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KIP Real Estate Investment Trust

New Assets Start to Contribute

TP: RM1.15 (+28.5%)

Last Traded: RM0.875

Buy (ESG: ★★★)

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Review

- KIP REIT's 1HFY25 core net profit of RM23.0mn (+9% YoY) was in line with expectations, representing 44% of our full-year forecasts. We expect stronger 2H results, as 1H earnings included only two weeks of contribution from DPulse Shopping Centre (DPulse) and 1.5 months from TF Value Mart Gerik (TF Value), while 2H will reflect a full two quarters of impact from both assets.
- 2QFY25 DPU stood at 1.66sen/unit, bringing 1HFY25 DPU to 3.18sen/unit (+3% YoY). Based on the last closing price, this translates to a 7.3% annualised dividend yield.
- KIP REIT's 1HFY25 revenue rose 26% YoY to RM56.7mn, driven by 26% growth in the retail segment, which accounted for 94.0% of total revenue. This performance was mainly attributed to higher occupancy rates across retail properties and income contributions from the newly acquired DPulse and TF Value. The industrial segment also performed well, with revenue increasing by 25% YoY, further boosting overall results.
- Despite the strong revenue growth, 1HFY25 core net profit grew only 9% to RM23.0mn, impacted by a 32% YoY increase in operating expenses, as well as higher management fees (+81% YoY) and borrowing costs (+39% YoY). The rise in borrowing costs was mainly due to loan drawdowns to finance the new acquisitions.
- QoQ, KIP REIT's 2QFY25 core net profit increased 18% to RM12.5mn, primarily due to the maiden contribution from newly acquired assets.

Impact

- Maintain earnings forecasts.

Outlook

- Management remains optimistic about KIP REIT's prospects, supported by the solid performance of its existing property portfolio, ongoing leasing efforts, and operational enhancements. The team is committed to disciplined capital management and aims to deliver sustainable returns to unitholders. With a focus on acquiring accretive assets and exploring growth opportunities in both the retail and industrial sectors, management believes the REIT is well-positioned to achieve long-term value and capitalise on emerging opportunities.
- We are positive about KIP REIT's strategic initiatives, which reflect a strong commitment to stakeholder value and steady progress toward its portfolio expansion target of RM2.0bn over the next three years, up from RM1.4bn currently. Potential earnings upside from new asset additions further strengthens our confidence in its growth prospects.

Share Information

Bloomberg Code	KIP MK
Stock Code	KIPREIT
Listing	Main Market
Share Cap (mn)	798.6
Market Cap (RMmn)	698.8
52-wk Hi/Lo (RM)	0.945/0.865
12-mth Avg Daily Vol ('000 shrs)	1053.5
Estimated Free Float (%)	60.2
Beta (x)	0.1

Major Shareholders (%)

Hexstar Rubber S/B	11.4
Dato' Ong Kook Liang	9.0
Employees Provident Fund	6.1

Forecast Revision

	FY25	FY26
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	51.8	66.2
Consensus	-	-
TA's / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	NA	

Financial Indicators

	FY25	FY26
Net Gearing (%)	43.9	45.5
FCF/share (sen)	(41.0)	5.9
P/CFPS (x)	(2.1)	14.9
ROE (%)	6.9	8.0
ROA (%)	3.9	4.2
NAV/Share (RM)	1.0	1.0
Price/NAV (x)	0.8	0.8

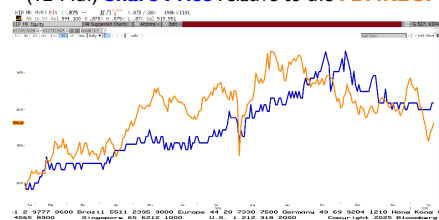
Scorecard

	% of FY	
vs. TA	44	Within
vs. Consensus	NA	NA

Share Performance (%)

Price Change	KIP	FBM KLCI
1 mth	0.0	(0.6)
3 mth	(5.9)	(3.9)
6 mth	(2.2)	(3.3)
12 mth	(1.1)	6.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Valuation

- We maintain our Buy recommendation on KIP REIT with an unchanged TP of RM1.15, based on an unchanged target yield of 6.25%.

