City Centre development: Menara 3 Petronas, Menara ExxonMobil, Menara Maxis, Mandarin Oriental Kuala Lumpur, and Suria KLCC — plus Petronas' old headquarters, Kompleks Dayabumi. From Dec 31, 2013, to March 31, 2016, its asset size grew by RM2.55 billion to RM17.55 billion.

The superior appreciation and premium rental rates of its properties allowed KLCCP Stapled Group to enjoy a high return on equity (ROE) compared with other REITs. In the financial year ended Dec 31, 2015 (FY2015), the average revenue per sq ft of the properties in its portfolio was RM786.53, over three times the average of Sunway REIT, another investment trust with similar property types, in the same period.

The stapled group's ROE saw a weighted three-year compound annual growth rate (CAGR) of 21.3%, from 18.82% in FY2012 to 24.5% in FY2015. However, it should be noted that, like most REITs,

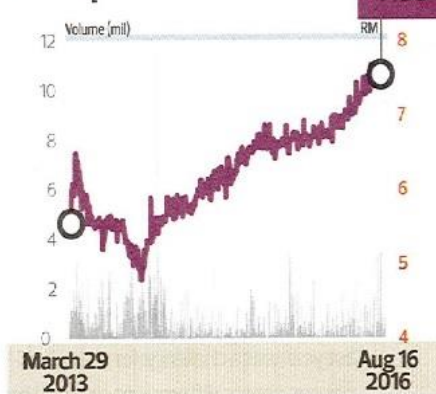
the growth of KLCCP Stapled Group's bottom line tends to outpace its distributable income, given that the former also includes surpluses from revaluations, which are non-cash.

To illustrate, KLCCP Stapled Group's FY2015 distributable income of RM641.32 million grew by an average of 6.02% from FY2013's RM570.51 million (the year that KLCC REIT's units were stapled to KLCC Property Holdings' shares). However, the CAGR of its profit attributable to shareholders in the same period was 17.08% to RM1.13 billion.

A major reason factored into KLCCP Stapled Group's big revaluation gains is its high-income rental increases and long-term lease agreements. Petronas Twin Towers, which made up 31.6% of the group's revenue of RM1.34 billion in FY2015, is leased to the ultimate shareholder, Petronas, under a 15-plus-15-year triple net lease agreement, which requires the tenants to meet all outgoing expenses.

Investor concern mounted earlier this year, since the downturn in the oil and gas sector

## KLCCP Stapled Group



resulted in lay-offs all over the world — not sparing Exxon Mobil Corp, a major tenant of KLCCP Stapled Group.

KLCC Property Holdings CEO Datuk Hashim Wahir said ExxonMobil did renew its lease with the investment trust for 27 years but the international corporation will take up only 70% of the net lettable area. Nonetheless, Hashim told reporters in April that the group was confident of filling up the remaining area.

For now, KLCCP Stapled Group's debt-to-asset ratio of 14.7% is the lowest of all Malaysian REITs. Its price-to-book ratio of 1.09 times as at Aug 16 was the lowest among the five biggest REITs, which can go as high as 1.52 times. Thus, KLCCP Stapled Group needs a catalyst to boost its yield, which stood at only 4.64%. **E**