Q

Although the pandemic is officially over, various challenges remain. For example, global GDP growth has slowed down as a result of dampened trade, high interest/profit rates and geopolitical unrest, among other factors. What has the situation been like in Malaysia, and for the KLCCP Stapled Group specifically?

A

It has been challenging with high inflation following several Overnight Policy Rate (OPR) hikes in response to increasing interest rates in the US, and an increase in electricity tariffs. What this means is that we have been living in a high-cost environment which has impacted our operations as well as consumer spending. The depreciation of the ringgit further exacerbated the situation as it increased the price of imported goods.

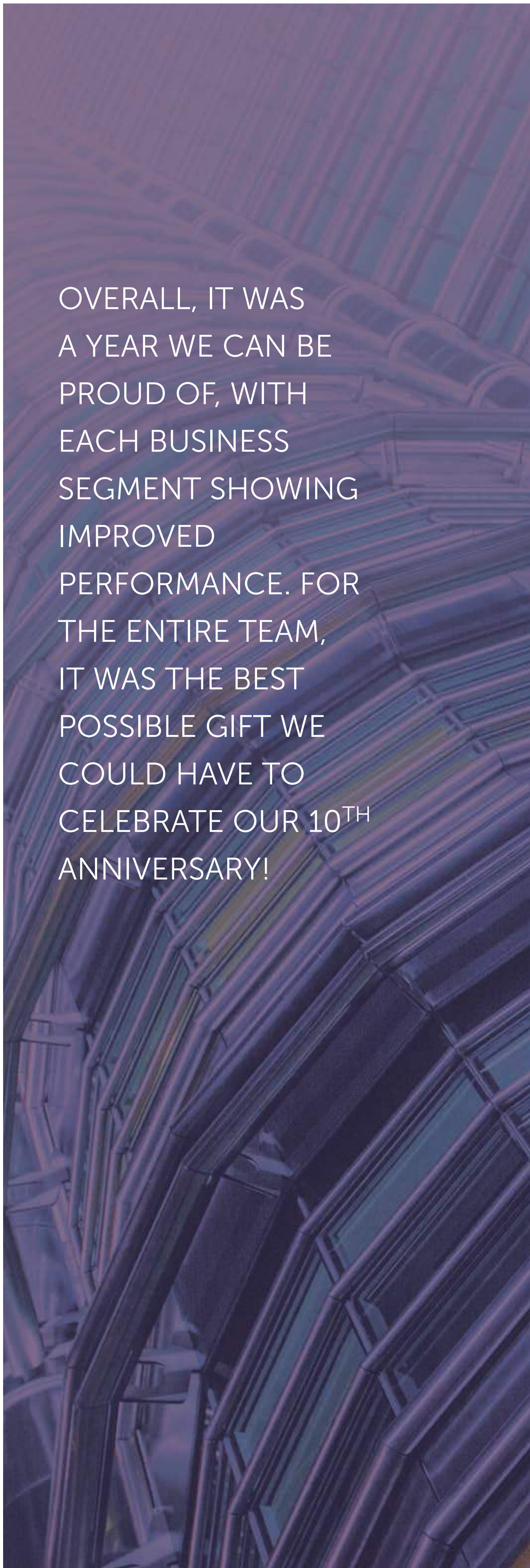
Nevertheless, KLCCP Stapled Group did very well. The leadership team had several strategic discussions with the Boards and, with their approval, we put into action key initiatives to enhance each of our businesses while mitigating the challenges to drive the business forward sustainably.

We have always positioned Suria KLCC as a people's mall. We offer a good mix of local and foreign brands across the price range spectrum – both in our retail and Food and Beverage (F&B) segments. By appealing to everyone, we continued to see footfall in the mall increase. More importantly, tenant sales grew 12.3% year-on-year (YoY).

In the Hotel segment, the depreciation of the ringgit was a boon as it made Malaysia more affordable to foreigners. Consequently, the country experienced an influx of visitors from all over the world with Singapore and Indonesia topping the list. Tourism growth to 26 million visitors from 19.1 million in 2022, was another triumphant factor for both our Hotel and Retail segments. On a related note, Meetings, Incentives, Conferences and Exhibitions (MICE) activities also picked up, with very encouraging spillover effects on our Hotel and Retail operations.

In the Office space, we are fortunate that we have long-term leases with our tenants and enjoy 100% occupancy rates. This segment therefore remains stable in the face of changes and challenges in the operating landscape. Our Management Services, meanwhile, expanded its portfolio of carparks and completed Workplace for Tomorrow office transformation amongst other projects, both of which contributed to significant revenue and profit growth.

Overall, it was a year we can be proud of, with each business segment showing improved performance. For the entire team, it was the best possible gift we could have to celebrate our 10th anniversary!



