

# KIP Real Estate Investment Trust

**TP: RM1.15 (+28.5%)**
*Acquiring Four Industrial Properties for RM98.3mn*
*Last Traded: RM0.895*
**Buy (ESG: ★★★)**

Thiam Chiann Wen

Tel: +603-2167 9615

cwthiam@ta.com.my

www.taonline.com.my

## Acquisition of Four Industrial Properties for RM98.3mn

KIP Real Estate Investment Trust (KIP REIT), through its trustee Pacific Trustees Bhd, has entered into four conditional sale and purchase agreements to acquire four industrial properties located in Selangor, Sarawak, and Johor for a total cash consideration of RM98.3mn. An independent market valuation conducted by Laurelcap Sdn Bhd places the total market value of these assets at RM99.3mn – see **Figure I**.

This transaction marks KIP REIT's second acquisition within the span of just one week, and its second venture into the industrial sector. This follows the trust's initial acquisition of industrial assets in Pulau Indah, Klang, announced in July 2022. According to the announcement, the proposed acquisition is expected to be completed in 4QCY24. The purchases will be fully funded in cash through two tranches of medium-term notes, each with a five-year tenure. KIP REIT stated that these notes will carry monthly coupon payments at a rate of cost of funds plus 1.2% per annum. After the proposed acquisition is completed, approximately 650,695 sq ft of lettable area will be added to KIP REIT's portfolio.

**Figure I: Information on the Industrial Properties**

	Property 1	Property 2	Property 3	Property 4	Aggregate
Vendor	SCHSB	TLSB	CLSB	PKFSB	
Location	Cheras Jaya	Kidurong,	Port Klang Free	Pasir Gudang,	
	Selangor	Sarawak	Zone, Selangor	Johor	
Lettable Area (sq ft)	67,524	205,433	193,284	184,455	<b>650,695</b>
Market Value (RM mn)	22.7	28.8	23.7	24.1	<b>99.3</b>
Purchase Price (RM mn)	22.6	28.7	23.7	23.3	<b>98.3</b>
Pre/(Dis) to Market Value (%)	(0.4)	(0.3)	-	(3.3)	<b>(1.0)</b>
Rental Income (RM mn)	1.5	2.1	1.8	1.8	<b>7.2</b>
Property Yield (%)	6.6	7.4	7.6	7.5	<b>7.3</b>

Source: KIP REIT

 See **Appendix I** for further details of the industrial properties.

## Long Lease Agreement

These properties will be leased to related companies of the Hextar group on a **triple net basis for a fixed period of 12-15 years** from the date of completion of the SPAs at a total initial annual rental of approximately RM8.25mn with built-in agreed rental escalations of approximately 11%-13% scheduled in Year 4, Year 7, Year 10, and Year 13 (review every 3 years). The proposed acquisitions and leases are considered related party transactions, requiring the approval of both KIP REIT's unitholders and Hextar's

### Share Information

Bloomberg Code	KIP MK
Stock Code	KIPREIT
Listing	Main Market
Share Cap (mn)	618.6
Market Cap (RMmn)	553.7
52-wk Hi/Lo (RM)	0.92/0.875
12-mth Avg Daily Vol ('000 shrs)	685.6
Estimated Free Float (%)	47.9
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	

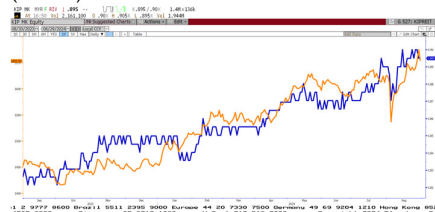
### Financial Indicators

	FY25	FY26
Net Gearing (%)	37.7	37.8
FCF/share (sen)	13.6	10.7
P/CFPS (x)	6.6	8.3
ROA (%)	7.5	7.6
ROE (%)	4.5	4.6
NAV/Share (RM)	1.1	1.1
Price/NAV (x)	0.8	0.8

### Share Performance (%)

Price Change	KIP	FBM KLCI
1 mth	(1.6)	1.8
3 mth	1.1	3.0
6 mth	0.6	6.6
12 mth	1.1	13.7

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



Source: Bloomberg

shareholders. This is because Datuk Eddie Ong Choo Meng, who is a major shareholder in Hextar, is also a significant unitholder in KIP REIT.

