

## KIP REIT (KIP MK)

Reaping More From Existing Assets

### Highlights

- KIP REIT's focus will now be on organic growth, having achieved its AUM target of RM2.0b after the completion of KIPMall Setapak on 30 Sep 26.
- While historical rental reversions averaged about 5% under the previous owner, management sees scope for 20-25% higher rents for new tenants. Meanwhile, we gather that AEI for KIPMall Masai should generate higher ROI of 10% compared to that of KIPMasai at 6%.
- Maintain BUY with a lower target price of RM1.11 as we increase our cost of equity assumption and rollover our valuation base to FY27. KIP REIT is one of our top picks, offering lush yields of 8.6% and 9.0% for FY27 and FY28.

### Analysis

- Setapak's NPI poised to exceed current run-rate.** KIPMall Setapak's annualised NPI run-rate stood at about RM36m as at end-Sep 26, already 15% above the RM31.3m disclosed in the acquisition circular for FY25. We expect NPI growth to be driven by rental reversions and cost efficiencies, with 20% and 50% of NLA expiring in 2027 and 2028, respectively. While historical rental reversions averaged around 5% under the previous owner, management sees scope for 20-25% higher rents for new tenants. We believe this is achievable, drawing confidence from its experience at D'Pulse Shopping Centre, where average rent rose 23% to RM6.18psf after one year of acquisition. Meanwhile, the consolidation of Setapak's service contracts with the wider KIP REIT portfolio should generate cost savings.
- Anchor tenant replacement to enhance mall positioning.** We view the introduction of Jaya Grocer, alongside Oriental Kopi and Panda Eyes, positively as it should enhance the mall's tenant mix and potentially attract higher footfall. Jaya Grocer will replace Econsave on a 14% smaller footprint (24,395sf vs 28,295sf) under four successive three-year lease terms, while the remaining space will be leased to other two tenants. Combined rents from all three tenants are expected to be 42% higher than Econsave's rent, which will add about 1% to the mall's current NPI run-rate, per our estimate. Jaya Grocer is scheduled to open in 4QFY27, although management is targeting an earlier opening before Feb 27 (in 3QFY27).

### Key Financials

| Year to 30 Jun (RMm)         | 2025  | 2026  | 2027F | 2028F | 2029F |
|------------------------------|-------|-------|-------|-------|-------|
| Net turnover                 | 136.1 | 177.1 | 219.1 | 237.9 | 246.7 |
| EBITDA                       | 98.0  | 131.2 | 159.4 | 175.0 | 181.7 |
| Operating profit             | 96.8  | 129.9 | 158.1 | 173.7 | 180.3 |
| Net profit (rep./act.)       | 115.1 | 145.3 | 91.0  | 98.1  | 103.3 |
| Net profit (adj.)            | 51.6  | 73.6  | 91.0  | 98.1  | 103.3 |
| EPU (sen)                    | 6.7   | 7.9   | 8.1   | 8.5   | 8.9   |
| DPU (sen)                    | 6.8   | 7.3   | 7.4   | 7.8   | 8.2   |
| PE (x)                       | 13.0  | 10.9  | 10.7  | 10.2  | 9.7   |
| P/B (x)                      | 0.7   | 0.7   | 0.8   | 0.8   | 0.8   |
| DPU Yld (%)                  | 7.9   | 8.4   | 8.6   | 9.0   | 9.5   |
| Net margin (%)               | 37.9  | 41.5  | 41.5  | 41.3  | 41.9  |
| Net debt/(cash) to asset (%) | 35.9  | 33.8  | 39.0  | 38.7  | 38.4  |
| Interest cover (x)           | 4.1   | 4.5   | 4.2   | 3.9   | 4.0   |
| ROE (%)                      | 6.6   | 7.4   | 7.7   | 7.7   | 8.0   |
| Consensus DPU (sen)          | -     | -     | 7.3   | 8.0   | 8.4   |
| UOBKH/Consensus (x)          | -     | -     | 1.0   | 1.0   | 1.0   |

Source: KIP REIT, Bloomberg, UOB Kay Hian

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### BUY (Maintained)

|              |         |
|--------------|---------|
| Share Price  | RM0.865 |
| Target Price | RM1.11  |
| Upside       | 28.3%   |
| Previous TP  | RM1.15  |

### Stock Data

|                                |             |
|--------------------------------|-------------|
| Sector                         | Real Estate |
| Bloomberg ticker               | KIP MK      |
| Shares issued (m)              | 1,158.6     |
| Market cap (RMm)               | 1,002.2     |
| Market cap (US\$m)             | 245.6       |
| 3-mth avg daily t'over (US\$m) | 0.2         |

### Price Performance (%)

|                  |      |      |       |               |
|------------------|------|------|-------|---------------|
| 52-week high/low |      |      |       | RM0.96/RM0.82 |
| 1mth             | 3mth | 6mth | 1yr   | YTD           |
| 1.2              | 3.0  | 0.0  | (0.6) | (3.4)         |

### Major Shareholders (%)

|                |      |
|----------------|------|
| Ong Choo Meng  | 10.6 |
| Ong Kook Liong | 7.0  |

### Balance Sheet Metrics

|                          |      |
|--------------------------|------|
| FY27 NAV/Share (RM)      | 1.13 |
| FY27 Net Debt/Share (RM) | 0.81 |

### Price Chart



Source: Bloomberg

### Company Description

KIP REIT mainly focuses on community-centric retail centres. Its portfolio has grown to include 18 properties, featuring KIPMall assets in various Malaysian states, AEON Mall Kinta City, and industrial properties.

