

KIP REIT bullish on rental prospects



by Lim Cian Yai

KIP REIT, touted as the first hybrid community-centric retail real estate investment trust (REIT), is cautiously optimistic of the prospects of its rental market in the near term.

Of the six properties it owns, five KiP Marts are a hybrid between traditional wet market and a conventional shopping centre. The remaining KiP Mall is positioned as a conventional neighbourhood shopping centre.

Given the tenancy profiles of the KiP Marts and KiP Mall mainly comprise small traders, there is some concern that small traders are more prone to quitting if there is substantial rental hike.

Commenting on its leasing strategy, KIP REIT Management Sdn Bhd CEO Lim Han Gie is optimistic of achieving a 3% to 5% increase in rent per tenant contract renewal.

"One of the strengths we have is the low start-up and operating cost. The percentage [3% to 5%] should be a norm and within their expectation," he says.

Lim is also banking on consumers shifting their grocery or shopping preference towards locations like KiP Marts which provide them more bargains. "We are cautiously optimistic in the current economic environment as the majority of our tenants are dealing with daily essentials."

KiP Marts and KiP Mall provide the platform for small traders to be an entrepreneur, with their scale of operation growing in tandem with the mart operators over the years, Lim notes.

He believes KiP Marts and KiP Mall's edge lies on the flexibility they offer to tenants. "Small traders do not have wide options to start their business. If they are unable to make way into hypermarkets they are likely to end up in traditional markets."



We are cautiously optimistic in the current economic environment as the majority of our tenants are dealing with daily essentials, says Lim

Lifting occupancy rate

A REIT manager's ability to improve or maintain the occupancy rate of assets is the key criteria investors look at when investing in REITs.

KIP REIT's six assets are namely KiP Mart Tampoi, KiP Mart Kota Tinggi, KiP Mart Masai, in Johor, KiP Mart Lavender Senawang in Negeri Sembilan, KiP Mart Melaka, and KiP Mall Bangi in Selangor. KiP Mart outlets are located in the second or third-tier towns where household income levels are generally lower than first-tier urban areas.

Its Bangi asset is a neighbourhood shopping centre and has the largest net lettable area at 262,000 sq ft. The average occupancy rate of these assets is 87.7%.

KIP REIT enjoyed a tenant retention rate of 80% in 2015 and last year, and for

the growing marts the rate is around 70%.

The REIT will distribute up to 100% of its distributable income for FY17 and FY18. Thereafter 90% of its distributable income will be dished out on a half-yearly basis.

Notwithstanding this, Lim is comfortable the REIT has sufficient financial muscle to undertake acquisitions in the next two years, if there is a right fit.

Upon listing, KIP REIT's debt-to-asset ratio would be approximately 14.8%, which is lower than the average gearing level of 32% of REITs. "We have room for acquisition without affecting distribution [policy] and diluting the share units," he says.

The available room to gear up on par with its peers will translate to about RM90 mil to RM100 mil, which is sufficient to

acquire properties like KIP Mall Kota Warisan in Sepang, Selangor, which is expected to be completed this year.

In the event KIP REIT seeks to leverage up to the 50% debt-to-asset ratio capped by the Securities Commission from the current mark, it could have a potential debt headroom of RM204 mil, says RHB Research in a note.

KIP REIT will debut on Bursa Malaysia on Feb 6 with an offering price of RM1 per share. The portion of shares available to the public was oversubscribed by five times. The RM234.2 mil proceeds raised will be used to fund KIP REIT's acquisitions of its six existing assets. **FocusM**

Toner particles are subject to 1000 times the force of gravity to lift the team's efforts to new heights.

PERFORMANCE MILESTONES
This section reviews the strategic, market and business aspects of performance, based on its consolidated financial statements.

OUR GROUP'S PERFORMANCE
Has increased in the impact of key business activities on the Group's performance, challenges in the operating environment, as well as the long term strategies which we use to shape its future.

Visit hp.com.my/toner to find out more.

Reinvent Impact. Always Choose Original HP Toner.

Consistently prints the first time, every time.

Experience outstanding quality with every print.

Designed with the earth in mind for more responsible printing.

hp keep reinventing