### Reasonable Acquisition Cost

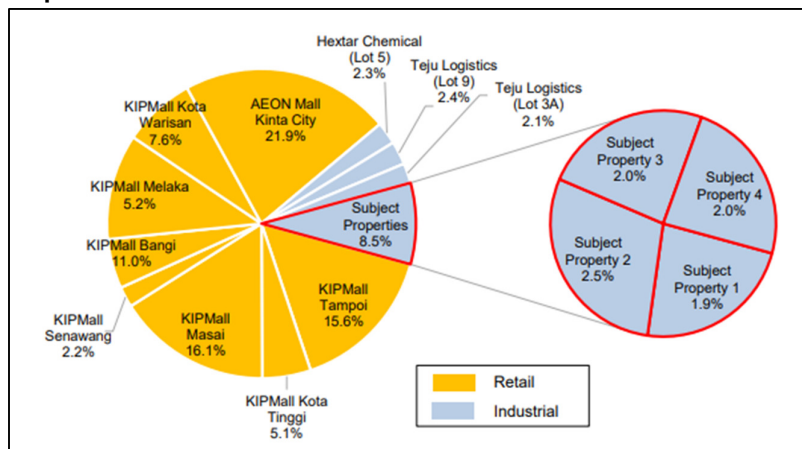
Based on the acquisition cost of RM98.3mn and NPI of RM7.2mn, the net yield of the assets works out to 7.3% for the initial term. Referring to the Bursa announcement, the net property yield is competitive within the range of net rental yields for similar industrial properties, which typically fall between 6.0% and 9.0%.

Additionally, the rental escalation per term of 11%-13% translates into an effective annual increment rate of approximately 3.18%-3.35%, which aligns with the effective annual increment rates for industrial properties based on comparable concluded tenancy/lease agreements, generally ranging between 3.0% and 3.5%. This data indicates that the **acquisition cost is fair** and reflects current market conditions for industrial properties.

### Our View

This marks KIP REIT's third acquisition in 2024, increasing its total net lettable area by 30.8% from 2.08mn sq ft to 2.73mn sq ft. The acquisition will also raise the total asset value of KIP REIT's properties by 9.3%, from RM1,061.6mn to RM1,159.9mn, with the new properties contributing approximately 8.5% to the total asset value under management – see **Figure 2**.

**Figure 2: Total asset portfolio as at 30 June 2024 and after the Proposed Acquisitions and Tenancies**



Source: KIP REIT

Simultaneously, KIP REIT is finalising the acquisition of D’Pulze Shopping Centre and Gerik Hypermarket, with a combined value of RM334.8mn, expected to close by the first quarter of 2025. We estimate KIP REIT’s gearing to increase from 37% at the end of June 2024 to 45%, considering the planned RM146.7mn fundraising through a private placement of 180mn new units and the three acquisitions announced this year.

Overall, we remain optimistic about these developments, as they support KIP REIT’s target of scaling its operations and increasing its assets under management to RM2.0bn within the next three years.

### Forecast

Assuming the acquisition of these industrial assets is completed by the end of the fourth quarter of 2024 (end of 2QFY25), we expect a net impact on our

projected earnings of +1.1% for FY25 and +2.2% for FY26 and FY27. This is based on a 6-month earnings contribution in FY25 and a full-year contribution in FY26 and FY27. However, we will maintain our current earnings forecasts until the acquisitions are completed.

### Valuation

We maintain our Buy recommendation on KIP REIT with an unchanged target price of RM1.15, based on a CY25 target yield of 6.75%.

