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# KIP Real Estate Investment Trust

**TP: RM1.15 (+27.0%)**
*Resilience of Essential Retail Amid Rising Living Costs*

Last Traded: RM0.905

**Buy (ESG: ★★★)**

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

## Review

- KIP REIT's FY24 realised net profit of RM45.0mn (+14.0% YoY) was within expectations, accounting for 97% of our full-year forecasts.
- 4QFY24 DPU stood at 1.97sen/unit, bringing FY24 DPU to 6.67sen/unit (+7.5% YoY). This works out to a dividend yield of 7.4% based on the last closing price.
- YoY, KIP REIT's FY24 realised net profit increased by 14.0%, alongside a 22.0% rise in revenue. The stellar performance was primarily due to improved occupancy rates in the retail segment and income contribution from the newly acquired KIPMall Kota Warisan.
- QoQ, KIP REIT's 4QFY24 income available for distribution grew 29.0% to RM13.5mn, on the back of 33.0% growth in revenue. The sequential improvement was mainly driven by higher retail occupancy rates.

## Impact

- We have marginally raised our FY25 and FY26 earnings forecasts by 0.5% and 0.6%, respectively, to reflect the actual FY24 results and some housekeeping adjustments. Additionally, we introduce our FY27 DPU estimate of 8.1sen/unit, representing a modest increase of 3.0%. The contributions from DPulze Shopping Centre and the impact of the private placement are not yet included in our earnings model, pending the completion of these exercises.

## Conference call highlights

- KIP REIT's portfolio occupancy improved by 1.2%-pts YoY to 94.1%, driven by higher occupancy across all retail assets except for KIPMall Senawang, which saw a tenant departure. Management, however, expects KIPMall Senawang's occupancy rate to exceed 90% with the introduction of a new supermarket, ST Rosyam, which will occupy double the space of the previous tenant. ST Rosyam is set to commence operations in September 2024.
- To recap, KIP REIT has proposed acquiring DPulze Shopping Centre for RM320mn. Additionally, the trust plans to undertake a placement of up to 180mn new units to raise up to RM146.7mn to partially finance the acquisition. We are optimistic about this acquisition as it aligns with KIP REIT's target to scale up operations and increase total assets under management to RM2.0bn within the next three years. Management has indicated that both proposals are on track for completion by 1QCY25 (or 3QFY25).
- Management is optimistic about KIP REIT's prospects, citing the strong performance of the existing property portfolio and continuous efforts to

## Share Information

Bloomberg Code	KIP MK
Stock Code	KIPREIT
Listing	Main Market
Share Cap (mn)	618.6
Market Cap (RMmn)	559.9
52-wk Hi/Lo (RM)	0.915/0.88
12-mth Avg Daily Vol ('000 shrs)	543.4
Estimated Free Float (%)	43.4
Beta (x)	0.1

## Major Shareholders (%)

Hextar Rubber S/B	- 19.5
Dato' Ong Kook Liong	- 10.2
Datin' Teoh Siew Chin	- 5.6

## Forecast Revision

	FY25	FY26
Forecast Revision (%)	0.5	0.6
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)	6.7	8.4
ROE (%)	7.5	7.6
ROA (%)	4.5	4.6
NAV/Share (RM)	1.1	1.1
Price/NAV (x)	0.8	0.8
	1.1	1.1

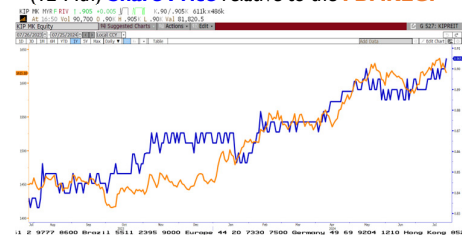
## Scorecard

	% of FY	
vs. TA	97	Within
vs. Consensus	NA	NA

## Share Performance (%)

Price Change	KIP	FBM KLCI
1 mth	1.7	1.9
3 mth	0.0	2.9
6 mth	2.3	7.4
12 mth	0.6	12.4

## (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

improve leasing and operational initiatives. Furthermore, the management is dedicated to prudent capital management, aiming to deliver sustainable returns to unitholders, and actively exploring growth opportunities in both retail and industrial assets.

### Valuation

- The improved results strengthen our belief that KIPMalls will thrive despite declining consumer purchasing power due to rising inflation. As consumers seek quality products at affordable prices, community-centric retail malls like KIPMalls are becoming compelling alternatives to traditional hypermarkets and neighbourhood retail centres, especially in smaller towns and suburban areas.
- We maintain our Buy recommendation on KIP REIT with a revised TP of RM1.15 (previously RM1.14), 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)	13.9	12.5	11.0	10.7	10.4
DPU (sen)	6.2	6.7	7.6	7.9	8.1
Div Yield (%)	6.9	7.4	8.4	8.7	8.9
ROE (%)	6.5	6.7	7.5	7.6	7.8

**Table 2: 4QFY24 Results Analysis (RM mn)**

FYE June	4Q23	3Q24	4Q24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)
Gross Revenue	22.4	24.5	32.6	33.0	45.8	83.8	102.2	22.0
Net property income	16.2	18.3	26.4	44.8	62.8	62.2	77.8	25.2
Interest Income	0.3	0.2	0.2	3.8	(51.8)	1.3	0.9	(33.8)
Change in fair value of inv prop / EI	23.1	(1.7)	(4.2)	144.4	(118.3)	21.3	(6.0)	(128.0)
Net investment income	39.7	16.7	22.4	34.1	(43.6)	84.8	72.9	(14.0)
Finance Costs	(3.8)	(4.4)	(4.6)	3.1	20.2	(14.8)	(16.7)	13.1
Other trust expenses	(0.7)	(0.9)	(0.9)	0.4	23.4	(3.2)	(3.1)	(1.2)
Income before taxation	34.9	8.7	16.0	85.4	(54.0)	60.8	47.3	(22.2)
Net profit	33.3	10.2	16.0	56.8	(51.9)	60.8	47.3	(22.2)
Core Net Profit	10.2	12.0	12.0	0.3	17.0	39.5	45.0	14.0
Income available for distribution	10.5	10.5	13.5	29.1	28.3	38.8	45.6	17.6
EPU (sen)	1.7	1.7	1.5	(11.5)	(13.6)	6.5	7.3	11.7
DPU (sen)	1.8	1.6	2.0	22.8	12.3	6.2	6.7	7.5
				ppt	ppt			ppt
NPI Margin (%)	72.5	74.3	81.0	6.6	8.5	74.2	76.2	1.9
Core Net Margin (%)	45.8	48.7	36.7	(12.0)	(9.0)	47.1	44.0	(3.1)

### 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
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	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 Friday, July 26, 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**

TA SECURITIES HOLDINGS BERHAD 197301001467 (14948-M)  
A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048  
www.ta.com.my