Another retail REIT debuts on Bursa

BY TAN SIEW MUNG

KIP Real Estate Investment Trust, the retail REIT under which KIP Mart's assets are managed, will be listed on the Main Market of Bursa Malaysia on Feb 6.

According to its prospectus, the initial public offering (IPO) is expected to raise gross proceeds of RM234.2 million, most of which will be utilised for acquisitions. Based on its issue price of RM1 apiece, the REIT will have a market capitalisation of RM505.3 million.

The IPO will see the issuance of 234.15 million units, of which 220.65 million will be made available to Malaysian institutional and selected investors, and the rest to the public and eligible directors and employees.

Upon listing, KIP REIT's portfolio will comprise five community-centric retail centres — KIP Mart Tampoi, KIP Mart Kota Tinggi, KIP Mart Masai, KIP Mart Lavender Senawang and KIP Mart Melaka — and a neighbourhood retail centre known as KIP Mall Bangi. It is worth noting that these assets are situated mostly in the south — three in Johor and one each in Negeri Sembilan, Melaka and Selangor.

The KIP Mart outlets are located centrally in tier-two or tier-three towns, where income levels are lower than those in tier-one urban centres. Their average occupancy rate is 87.7%.

Boasting a total net lettable area of 938,800 sq ft, KIP REIT is looking to acquire five more malls — KIP Mall Kota Warisan, KIP Mart Sendayan, KIP Mart Sungai Buloh, KIP Mart Kuantan and KIP Mart Sungai Petani — to inject into its portfolio.

Its tenants include fresh markets, supermarkets, and fashion apparel, IT and electrical product, and food and beverage outlets. Its total revenue for the financial year ended June 30, 2016 (FY2016), was 4.1% higher year on year at RM64.6 million while overall gross rental income increased to RM53 million from RM51.6 million in FY2015.

Research houses TA Securities, Public-Invest Research and RHB Research Institute have fixed their target prices for the REIT at RM1.07 to RM1.09. In a Jan 13 note, TA Securities estimates KIP REIT's FY2017 and FY2018 earnings growth to be flattish. However, the research house expects the REIT's FY2019 distributable income to increase about 3% year on year to RM34.4 million, primarily due to higher rent collection as well as margin improvement due to better operational efficiencies at the malls, post-refurbishment.

KIP Real Estate Investment Trust

IPO details

Main Market
Issue price: RM1
Par value: RM1
Paid-up capital: RM505.3 million
Estimated free-float: 43.70%
Controlling shareholders: Datuk Chew Lak Siong and Datuk Ong Kook Leong
Oversubscribed by: 5.07 times
Fair value: RM1.09 (PublicInvest Research; TA Securities), RM1.07 (RHB Research Institute)
Listing date: Feb 6

Financial highlights

June 30 (RM MIL)	2014	2015	2016
Revenue	55.9	61.8	64.4
Net property income / (loss)	32.8	38.3	42.2
EPU based on enlarged share capital (sen)	NA	NA	NA
Dividend per unit (sen)	NA	NA	NA
Dividend yield (%)	NA	NA	NA

Given that the trust intends to pay 100% of its distributable income as dividends, TA Securities projects its distribution per unit to be between 6.58 sen and 6.63 sen in FY2017 and FY2018. This will translate into a dividend per unit yield of about 6.6%, based on the IPO price of RM1.

In a Jan 16 note, RHB Research says it expects the REIT to record annual earnings growth of 2.6% and 3% in FY2018 and FY2019 respectively — slightly lower than what is booked by its retail peers. "We believe KIP REIT's lower average rental reversion of around 1% to 3% per annum is partly due to the nature of its assets. Note that rental growth is typically around 3% to 5% per annum for retail malls. Given their market position, the KIP Mart outlets may face some competition from other hypermarkets, such as Mydin, Giant and Tesco, which are also targeting the low to medium-income groups."

The research house believes that KIP Mall Bangi will be the REIT's key organic growth driver as a potentially higher occupancy rate can be achieved. This, in turn, will help drive the mall's growth and, subsequently, the REIT's recurring income.