### Appendix I: Details of the Industrial Properties

	Property 1	Property 2	Property 3	Property 4
Vendor	Sin Chee Heng Sdn Bhd (SCHSB)	Teju Logistics Sdn Bhd (TLSB)	Channel Legion Sdn Bhd (CLSB)	PK Fertilizers Sdn Bhd (PKFSB)
Location	Cheras Jaya, Selangor	Kidurong, Sarawak	Port Klang Free Zone, Selangor	Pasir Gudang, Johor
Land Area (sqm)	8,510	39,210	23,119	25,900
Tenure	Leasehold (99 years)	Leasehold (60 years)	Leasehold (99 years)	Leasehold (60 years)
Description of Buildings	Detached factory with mezzanine floor and 4-storey office	Double-storey office cum 6-storey processing plant	2 single-storey warehouses with office buildings	Detached warehouse with double-storey office
Age (years)	7	15	3	34
Lettable Area (sq ft)	67,523.65	205,433.00	193,283.63	184,455.00
Occupancy rate (%)	50.5%	100%	100%	100%
Audited Net Book Value (RM mn)	20.7	27.9	12.0	17.1
Market Value (RM mn)	22.7	28.8	23.7	24.1
Purchase Price (RM mn)	22.6	28.7	23.7	23.3
Discount to Market Value (%)	(0.4)	(0.3)	0.0	(3.3)
Tenancy Description	Triple net lease, 3 years fixed term + 3 renewal terms of 3 years each = 12 years total	Triple net lease, 3 years fixed term + 4 renewal terms of 3 years each = 15 years total	Triple net lease, 3 years fixed term + 4 renewal terms of 3 years each = 15 years total	Triple net lease, 3 years fixed term + 4 renewal terms of 3 years each = 15 years total
Initial Annual Rental Income (RM mn)	1.5	2.1	1.8	1.8
Property Yield (%)	6.6	7.4	7.6	7.5

Source: KIP REIT

**Appendix 2: Rental Rates per Month (RM)**

Term	Tenancy Term	Property 1	Property 2	Property 3	Property 4
<b>1st term</b>	Year 1 to 3	RM123,269.20 (RM1.85 psf)	RM176,217.75 (RM0.85 psf)	RM241,706.25* (RM1.25 psf)	RM146,217.85 (RM0.79 psf)
<b>2nd term</b>	Year 4 to 6	RM137,928.24 (RM2.07 psf)	RM196,949.25 (RM0.95 psf)	RM270,711.00* (RM1.40 psf)	RM163,419.95 (RM0.89 psf)
<b>3rd term</b>	Year 7 to 9	RM154,586.24 (RM2.32 psf)	RM221,827.05 (RM1.07 psf)	RM303,583.05* (RM1.57 psf)	RM184,062.47 (RM1.00 psf)
<b>4th term</b>	Year 10 to 12	RM173,243.20 (RM2.60 psf)	RM246,704.85 (RM1.19 psf)	RM340,322.40* (RM1.76 psf)	RM204,704.99 (RM1.11 psf)
<b>5th term</b>	Year 13 to 15	-	RM277,802.10 (RM1.34 psf)	RM380,929.05* (RM1.97 psf)	RM230,508.14 (RM1.25 psf)

\*Expressed as gross monthly rental per Tenancy Agreement 3.

Source: KIP REIT

**Appendix 3: Illustrative Net Rental Rates per Month for Subject Property 3 (RM)**

Term	Tenancy Term	Property 3
<b>1st term</b>	Year 1 to 3	150,245.37
<b>2nd term</b>	Year 4 to 6	170,104.03
<b>3rd term</b>	Year 7 to 9	192,915.38
<b>4th term</b>	Year 10 to 12	218,587.96
<b>5th term</b>	Year 13 to 15	247,021.16

Source: KIP REIT

**Appendix 4: Rental Yield Per Annum (%)**

Term	Tenancy Term	Property 1	Property 2	Property 3	Property 4
<b>1st term</b>	Year 1 to 3	6.55%	7.37%	7.61%*	7.53%
<b>2nd term</b>	Year 4 to 6	7.32%	8.23%	8.61%*	8.42%
<b>3rd term</b>	Year 7 to 9	8.21%	9.27%	9.77%*	9.48%
<b>4th term</b>	Year 10 to 12	9.20%	10.32%	11.07%*	10.54%
<b>5th term</b>	Year 13 to 15	-	11.62%	12.51%*	11.87%

Note:\* After netting off rental and maintenance charges payable by the Trustee (as lessee to the Port Klang Lease) to PKFZ pursuant to the Principal Lease Agreement 1, subject to assumed incremental charges at a rate of 10% for every 3 year lease term

