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KIP Real Estate Investment Trust

TP: RM1.15 (+23.7%)
Positioned for Accelerated Growth

Last Traded: RM0.93

Buy (ESG: ★★★)

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Review

- KIP REIT's IQFY25 realised net profit of RM10.1mn (-3% YoY, -16% QoQ) was within expectations, accounting for 21% of our full-year forecasts.
- IQFY25 distribution per unit (DPU) stood at 1.52sen (-2% YoY). Based on the last closing price, this translates to a 6.5% annualised dividend yield.
- KIP REIT's IQFY25 revenue rose 19.4% YoY to RM26.7mn, driven by 19.0% 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 KIPMall Kota Warisan. Additionally, AEON Mall Kinta City posted stronger revenue following a key tenant renewal. The industrial segment also performed well, with revenue increasing by 23.1% YoY, further boosting overall results.
- However, IQFY25 realised net profit fell by 3% to RM10.1mn, impacted by a 20% YoY increase in operating expenses, as well as higher management fees (+84% YoY) and borrowing costs (+34% YoY). The rise in borrowing costs was mainly due to loan drawdowns for deposit payments related to the acquisitions of DPulze Shopping Centre (DPulze), four industrial properties from Hextar (Hextar properties), and TF Value Mart in Gerik. Besides that, increased management fees, driven by higher charges from service providers, trustees, and consultants, along with additional manpower requirements for acquisition activities, also contributed to the rise in operating costs.
- QoQ, KIP REIT's IQFY25 realised net profit fell by 16%, primarily due to an 18% decline in revenue, driven by lower performance in the retail segment.

Impact

- Maintain earnings forecasts.

Outlook

- To recap, KIP REIT announced several acquisitions this year, including DPulze, Hextar properties, and TF Value Mart, with a total purchase consideration of RM433.1mn. To partially fund the DPulze acquisition, the trust also plans to undertake a placement of 180mn new units, raising up to RM172.3mn. We are optimistic about these acquisitions, as they align with KIP REIT's strategy to expand operations and increase total assets under management from the current RM1.06bn to RM2.0bn within the next three years. The acquisitions of DPulze and TF Value Mart are both expected to be completed by IQ2025. Meanwhile, the industrial property acquisitions are anticipated to conclude between June 2025 and IH2026.

Share Information

Bloomberg Code	KIP MK
Stock Code	KIPREIT
Listing	Main Market
Share Cap (mn)	618.6
Market Cap (RMmn)	575.3
52-wk Hi/Lo (RM)	0.945/0.875
12-mth Avg Daily Vol ('000 shrs)	739.0
Estimated Free Float (%)	56.9
Beta (x)	0.1
Major Shareholders (%)	
	Hextar Rubber S/B - 14.7
	Dato' Ong Kook Liong - 10.4
	Datin' Teoh Siew Chin - 5.6

Forecast Revision

	FY25	FY26
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	50.8	52.2
Consensus	-	-
TA's / Consensus (%)	-	-
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	NA	

Financial Indicators

	FY25	FY26
Net Gearing (%)	37.7	37.8
FCF/share (sen)	13.6	10.7
P/CFPS (x)	6.8	8.7
ROE (%)	7.5	7.6
ROA (%)	4.5	4.6
NAV/Share (RM)	1.1	1.1
Price/NAV (x)	0.8	0.8

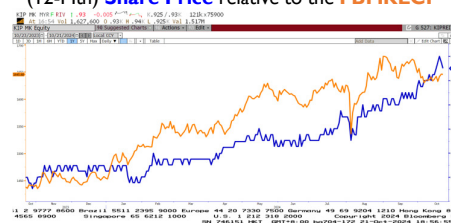
Scorecard

	% of FY	
vs. TA	21	Within
vs. Consensus	NA	NA

Share Performance (%)

Price Change	KIP	FBM KLCI
1 mth	2.8	(1.4)
3 mth	3.9	0.6
6 mth	3.3	6.3
12 mth	3.9	14.2

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- Management remains optimistic about KIP REIT's prospects, citing solid performance from the existing property portfolio, ongoing leasing, and operational improvements. Additionally, management 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.

Valuation

- We maintain our Buy recommendation on KIP REIT with an unchanged TP of RMI.15, based on an unchanged target yield of 6.75%.

Table 1: Earnings Summary (RM mn)

FYE June	FY23	FY24	FY25f	FY26f	FY27f
Gross Rental Income	83.8	102.2	104.7	106.9	109.3
Net Property Income	62.2	77.8	80.7	82.5	84.3
NPI Margins (%)	74.2	76.2	77.1	77.1	77.2
Core Pretax profit	39.5	45.0	50.8	52.2	53.8
Core Net Profit	39.5	45.0	50.8	52.2	53.8
Distributable Income	38.8	45.6	47.2	48.6	50.0
Core EPU (sen)	6.5	7.3	8.2	8.4	8.7
Core EPU Growth (%)	(9.0)	11.7	13.2	2.8	3.0
PER (x)	14.3	12.8	11.3	11.0	10.7
DPU (sen)	6.2	6.7	7.6	7.9	8.1
Div Yield (%)	6.7	7.2	8.2	8.4	8.7
ROE (%)	6.5	6.7	7.5	7.6	7.8

Table 2: IQFY25 Results Analysis (RM mn)

FYE June	IQ24	4Q24	IQ25	QoQ (%)	YoY (%)
Gross Revenue	22.4	32.6	26.7	(18.2)	19.4
Net property income	16.5	26.4	19.7	(25.6)	19.1
Interest Income	0.3	0.2	0.3	96.9	15.1
Change in fair value of inv prop / EI	0.0	(4.2)	(0.5)	(89.2)	nm
Net investment Income	16.8	22.4	19.5	(12.6)	16.3
Finance Costs	(3.8)	(4.6)	(5.2)	13.1	34.3
Other trust expenses	(0.7)	(0.9)	(0.7)	(13.6)	5.0
Income before taxation	10.4	16.0	10.1	(37.2)	(3.0)
Net profit	10.4	16.0	10.1	(37.2)	(3.0)
Core Net Profit	10.4	12.0	10.1	(15.9)	(3.0)
Income available for distribution	10.7	13.5	10.5	(22.5)	(2.2)
EPU (sen)	1.7	1.5	1.6	11.6	(4.7)
DPU (sen)	1.6	2.0	1.5	(22.5)	(1.8)
				ppt	ppt
NPI Margin (%)	73.8	81.0	73.4	(7.6)	(0.4)
Core Net Margin (%)	46.4	36.7	39.3	2.6	(7.1)

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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 Tuesday, October 22, 2024, 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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