KIP REIT aims high and big

Real estate investment fund to offer investors higher yield in fiscal 2019

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FRESH from announcing one of the highest distribution yields in the market, KIP Real Estate Investment Trust (KIP REIT) now has two main agendas in mind.

The country's first hybrid, community-centric retail REIT aims to offer its investors a higher distribution yield for the current financial year of 2019 (FY19), aside from enlarging its asset size to RM2bil within the next five years.

Speaking with *StarBizWeek*, KIP REIT Management Sdn Bhd executive director Datuk Eric Ong Kook Liong says the improving retail sentiment in Malaysia, particularly after the zerorisation of the goods and services tax, offers a promising outlook for KIP REIT going forward.

For context, KIP REIT Management is the manager of the Main Market-listed KIP REIT.

Ong, who own a 10% stake in the fund, is the co-founder and executive director of the KIP group of companies.

"Apart from the more positive domestic retail scene, our own initiatives for KIP REIT taken to date will likely strengthen our performance moving ahead by attracting more retailers and shoppers to our premises," he says.

Against such backdrop, in FY19, the fund expects to provide its investors an annualised distribution yield higher than 6.83% – the rate it offered last year, exceeding its initial target of 6.59%.

At present, KIP REIT has a total of six assets, comprising five KIP Marts and a KIP Mall. As at June 30, the total market value of these assets is valued at RM585mil.

Average occupancy rate as of the fourth quarter of FY18 is 86%.

When asked about the mixed sentiment of analysts on Malaysia's REIT sector, Ong says "it depends on which segment within the larger REIT market we are looking at."

Kenanga Research and AmInvestment Bank Research are "neutral" on the Malaysian REIT market, although Bursa Malaysia's REIT Index has been up by about 11% since April this year.

"The businesses in both of our KIP Marts and KIP Mall are more localised and typically offers daily consumption goods such as fresh produce and other general merchandises, among others.

"We focus more on the low to middle-income consumers. So, people will continue coming to our premises regardless of the prevailing economic conditions," he points out.

Elaborating on KIP REIT's planned asset portfolio expansion, Ong says that five assets from KIP Group are likely to be injected into the REIT fund by FY21.

The assets are KIP Mall Kota Warisan, KIP Mart Sungai Buloh, KIP Mart Sendayan, KIP Mart Sungai Petani and KIP Mart Kuantan.

As for FY19, the management of KIP REIT is looking at two asset injections, one from KIP Group and another potentially from a third party.

"Here at KIP REIT, we do not simply expand our asset portfolio for the sake of it.

"We will only inject an asset into the fund once its income contribution is stable and the yield is at least 6.5% annually.

"For the current financial year, we will add KIP Mall Kota Warisan by the second quarter of FY19. We are currently in talks to acquire an asset from a third party

"That said, in the event of a good opportunity presenting itself, we might acquire more than two assets in FY19," says Ong.

KIP REIT made its debut on the Main Market of local bourse in February 2017, at an offer price of RM1. The stock is worth 86 sen at press time, with a market capitalisation size of RM435mil.

In FY18 ended June 30, the fund recorded a net profit of RM37.61mil, as compared with RM14.66mil a year earlier.

Revenue-wise, KIP REIT posted a top line of RM62.77mil from RM26.35mil in the previous financial year.

In a filing, KIP REIT said that its financial performance in FY18 was not comparable with the previous corresponding period performance.

"This is due to the preceding year's corresponding period recognising five months of financial performance of KIP REIT (from Feb 6, 2017 to June 30, 2017) as the REIT was listed on Bursa Malaysia on Feb 6, 2017," it said.

Moving forward, Ong says that KIP REIT will be driven by diversification, both in terms of geographical locations and operating business segments.

"We want to expand our footprint across Peninsular Malaysia. With the new assets from KIP Group, we will expand into Kedah and Pahang.

"Also, we are looking at acquiring an asset in Perak, while we continue to grow our presence in our existing markets of Johor, Melaka, Negri Sembilan and Selangor.

"On top of these, we are eyeing to diversify into other promising business segments, of which warehousing is a segment we are keen in," he adds.

He also says that KIP REIT will continue to ensure that all of its existing assets are well maintained and will continue to undertake assets enhancement initiatives (AEI) to ensure stable and growing rental income and distributable income.

A sum of RM3.2mil has been allocated for KIP REIT's AEI in the current financial year.

The fund also aims to improve its overall average occupancy rate to 92% in FY19, from 86% a year earlier.

"Operationally, we are mindful of our cashflow," says Ong, adding that he plans to trim the operational costs of KIP REIT's properties further.

He projects the fund's net property income to improve in FY19 by "high single digit growth".

In FY18, the net property income was RM41mil. Currently, the company's debt to asset ratio stands at 14%.

Ong says the ratio will go up once more assets are acquired.

"But as long it is below 50%, it is fine."