- **Ample room for organic growth.** With no acquisitions currently under consideration, management is focusing on organic growth through AEs. For FY27, around RM5m each has been budgeted for AEs at KIPMall Masai and KIPMall Kota Warisan. The AEI at Masai is expected to generate a yield of about 10%, higher than the 6% achieved at Tampoi, supported by the creation of additional NLA. We view this target as achievable given Masai's strong footfall of 6.7m visitors from Aug 25 to Sep 26, making it the portfolio's one of the busiest malls after Tampoi (6.9m visitors). Meanwhile, Tampoi's AEI, completed in Feb 26, has delivered encouraging results, with daily footfall increasing from 17,000-20,000 to 20,000-30,000 post-AEI.
- **Minimal near-term funding requirement.** Meanwhile, the RM160m AEON Mall Kinta City expansion has been delayed from its initial 1QFY28 completion target, pending regulatory approvals expected by end-26. Assuming construction starts in Jan 27, we expect completion by end-Jun 28 (ie end-FY28), with rental contribution starting from FY29. Hence, there should be minimal near-term funding requirements as the contractor will finance around 90% of construction costs, with payment upon project completion. The expected rental yield remains at 8% on actual development costs, providing protection against cost escalation.
- **DPU to catch up from 2QFY27.** KIP REIT declared an advance distribution of 0.82 sen for 1 Jul 26-24 Aug 26, ahead of the placement units being issued on 27 Aug 26, and was paid on 24 Sep 26. The balance of 1QFY27 is expected to be paid together with the 2QFY27's distribution. We expect DPU to normalise from 2QFY27, when KIPMall Setapak makes its first full-quarter contribution.

## Valuation/Recommendation

- **Maintain BUY with a lower target price of RM1.11 (from RM1.15),** as we roll over our valuation base to FY27 and increase our cost of equity assumption from 8.4% to reflect the higher risk-free rate environment. Our DDM-based target price implies a 6.7%/7.0% FY27/28 dividend yield (vs historical mean of 7.7%), based on a 9.2% cost of equity and terminal growth rate of 1.5%. KIP REIT is one of our top picks in the REIT sector and currently offers a lush dividend yield of 8.6% for FY27 and 9.0% for FY28.

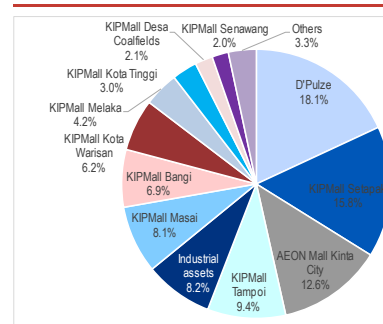
## Earnings Revision/Risk

- We increase our earnings forecasts by 21-24% for FY27-28F after the inclusion of Setapak Mall's contribution and introduce FY29 forecasts. We also increase our DPU forecast for FY27-28 by 1-2% to 7.4 sen and 7.8 sen respectively, after considering an enlarged share base from the placement completed in Aug 26.

## Environment, Social, Governance (ESG) Updates

- **Environment:** Targets to reduce Scope 2 emissions by 1% yoy for FY26, with a cumulative reduction target of 6% by 2030, in line with Malaysia's broader carbon-neutrality aspirations.
- **Social:** Achieved 100% localisation of its supply chain by engaging Malaysian suppliers, with a strong focus on regionally-based SMEs.
- **Governance:** Achieved 33% of women representation among the Board of Directors.

## NPI Breakdown By Assets (FY27F)



Source: KIP REIT, UOB Kay Hian

## 12-month Forward Yield Spread To MGS At 465bp



Source: Bloomberg, UOB Kay Hian

## 12-month Forward Yield At 8.6%



Source: Bloomberg, UOB Kay Hian

## Profit & loss

| Year to 30 Jun (RMm)          | FY26   | FY27F  | FY28F  | FY29F  |
|-------------------------------|--------|--------|--------|--------|
| Net turnover                  | 177.1  | 219.1  | 237.9  | 246.7  |
| EBITDA                        | 131.2  | 159.4  | 175.0  | 181.7  |
| Deprec. & amort.              | 1.3    | 1.3    | 1.3    | 1.3    |
| EBIT                          | 129.9  | 158.1  | 173.7  | 180.3  |
| Associate contributions       | 0.0    | 0.0    | 0.0    | 0.0    |
| Net interest income/(expense) | (29.0) | (38.2) | (44.8) | (45.7) |
| Pre-tax profit                | 149.7  | 91.0   | 98.1   | 103.3  |
| Tax                           | (4.4)  | 0.0    | 0.0    | 0.0    |
| Minorities                    | 0.0    | 0.0    | 0.0    | 0.0    |
| Net profit                    | 145.3  | 91.0   | 98.1   | 103.3  |
| Net profit (adj.)             | 73.6   | 91.0   | 98.1   | 103.3  |