Table 1: Earnings Summary (RM mn)

FYE June	FY23	FY24	FY25f	FY26f	FY27f
Gross Rental Income	83.8	102.2	120.5	143.5	148.2
Net Property Income	62.2	77.8	93.9	113.9	117.6
NPI Margins (%)	74.2	76.2	77.9	79.3	79.3
Core Pretax profit	39.5	45.0	51.8	66.2	69.5
Core Net Profit	39.5	45.0	51.8	66.2	69.5
Distributable Income	38.8	45.6	48.1	61.6	64.7
Core EPU (sen)	6.5	7.3	7.2	8.3	8.7
Core EPU Growth (%)	(9.0)	11.7	(1.1)	15.5	5.0
PER (x)	13.5	12.1	12.2	10.6	10.0
DPU (sen)	6.2	6.7	6.7	7.7	8.1
Div Yield (%)	7.1	7.6	7.6	8.8	9.3
ROE (%)	6.5	6.7	6.9	8.0	8.3

Table 2: 2QFY25 Results Analysis (RM mn)

FYE June	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Gross Revenue	22.6	26.7	30.0	12.3	32.7	45.0	56.7	26.1
Net property income	16.8	19.7	21.6	9.9	28.9	33.3	41.3	24.0
Interest Income	0.3	0.3	0.3	0.3	25.3	0.5	0.6	20.0
Change in fair value of inv prop / EI	0.0	(0.5)	(0.5)	7.2	nm	0.0	(0.9)	nm
Net investment Income	17.0	19.5	21.5	9.8	25.9	33.8	41.0	21.2
Finance Costs	(3.9)	(5.2)	(5.6)	7.8	43.7	(7.7)	(10.7)	39.0
Other trust expenses	(0.7)	(0.9)	(0.7)	(21.5)	(6.1)	(1.4)	(1.6)	9.8
Income before taxation	10.6	10.1	12.2	20.7	14.3	21.0	22.2	5.8
Net profit	10.6	10.1	12.0	18.9	12.5	21.0	22.1	4.9
Core Net Profit	10.6	10.5	12.5	18.4	17.1	21.0	23.0	9.4
Income available for distribution	10.9	10.5	12.3	17.9	12.7	21.6	22.8	5.3
EPU (sen)	1.7	1.6	1.6	(4.2)	(9.2)	3.4	3.2	11.7
DPU (sen)	1.6	1.5	1.7	9.1	7.1	3.1	3.2	2.6
				<i>ppt</i>	<i>ppt</i>			<i>ppt</i>
NPI Margin (%)	74.2	73.7	72.1	(1.6)	(2.1)	74.0	72.8	(1.2)
Core Net Margin (%)	47.1	39.5	41.6	2.1	(5.5)	46.8	40.6	(6.2)

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Sector Recommendation Guideline

OVERWEIGHT: The total return of the sector, as per our coverage universe, exceeds 12%.

NEUTRAL: The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

UNDERWEIGHT: The total return of the sector, as per our coverage universe, is lower than 7%.

Stock Recommendation Guideline

BUY : Total return of the stock exceeds 12%.

HOLD : Total return of the stock is within the range of 7% to 12%.

SELL : Total return of the stock is lower than 7%.

Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★	★★★	★★★	★★★
Remark	It has implemented some green initiatives to reduce carbon emission.	Low exposure to social risks given that the sector is not labour-intensive.	Adequate transparency practices to ensure stakeholder engagement and management efficiency.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions. +5% premium to target price
- ★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions. +3% premium to target price
- ★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions. No changes to target price
- ★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient. -3% discount to target price
- ★ (<20%) : Minimal or no integration of ESG factors in operations and management. -5% discount to target price

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As of Wednesday, January 22, 2025, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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