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Business

Stable earnings anticipated for KIP REIT on unexciting retail reversions

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KUCHING: As a retail real estate investment trust (REIT) operating in a resilient market segment that targets daily staple goods for the low-to-mid income consumers, analysts expect stable earnings on unexciting reversions for KIP REIT.

Kengna Investment Bank Bhd (Kenanga Research) saw that KIP REIT is a retail REIT focusing on the sub-urban market or the lower-to-middle income group, while its assets are mostly located in smaller towns close to major residential catchments.

“We like the fact that it caters mostly to supermarkets carrying daily staple food products and fresh produce, while other segments – including fashion apparel, household and gift stores, IT and electrical stores, and F&B – making demand fairly inelastic as shopper traffic is expected to be resilient, and tenants less susceptible to economic fluctuations,” it said in a report yesterday.

This led the research house to anticipate stable earnings from KIP REIT on unexciting reversions.

To note, it saw saw modest reversions of circa three per cent in its financial year 2017 (FY17), while Kenaga Research expected reversions between zero to two per cent in FY18 and FY19E.

“Occupancy rate remains between 90 to 94 per cent for most assets, save for KIP Mart Lavender, Senawang (78 per cent), KIP Mart Melaka (75 per cent) and KIP Mall Bangi (78 per cent), which offers upside potential as the group is confident of securing more tenants at KIP Mall Bangi in the near term.

"KIP REIT will see a fair portion of lease expiries in FY18 and FY19, of 45 to 32 per cent of net lettable area (NLA), but we believe renewals will not be an issue as reversion rates are not aggressive, while shopper demand is expected to be resilient on constant demand for daily necessities."

Meanwhile, Kenanga Research believed KIP REIT is bullish on acquisitions with a string of assets under Right of First Refusal (ROFR) such as KIP Mall Kota Warisan, KIP Mart Sg Buloh, KIP Mart Kuantan, KIP Mart Sendayan and KIP Mart Sg Petani while the group is also looking at 3rd party retail assets located in the suburban areas.

"Assuming KIP REIT utilises RM200 million for acquisitions before hitting its internal gearing limit of 0.35 times, with a 6.5 per cent cap rate and fully funded by borrowings, we estimate earnings could be increased by nine per cent per annum," it said.

Going forward, Kenanga Research believed KIP REIT's spread could narrow to the lower end of small cap Malaysian REITs' spread – which trades between 1.8 percentage points to 2.9 percentage points if it shows earnings stability in coming quarters, providing further share price upsides.

However, even on conservative valuations to Kenanga Research's 10-year MGS target of four per cent, total returns are attractive at 19 per cent.