OVERALL, IT WAS A YEAR WE CAN BE PROUD OF, WITH EACH BUSINESS SEGMENT SHOWING IMPROVED PERFORMANCE. FOR THE ENTIRE TEAM, IT WAS THE BEST POSSIBLE GIFT WE COULD HAVE TO CELEBRATE OUR 10TH ANNIVERSARY!

IN CONVERSATION WITH THE CEO

DATUK MD. SHAH BIN MAHMOOD
Chief Executive Officer

In Conversation with the CEO

Q

The year also saw the completion of more commercial and retail buildings in Kuala Lumpur. Do you see this as a challenge?

A

While we acknowledge the competition, KLCC Precinct has unique advantages, namely office spaces and a mall located in the most iconic building in Malaysia, a world-class hotel, an international-standard convention centre and an award-winning 50-acre park – all located in the heart of Kuala Lumpur. What's more, these businesses collaborate and create synergies among each other, boosting profitability.

It is only natural that new developments attract people as consumers are always on the look-out for something new. Yet, our properties have been around for more than 25 years, and we continue to draw the crowds. If anything, the numbers keep increasing because of our unbeatable location, PETRONAS Twin Towers' timeless allure, the strong Mandarin Oriental brand, and Suria KLCC mall's mass appeal. Let's not forget, the Group's ability to maintain these properties at the highest standards of quality, comfort and safety using advanced and sustainable technologies.

We continuously upgrade our properties ensuring our customers' and tenants' comfort and well-being. In 2023 itself, we spent RM16.8 million towards the building control system upgrade in Menara Exxonmobil, refurbishment of the MOKUL Hotel and several digital technology upgrades within our properties. In the Office space, we completed the Workplace for Tomorrow 2.0 transformation in PETRONAS Twin Towers, Menara 3 PETRONAS and Permata Sapura spanning 19 floors and about 370,000 sq. ft. We have also been progressively retrofitting our office towers to be more sustainable with the installation of LED lights. Of note, during the year, Menara Maxis achieved a Silver GBI rating and Platinum LEED certification.

At the end of the day, the quality of our properties is reflected in their market value; and this has steadily increased in the last decade. At the end of 2023, our investment properties were valued at RM16.1 billion, placing them firmly in the premium range of the REIT sector.

Q

Consumer tastes and preferences keep changing. How do you keep up, especially in the retail sector where so many new brands emerge all the time? How do you know what will be a hit and what a miss?

A

We have a dedicated team that conducts market research on retail as well as F&B trends, ensuring we stay up-to-date in every consumer demographic. More than that, we recognise that people don't go to malls just to shop. They want a lifestyle experience – somewhere to have coffee or lunch; to watch a film; or to read a book on a bench outdoors. And we provide all of this. The team is improving at orchestrating engaging experiences at the Concourse Mall and a variety of activities at the KLCC Park, from the newly introduced Picnic in the Park to The Arty Inflatable during the Mental Wellness Week, and Art in the Park during the Merdeka and New Year weeks.

Of course, we also keep reviewing our retail tenant mix and constantly refresh our F&B outlets. This year itself, we brought in 35 new tenants, 15 of which are in F&B including Bacha Coffee, a legendary coffeehouse from Morocco, and the local favourite Cili Kampung restaurant. The constant change that you see in Suria KLCC is what keeps us exciting and relevant, and is what brings people back.

Q

Your business is very people-centric, requiring the Group to focus on customer centricity. What about your own people? How do you bring out the best in your employees and keep them wanting to work with the Group?

A

It goes without saying that our people are extremely important to us. We rely on them to execute our strategy and achieve our corporate objectives. We are therefore intensifying efforts to upskill and reskill our employees in core competencies. We have established a structured capability development framework while also designing individual capability development programmes for executives and managers in technical positions. To fast-track knowledge acquisition, we provide job mobility opportunities for talent, with 20% of staff enjoying cross functional postings and promotions this year. Meanwhile, we achieved an average of 41 learning hours per employee in 2023.

Another focus area is collaboration across boundaries where we work towards excellence cohesively as a Group. To enhance Group dynamics, we have launched programmes such as Iconnect and CeritaKITA, focusing on cementing trust and further strengthening collaboration and camaraderie across businesses within the organisation. We recognise the potential of 'crowdsourcing' using our pool of employees in the Group for ideas and input. We did this for the first time ever this year via a Hackathon to generate innovative customer solutions. The exercise attracted good response and generated solid ideas which we will be taking on board. Given its success, we will be organising more such activities to tap into the power of the collective as well as to create greater cohesion.

Efforts to engage employees to be part of the change we want to see are bearing fruit. We can already discern stronger teamwork and the adoption of new ways of working as employees are more energised in contributing to the Group's purpose and goals. This year, 99% of employees participated in our Organisational Culture Survey 2023 (compared with 91% in 2022) and we achieved an index score of 78, which was a five-point improvement from 2022.

Q

As we reflect on the accomplishments and challenges of the Group in 2023, how satisfied are you with its overall performance?