## Cash flow

| Year to 30 Jun (RMm)             | FY26    | FY27F   | FY28F  | FY29F  |
|----------------------------------|---------|---------|--------|--------|
| Operating                        | 103.1   | 104.2   | 101.9  | 105.7  |
| Profit for the year              | 149.7   | 91.0    | 98.1   | 103.3  |
| Tax                              | 0.0     | 0.0     | 0.0    | 0.0    |
| Deprec. & amort.                 | 1.3     | 1.3     | 1.3    | 1.3    |
| Associates                       | 0.0     | 0.0     | 0.0    | 0.0    |
| Working capital changes          | 0.1     | 11.9    | 2.4    | 1.1    |
| Non-cash items                   | (48.0)  | 0.0     | 0.0    | 0.0    |
| Other operating cashflows        | (219.9) | (450.0) | (15.0) | (15.0) |
| Investing                        | (21.7)  | (15.0)  | (15.0) | (15.0) |
| Capex (growth)                   | (155.6) | (435.0) | 0.0    | 0.0    |
| Investment                       | (42.6)  | 0.0     | 0.0    | 0.0    |
| Others                           | 161.8   | 331.3   | (70.3) | (75.0) |
| Financing                        | (64.8)  | (83.7)  | (90.3) | (95.0) |
| Dividend payments                | 130.2   | 163.0   | 0.0    | 0.0    |
| Proceeds from borrowings         | 155.0   | 272.0   | 50.0   | 50.0   |
| Loan repayment                   | (26.0)  | (20.0)  | (30.0) | (30.0) |
| Others/interest paid             | (32.5)  | 0.0     | 0.0    | 0.0    |
| Net cash inflow (outflow)        | 45.0    | (14.5)  | 16.6   | 15.7   |
| Beginning cash & cash equivalent | 56.5    | 101.5   | 87.0   | 103.5  |
| Changes due to forex impact      | 0.0     | 0.0     | 0.0    | 0.0    |
| Ending cash & cash equivalent    | 101.5   | 87.0    | 103.5  | 119.2  |

## Balance Sheet

| Year to 30 Jun (RMm)       | FY26    | FY27F   | FY28F   | FY29F   |
|----------------------------|---------|---------|---------|---------|
| Fixed assets               | 1,749.1 | 2,197.8 | 2,211.5 | 2,225.1 |
| Other LT assets            | 58.7    | 58.7    | 58.7    | 58.7    |
| Cash/ST investment         | 101.5   | 87.0    | 103.5   | 119.2   |
| Other current assets       | 13.4    | 5.5     | 5.6     | 5.7     |
| Total assets               | 1,922.7 | 2,348.9 | 2,379.4 | 2,408.8 |
| ST debt                    | 4.4     | 4.4     | 4.4     | 4.4     |
| Other current liabilities  | 41.3    | 41.3    | 41.3    | 41.3    |
| LT debt                    | 747.3   | 999.3   | 1,019.3 | 1,039.3 |
| Other LT liabilities       | 26.8    | 30.7    | 33.3    | 34.5    |
| Shareholders' equity       | 1,102.8 | 1,273.1 | 1,281.0 | 1,289.2 |
| Minority interest          | 0.0     | 0.0     | 0.0     | 0.0     |
| Total liabilities & equity | 1,922.7 | 2,348.9 | 2,379.4 | 2,408.8 |

## Key Metric

| Year to 30 Jun (%)        | FY26 | FY27F  | FY28F | FY29F |
|---------------------------|------|--------|-------|-------|
| Profitability             |      |        |       |       |
| EBITDA margin             | 74.1 | 72.7   | 73.6  | 73.6  |
| Pre-tax margin            | 84.5 | 41.5   | 41.3  | 41.9  |
| Net margin                | 82.0 | 41.5   | 41.3  | 41.9  |
| ROA                       | 10.3 | 5.6    | 6.0   | 6.3   |
| ROE                       | 7.4  | 7.7    | 7.7   | 8.0   |
| Growth                    |      |        |       |       |
| Turnover                  | 30.1 | 23.7   | 8.6   | 3.7   |
| EBITDA                    | 33.8 | 21.5   | 9.8   | 3.8   |
| Pre-tax profit            | 30.0 | (39.2) | 7.9   | 5.3   |
| Net profit                | 26.2 | (37.4) | 7.9   | 5.3   |
| Net profit (adj.)         | 42.7 | 23.7   | 7.9   | 5.3   |
| EPU                       | 18.4 | 2.1    | 4.9   | 5.3   |
| Leverage                  |      |        |       |       |
| Debt to total capital     | 68.2 | 78.8   | 79.9  | 81.0  |
| Debt to equity            | 68.2 | 78.8   | 79.9  | 81.0  |
| Net debt/(cash) to equity | 59.0 | 72.0   | 71.8  | 71.7  |
| Interest cover (x)        | 4.5  | 4.2    | 3.9   | 4.0   |

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