Stability in office and retail segments

KLCC Property Stapled Group (KLCCPSG) reported 1H16 results that were in-line with our and street's estimates. Revenue and operating profit saw marginal growth yoy, given steady contribution from the office and retail segment. A 2Q16 DPS of 8.6 sen has been proposed. Maintain Hold with higher TP of RM8.00.

1H16 results in-line with expectations; DPS at 8.6 sen

KLCCPSG reported a 1H16 PATAMI of RM360.6m (+0.6% yoy), coming in within our and consensus expectations (48% of forecasts). While revenue saw a +2% yoy growth to RM669.3m due to stable office rental and recognition of the back charge of rental and service charge for a retail tenant, operating costs was up by 6.8%, causing EBIT margins to fall by 1.1 ppts to 74.5%. Despite higher 1H16 revenue RM71.1m (+7.6% yoy) from hotel operations, the unit made an operating loss of RM1.8m this quarter due to weaker market conditions (resulting in a 1H16 loss before tax of RM4.7m). A 2nd interim DPS of 8.6 sen has been proposed (2Q15:8.34 sen).

Resilience in office and retail sectors

Overall, KLCCPSG's 1H16 operating profit saw marginal growth (+0.5% yoy) underpinned by the steady office and retail portfolio (53% and 41% of 1H16's operating profit respectively). Earnings should continue to be relatively stable for both the office and retail sector in 2016 due to triple-net leases of the office assets and resilient retail rental income from Suria KLCC (with rental reversion and organic growth amidst a more cautious outlook) while the hotel segment may continue to be weaker due to reduced consumer demand and occupancy. Recall that a long-term lease with ExxonMobil has been secured for 15 years (9+3+3 years).

Maintain HOLD with higher TP of RM8.00

We maintain a HOLD on KLCCPSG though with a higher 12-month Dividend Discount Model-derived TP of RM8.00 (including RM0.26 from the redevelopment of Dayabumi and RM0.24 from the potential development of Lot D1) given a change in methodology. In-line with the recent cut in OPR, our risk free rate assumption has been revised from 4% to 3.5%. KLCCCP's longer-term potential is underpinned by an asset-injection pipeline of approximately RM5.8bn (backed by its strong parent company) and attractiveness as a Shariah-compliant stock.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,353.5	1,340.2	1,360.5	1,387.6	1,445.4
EBITDA (RMm)	1,011.9	1,004.2	1,075.6	1,066.5	1,097.3
Pretax profit	1,280.5	1,518.4	982.2	992.9	1,023.7
PATAMI (RMm)	937.9	1,131.5	756.3	764.5	788.2
EPS (sen)	52.0	62.7	41.9	42.3	43.7
PER (x)	14.4	12.0	17.9	17.7	17.2
Realised Profit RMm)	689.3	746.1	756.3	764.5	788.2
Realised EPS (sen)	38.2	41.3	41.9	42.3	43.7
Realised EPS growth (%)	10.3	8.2	1.4	1.1	3.1
Realised PER (x)	19.6	12.0	17.9	17.7	17.2
DPS (sen)	33.6	34.7	37.0	38.5	39.5
DPS Yield (%)	4.5	4.6	4.9	5.1	5.3
P/NAV (x)	1.1	1.1	1.1	1.0	1.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

KLCCPSG

KLCCSS MK
Sector: M-REITs

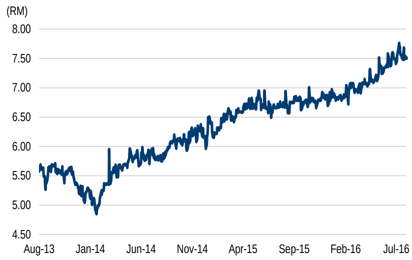
RM7.50 @ 2 Aug 2016

HOLD (maintain)

Upside 6.7%

Price Target: RM8.00

Previous Target: RM7.50



Price Performance

	1M	3M	12M
Absolute	+1.2%	+4.0%	+5.8%
Rel to KLCI	+0.4%	+4.8%	+9.8%

Stock Data

Issued shares (m)	1,805.3
Mkt cap (RMm)/(US$m)	13,540/3,345.4
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	6.8-7.88
Est free float	11.2%
NAV per share (RM)	6.97
P/NAV (x)	1.08
Net cash/ (debt) (RMm) (2Q16)	(1,508.31)
ROE (2016E)	6.9%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Petronas	75.5%
ASB	6.3%

Source: Affin Hwang, Bloomberg

Tan Ei Leen
(603) 2146 7543
eileen.tan@affinhwang.com

Yap Po Leen
(603) 2146 7547
poleen.yap@affinhwang.com

Medium to long-term AEI / asset injection plans

KLCCPSG's long term (up to 2019) AEI as well as asset-injection plans are driven by: i) growth from in-built pipeline (redevelopment of Citypoint Podium at Kompleks Dayabumi into a 200,000 sq ft retail area, 600,000 sq ft office, and a 500-room hotel (2015-2019)) and ii) a potential development of an office tower on Lot D1 into (1.3m sq ft GFA).

