KLCCP Stapled Group

(5235 | KLCCSS MK) REITS | REITS

Recovery on track

***Downgrade to* NEUTRAL**
(from BUY)

***Unchanged* Target Price: RM7.15**

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 earnings within expectations**
- **Recovery on track**
- **Earnings forecast maintained**
- **Downgrade to NEUTRAL with unchanged TP of RM7.15**

RETURN STATISTICS	
Price @ 9 Aug 2022 (RM)	6.93
Expected share price return (%)	3.2
Expected dividend yield (%)	4.9
Expected total return (%)	**8.1**

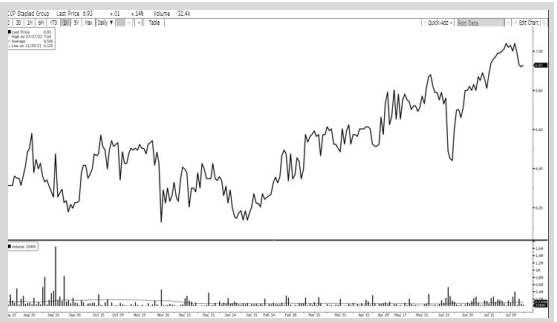
1HFY22 earnings within expectations. KLCCP Stapled Group (KLCCP) 1HFY22 core net income of RM326.6m came in within expectations, making up 46% and 49% of our and consensus full year estimates respectively. Meanwhile, distribution per unit (DPU) of 8sen was announced for 2QFY22, bringing cumulative DPU to 16sen in 1HFY22.

Recovery on track. Sequentially, 2QFY22 core net income increased to RM165.2m (+2.3%qoq) mainly due to higher contribution from retail and hotel divisions. Profit before tax (PBT) of retail division was higher (+20%qoq) due to higher advertising income and lower rental assistance. Meanwhile, loss before tax (LBT) of hotel division narrowed due to improvement in hotel occupancy rate following reopening of international borders. Cumulatively, 1HFY22 core net income increased to RM326.6m (+12.6%yoy). The increase in earnings was predominantly driven by the earnings recovery of retail division (+52.4%yoy) and narrower losses from hotel division. On the other hand, PBT of office division was stable at RM237.2m (+0.88%yoy), underpinning by triple net lease agreements and long-term leases.

Earnings forecast maintained. We make no changes to our earnings forecast for FY22/23F. We continue to expect earnings recovery for KLCCP in FY22/23F as retail division will be supported by reopening of economic activity. Besides, reopening of borders is expected to support recovery of hotel division in 2HFY22 and FY23 as a result of higher tourist arrival. We opine that hotel division may breakeven in 4QFY22 and contribute positively to KLCCP from FY23 onwards.

Downgrade to NEUTRAL with unchanged TP of RM7.15. Our TP for KLCCP is unchanged at RM7.15, based on dividend discount model. While we see earnings recovery of KLCCP is well on track, we think the positives of earnings recovery have been largely priced in. Given the limited upside, we downgrade our call to **NEUTRAL** from Buy. Meanwhile, dividend yield is estimated at 4.9%.

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.2	-3.7
3 months	1.9	6.6
12 months	4.4	4.3

KEY STATISTICS	
FBM KLCI	1,497.68
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1,805.33
Estimated free float (%)	12.57
Market Capitalisation (RM'm)	12,510.96
52-wk price range (RM)	RM6.30-RM7.06
Beta vs FBM KLCI (x)	0.55
Monthly velocity (%)	0.93
Monthly volatility (%)	3.50
3-mth average daily volume (m)	0.11
3-mth average daily value (RM'm)	0.472
Top Shareholders (%)	
Petroliam Nasional Bhd	64.68
Amanah Saham Nasional Bhd	11.35
Employees Provident Fund Board	10.04

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INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY19A	FY20A	FY21A	FY22F	FY23F
Revenue	1,482	1,239	1,171	1,490	1,558
Operating Profit	1,072	764	785	1,037	1,096
Profit Before Tax	993	547	566	955	1,014
Net Income	736	432	496	709	763
Core Net Income	736	628	617	708	761
Basic EPS (sen)	40.79	23.94	27.47	39.25	42.24
Core EPS (sen)	40.79	34.81	34.18	39.19	42.13
Gross Dividend (sen)	38.00	30.00	33.60	36.06	38.76
Net Dividend (sen)	35.78	28.24	31.63	33.95	36.49
Net Distribution Yield	5.2%	4.1%	4.6%	4.9%	5.3%
Core PER	17.0	19.9	20.3	17.7	16.4
NAV per unit	7.32	7.21	7.21	7.35	7.38
P/NAV	0.95	0.96	0.96	0.94	0.94
Core ROE	5.6%	4.8%	4.7%	5.4%	5.7%
Core ROA	4.1%	3.5%	3.4%	3.8%	3.7%

Source: MIDF Research

KLCCP Stapled Group: 2QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY22	%YoY	%QoQ	FY22	%YoY
Revenue	350.3	25.0%	8.9%	672.0	19.5%
Operating Profit	236.8	24.2%	7.5%	457.0	18.5%
Profit Before Tax	219.3	27.4%	8.3%	421.7	21.3%
Core PBT	219.3	27.4%	8.3%	421.7	21.3%
Net Income	165.2	14.7%	2.3%	326.6	12.6%
Core Net Income	165.2	14.7%	2.3%	326.6	12.6%
Basic EPS (sen)	9.1	14.7%	2.3%	18.1	12.6%
Core EPS (sen)	9.1	14.7%	2.3%	18.1	12.6%
Gross Dividend (sen)	8.0	14.3%	0.0%	16.0	14.3%

Source: Company, MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology