

'BUY' CALL

Kenanga: KIP REIT has good value proposition

KUALA LUMPUR: Kenanga Research believes KIP Real Estate Investment Trust's (KIP REIT) shares have good value proposition as they are trading below net asset value (NAV) and the initial public offering (IPO) price, as well as commanding a 19 per cent total returns.

"We believe current levels are a good entry point with KIP REIT currently trading below NAV/unit and IPO price of RM1.

"Positively, dividends will also be paid on a quarterly basis going forward versus semi-annually previously," said Kenanga Research in a note.

The research house is optimistic with KIP REIT's future

prospects as the REIT operates in a resilient market segment that targets daily staple goods for the low- to mid-income consumers.

"As such, we expect stable earnings on unexciting reversions. Its financial year 2017 saw modest reversions of three per cent, while we expect zero to two per cent reversions in the financial years 2018 and 2019.

"Occupancy rates remain between 90 and 94 per cent for most assets, except for KiP Mart Lavender, Senawang (78 per cent), KiP Mart Melaka (75 per cent) and KiP Mall Bangi (78 per cent), and this offers upside potential as the group is confident



of securing more tenants at KiP Mall Bangi in the near term," said Kenanga Research.

It said the REIT's low gearing of 0.14 time was a catalyst for inorganic growth of about nine per cent to earnings.

"The group is able to gear up to RM200 million for future acquisitions. Assuming KIP REIT utilises RM200 million for acquisitions before hitting its internal gearing limit of 0.35 time, 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.

Kenanga Research had a "trading buy" call on KIP REIT with a target price of RM1.05.