Source: KIP REIT

## Earnings Summary

### Profit and Loss (RM mn)

FYE Jun	FY23	FY24	FY25f	FY26f	FY27f
Gross revenue	83.8	102.2	104.7	106.9	109.3
Net property income	62.2	77.8	80.7	82.5	84.3
Finance cost	(14.8)	(16.7)	(19.2)	(19.4)	(19.6)
EI	21.3	2.3	0.0	0.0	0.0
Reported pretax profit	60.8	47.3	50.8	52.2	53.8
Core pretax profit	39.5	45.0	50.8	52.2	53.8
Reported net profit	60.8	47.3	50.8	52.2	53.8
Core net profit	39.5	45.0	50.8	52.2	53.8
EPU (sen)	6.5	7.3	8.2	8.4	8.7
EPU growth (%)	(9.0)	11.7	13.2	2.8	3.0
PER (x)	13.8	12.3	10.9	10.6	10.3
GDPS (sen)	6.2	6.7	7.6	7.9	8.1
Div yield (%)	6.9	7.4	8.5	8.8	9.0
Core ROE (%)	6.5	6.7	7.5	7.6	7.8
NPI margin (%)	74.2	76.2	77.1	77.1	77.2
Core PBT margin (%)	47.1	44.0	48.5	48.8	49.2
Core net margin (%)	47.1	44.0	48.5	48.8	49.2

### Cash Flows (RM mn)

FYE Jun	FY23	FY24	FY25f	FY26f	FY27f
PBT	60.8	47.3	50.8	52.2	53.8
Op profit before change in WC	51.8	61.1	70.6	72.2	74.1
CFO	55.6	36.8	90.2	72.3	74.2
Capex	(88.1)	(94.1)	(6.0)	(6.0)	(6.0)
Others	0.0	0.0	0.0	0.0	0.0
CFI	(88.1)	(94.1)	(6.0)	(6.0)	(6.0)
Net proceed from share issuance	(1.4)	0.8	0.0	0.0	0.0
Net borrowings	20.0	90.0	5.0	5.0	5.0
Dividend	(36.0)	(41.2)	(47.2)	(48.6)	(50.0)
Others	67.6	(6.7)	(19.2)	(19.4)	(19.6)
CFF	50.3	42.8	(61.4)	(63.0)	(64.7)
Change in cash	17.8	(14.4)	22.8	3.4	3.5

### Balance Sheet (RM mn)

FYE Jun	FY23	FY24	FY25f	FY26f	FY27f
Non current assets	965.8	1,064.3	1,069.7	1,075.1	1,080.4
Receivables	8.8	36.8	10.2	10.4	10.6
Cash	48.8	34.9	57.7	61.0	64.6
Total CA	57.6	71.7	67.9	71.5	75.2
Total assets	1,023.4	1,135.9	1,137.6	1,146.5	1,155.6
Trade and other payables	14.0	21.7	14.8	15.1	15.4
Borrowings	23.6	313.9	313.9	313.9	313.9
Total CL	37.7	335.6	328.7	329.0	329.3
Unitholders' capital	573.8	583.6	583.6	583.6	583.6
Undistributed income	86.2	94.0	97.6	101.2	105.0
Total unitholders' funds	660.0	677.6	681.2	684.8	688.6
Borrowings	309.6	109.5	114.5	119.5	124.5
Long term liabilities	16.2	13.3	13.3	13.3	13.3
Total non current liabilities	325.8	122.7	127.7	132.7	137.7
Total liabilities and equities	1,023.4	1,135.9	1,137.6	1,146.5	1,155.6

### Ratios

FYE Jun	FY23	FY24	FY25f	FY26f	FY27f
Gearing (%)	32.6	37.3	37.7	37.8	37.9
NAV/unit (RM)	1.1	1.1	1.1	1.1	1.1
P/NAV (x)	0.8	0.8	0.8	0.8	0.8
ROE (%)	6.5	6.7	7.5	7.6	7.8
ROA (%)	4.1	4.2	4.5	4.6	4.7

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### 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, August 30, 2024, the analyst, Thiam Chiann Wen, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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**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