Key risks – slowdown in expansion, upcoming supply of space

Downside risks: i) economic downturn; ii) inflationary pressure; iii) decline in tenancy rates; iv) incoming supply, 16m sq ft from the retail and 11.7m sq ft from the office markets (2016-21); v) higher debt-refinancing rates; and vi) correction in asset prices. Upside risks: i) rebound in tourist arrivals and ii) improvement in consumer and business sentiment.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q16	QoQ % chg	YoY % chg	1H16	YoY % chg	Comment
Revenue	334.6	*(0.1)*	*1.7*	669.3	*2.0*	Marginal growth yoy underpinned by: i) stable office (flat yoy); ii) retail rental revenue +2.2% yoy (due to recognition of back charge); iii) management services revenue (+4.5% yoy); and iv) hotel revenue (+7% yoy).
Operating costs	(87.9)	*6.6*	*9.3*	(170.4)	*6.8*	Increased due to higher expenses by both office and hotel operation segments
EBIT	**246.6**	*(2.2)*	*(0.8)*	**498.9**	***0.5***	1H16 key operating profit drivers: i) stable office portfolio underpins 53% of EBIT; ii) provision of management services, 7% contribution to EBIT, +7.4% yoy; iii) retail mall portfolio contributes 41% of EBIT, flat yoy; and iv) hotel operations saw a decrease in operating profit by 7.4%yoy
EBIT margin (%)	*73.7*	(1.6)	(1.8)	*74.5*	*(1.1)*	
Exceptional gain/loss	0.0	*n.m.*	*n.m.*	-	*n.m.*	
Int expense	(30.9)	*3.0*	*3.9*	(61.0)	*3.2*	
Int income	11.6	*7.0*	*12.7*	22.4	*8.8*	
Associates	3.0	*0.8*	*(15.1)*	6.0	*6.4*	
Pretax profit	**230.3**	*(2.4)*	*(1.0)*	**466.4**	*0.6*	
Tax	(25.9)	*(2.9)*	*(2.6)*	(52.6)	*(1.3)*	
Tax rate (%)	*11.3*	(0.1)	(0.2)	*11.3*	*(0.2)*	
Minority Interest	(26.6)	*(0.4)*	*1.4*	(53.2)	*2.5*	
PATAMI	**177.9**	*(2.7)*	*(1.1)*	**360.6**	*0.6*	
Core Net Profit	**177.9**	*(2.7)*	*(1.1)*	**360.6**	*0.6*	1H16 core net profit within our estimates and consensus.
EPS (sen)	9.85	*(2.7)*	*(1.1)*	20.0	*0.6*	
Core EPS (sen)	9.85	*(2.7)*	*(1.1)*	20.0	*0.6*	
DPS (sen)	8.60	*0.0*	*3.1*	17.20	3.12	A 2nd interim DPS of 8.6 sen has been proposed (2Q15: 8.34 sen).
DPS yield (%)	1.1	0.0	0.0	2.3	0.1	

Source: Affin Hwang, Company data

Fig 2: KLCCPSG: Breakdown of revenue and profits

FYE Dec (RMm)	2Q15	3Q15	4Q15	1Q16	2Q16	% QoQ	% YoY
Revenue							
Property Investment - Office	147.9	147.8	147.8	147.8	147.9	*0.1*	*0.0*
Property Investment - Retail	120.9	120.0	124.9	123.5	123.3	*(0.1)*	*2.0*
Hotel operations	34.6	45.0	44.7	36.6	34.5	*(5.7)*	*(0.2)*
Provision of management services	43.0	42.3	50.6	44.4	46.3	*4.3*	*7.7*
Elimination / (Adjustment)	(17.3)	(17.9)	(20.9)	(17.4)	(17.5)	*0.6*	*1.1*
Total	**329.0**	**337.2**	**347.1**	**334.9**	**334.6**	***(0.1)***	***1.7***
Operating Profit							
Property Investment - Office	132.0	131.4	130.8	131.4	130.9	*(0.4)*	*(0.9)*
Property Investment - Retail	100.8	99.1	101.5	100.9	100.8	*(0.1)*	*0.0*
Hotel operations	2.1	8.8	7.1	3.9	(1.8)	*n.m*	*n.m*
Provision of management services	17.5	17.8	20.1	19.4	19.7	*1.5*	*12.3*
Elimination / (Adjustment)	(3.9)	(2.6)	(6.1)	(3.3)	(3.0)	*(9.3)*	*(22.6)*
Total	**248.6**	**254.5**	**253.3**	**252.3**	**246.6**	***(2.3)***	***(0.8)***
Operating Profit Margin							
Property Investment - Office	89.2%	89.0%	88.5%	88.9%	88.5%	*(0.5)*	*(0.9)*
Property Investment - Retail	83.4%	82.5%	81.3%	81.7%	81.8%	*0.1*	*(2.0)*
Hotel operations	6.0%	19.7%	15.8%	10.7%	-5.1%	*n.m*	*n.m*
Provision of management services	40.8%	42.0%	39.6%	43.7%	42.5%	*(2.6)*	*4.2*
Total	**75.5%**	**75.5%**	**73.0%**	**75.3%**	**73.7%**	***(2.2)***	***(2.4)***
Adjusted PBT							
Property Investment - Office	119.5	118.2	117.5	118.4	118.3	*(0.1)*	*(1.0)*
Property Investment - Retail	94.4	92.4	94.7	94.5	94.5	*(0.0)*	*0.0*
Hotel operations	(1.5)	5.3	3.4	0.2	(4.9)	*n.m*	*>100*
Provision of management services	17.8	18.0	20.3	19.7	20.2	*2.7*	*13.7*
Elimination / (Adjustment)	2.4	3.5	0.6	3.2	2.2	*(29.8)*	*(7.5)*
Total	**232.6**	**237.4**	**236.5**	**236.0**	**230.3**	***(2.4)***	***(1.0)***

Source: Company, Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
(formerly known as HwangDBS Investment Bank Berhad)
A Participating Organisation of Bursa Malaysia Securities Bhd
Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : affin.research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005