

26 January 2018 | Briefing Note

KLCCP Stapled Group

Stable outlook for all divisions

INVESTMENT HIGHLIGHTS

- **Stable earnings in FY17**
- **Office division to remain stable**
- **Growing tenant sales**
- **Higher hospitality demand**
- **Maintain NEUTRAL with a revised TP of RM7.59**

Stable earnings in FY17. We attended results briefing of KLCCP Stapled Group (KLCCP) and came away feeling neutral on the earnings prospect of KLCCP. To recap, core net income of KLCCP in FY17 was flattish at RM720.4m (+0.2%yoy) mainly due to higher contribution from office and hotel divisions.

Office division to remain stable. Revenue of office division in FY17 was flattish as additional rental income from Menara Dayabumi cushioned the two-month downtime tenant transition at Menara Exxonmobil. Recall that 40% of net lettable area was left vacant in January 2017 while KLCCP secured long term leases with Petronas to take up the 40% space in Menara Exxonmobil. Going forward, profit of office division is expected to remain stable due to full occupancy of its office towers and its long-term leases structure. Note that rental rate of Menara 3 Petronas was revised higher in December 2017 on fixed step-up basis. Meanwhile, next rental reversion of Petronas Twin Towers which is also on fixed step-up basis will be in Oct 2018.

Growing tenant sales. Core earnings of retail division were stable in FY17 by growing 1.5%yoy. Note that core earnings excluded back-charge of rental from a tenant in FY16. The higher earnings were mainly driven by higher rental rates in FY17. Meanwhile, retail division recorded 5.6% growth in tenant sales in FY17, underpinned by Beauty & Skincare and Jewellery & Gift segments. Going forward, retail division is expected to support by prime location of Suria KLCC.

Higher hospitality demand. Hotel division returned to the black in FY17 due to higher occupancy rates of newly renovated Club rooms and Suites in Mandarin Oriental and improved contribution from banqueting business and F&B. Meanwhile, overall refurbishment of Mandarin Oriental is ongoing. First phase of renovation was completed in July 2017 while second phase of renovation has commenced and expected to complete by end of 2018.

Maintain NEUTRAL

Revised Target Price (TP): RM7.59
(Previously: RM7.60)

RETURN STATS	
Price (25 January 2018)	RM7.80
Target Price	RM7.60
Expected Share Price Return	-2.6%
Expected Dividend Yield	+4.5%
Expected Total Return	+1.9%
STOCK INFO	
KLCI	1845.86
Bursa / Bloomberg	5235/ KLCCSS MK
Board / Sector	Main / REITs
Syariah Compliant	Yes
Issued shares (mil)	1805.33
Market cap. (RM'm)	14,081.60
Price over NA	1.10
52-wk price Range	RM7.62 - RM8.64
Beta (against KLCI)	0.51
3-mth Avg Daily Vol	0.39m
3-mth Avg Daily Value	RM3.07m
Major Shareholders	
Petronas	75.47%
Amanah Saham Wawasan	5.22%
KWAP	5.22%

Maintain NEUTRAL with a revised TP of RM7.59. We fine-tuned our earnings by less than -1% to account for the marginally higher financing cost following announcement of 25 basis point rate hike in overnight policy rate (OPR) by Bank Negara. Note that only 16% of KLCCP's borrowings are based on floating rate, hence impact of OPR hike is minimal. Post earnings revision, our DPU is revised to RM7.59 (previously: RM7.60). Our TP is based on DDM. Maintain Neutral on KLCCP. Dividend yield is estimated at 4.5%

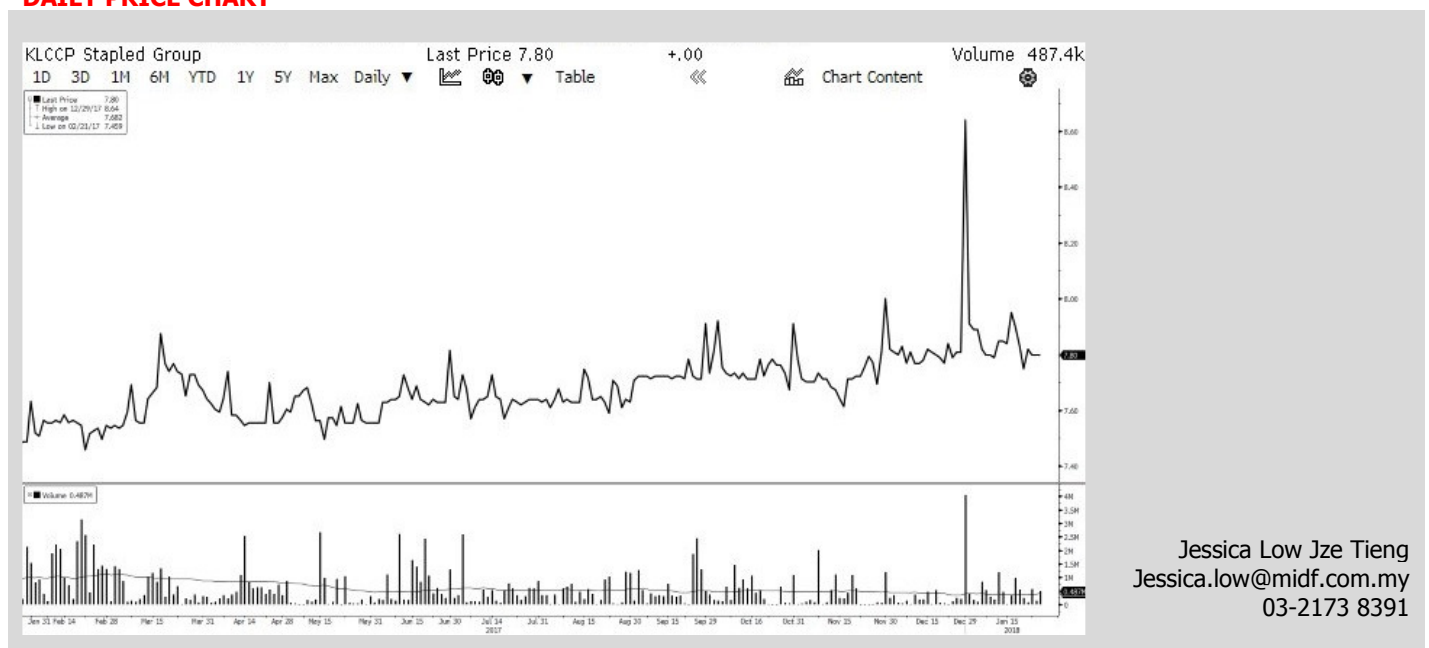


INVESTMENT STATISTICS

FYE Dec (RM'm, unless otherwise stated)	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	1,340	1,385	1,367	1,452	1,508
Operating Profit	1,004	1,042	1,000	1,066	1,098
Profit Before Tax	1,518	1,136	1,115	989	1,019
Net Income	1,132	886	878	734	756
Core Net Income	725	719	720	734	756
Basic EPS (sen)	62.68	49.08	48.63	40.65	41.88
Core EPS (sen)	38.35	39.83	39.91	40.65	41.88
Gross Dividend (sen)	34.70	37.04	36.15	37.60	38.62
Net Dividend (sen)	32.67	34.87	34.04	35.40	36.36
Net Distribution Yield	4.2%	4.5%	4.4%	4.5%	4.7%
Core PER	20.3	19.6	19.5	19.2	18.6
NAV per unit	6.95	7.17	7.22	7.41	7.44
P/NAV	1.12	1.09	1.08	1.05	1.05
Core ROE	5.6%	5.6%	5.5%	5.6%	5.6%
Core ROA	4.0%	4.1%	4.1%	4.1%	4.2%

Source: MIDF Research

DAILY PRICE CHART



Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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 <i>rise</i> 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 <i>fall</i> 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.