A

Considering it was a very challenging year, the Group did exceptionally well financially and even broke a few records. We achieved a total revenue of RM1.6 billion, 11.0% higher than in 2022, and a profit for the year of RM1.1 billion, 17.0% higher YoY.

While all the segments performed well, MOKUL Hotel surpassed expectations, bouncing back from three years of losses during the pandemic to score a profit before tax (PBT) of RM3.0 million. This was due to a commendable occupancy rate of 55% (25 percentage points higher than in 2022) and a surge in revenue per available room (RevPar) capitalising on group stays and banqueting events. Room rates in December 2023, traditionally our peak season, was the highest ever since the hotel opened in 1998.

The Office sector anchored the Group's stability with revenue of RM582.5 million while PBT (excluding fair value adjustments) grew by 0.9% to RM523.4 million. Experiencing a 29.6% growth in footfall and 12.3% increase in tenant sales, hitting the highest sales value in the mall's 25-year history. Retail grew its revenue by 6.6% to RM516.1 million and recorded a 5.7% increase in PBT (excluding fair value adjustments) to RM392.9 million. Management Services also demonstrated a significant jump in revenue of 25% to RM309.7 million with PBT (excluding fair value adjustments) surging 68% to RM46.2 million. This was based on the additional facility management works and new parking lots secured.

The Group's stellar performance, supported by a prudent cost management, enabled us to offer a dividend of 40.50 sen, a remarkable 6.6% increase YoY and the highest dividend distribution in a decade.

In Conversation with the CEO

Q

In light of the Group's excellent performance in 2023, what plans do you have for KLCCP Stapled Group going forward? Where and how do you see room for improvement?

A

Given the industry landscape today, there is no room for complacency. Yes, we have done well in 2023, but there is still work to be done to maintain our leadership and build a sustainable future. In this regard, we will be guided by our Strategy Blueprint 2023-2027. This blueprint is the result of intense discussions with the Leadership Team and our key business partners on challenges facing the industry and how best to strategise our recovery from the pandemic while capitalising on opportunities.

The blueprint borrowed from our enterprise model which emphasises Commercial Excellence, Project Excellence and Operational Excellence centred around Customer Centricity, supported by our culture, capability, digitalisation, HSE and sustainability. Together, this model shapes our Winning Formula. We recognise that, to win, we need to focus relentlessly on customer centricity while optimising efficiencies in resource utilisation, bringing down costs and enhancing our sustainability. There are two key aspects to this, namely digitalisation and enhanced competencies, which we have been investing into significantly.

Ultimately, our Strategy Blueprint is to guide us to achieve our 3-pronged growth strategy, namely Maximising Cash Generator, Expanding Core Business, and Stepping Out. The first is about improving our cashflow from operations from sweating our assets, encompassing energy savings, the consolidation of operational procurement and prudent capital management. Here, our investments in digital technologies are key. To expand our business, we have been growing the number of facilities we manage. Our very recent acquisition of the remaining 40% equity interest in Suria KLCC reflects our commitment to expanding our core. This move offers KLCCP a strategic opportunity to boost the growth of Suria KLCC and align synergies within the ecosystem, providing both strategic and operational flexibility. Moving forward, we will continue to explore the opportunities to expand our property portfolio.

In terms of stepping out, we are actively exploring feasible opportunities. Any investments will need to be aligned with our target growth and profitability and most importantly, provide value for our holders of Stapled Securities.

A key part of our journey going forward is to become more sustainable as an organisation and to contribute to the management of critical issues such as climate change. As a member of the PETRONAS Group, we seek to become a net zero carbon emissions organisation by 2050. A milestone prior to reaching this goal is to reduce our emissions by 25% by 2030 from our 2019 baseline. Towards this end, we have established a Carbon Reduction Strategy and established targets for each operating and business unit Group-wide. Going forward, we will be enhancing efforts not only to mitigate climate change but also to identify and adapt to its risks as we adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We are guided by the 5-year Sustainability Roadmap, and I am pleased to share that we met most of the targets set in the last roadmap which ended in 2023. The next roadmap will see our sustainability agenda reach another level, driven by the firm commitment of everyone across the Group to deliver impactful sustainability results.

Q

Finally, what is the outlook for KLCCP Stapled Group? What can stakeholders expect in 2024?

A

The immediate outlook for the Group is looking bright. No doubt, certain economic and industry challenges will persist and new ones may arise. Yet, adhering to our strategic framework and leveraging enhanced Group synergies, KLCCP Stapled Group is set to maintain the momentum achieved into the coming year, with each business segment continuing to flourish, supported by robust fundamentals.

There is increasing urgency for us to expand and diversify our business to maintain our leadership and relevance in a rapidly changing landscape. While acknowledging the need to be cautious, we will be more proactive in exploring possibilities and seizing opportunities that fit our criteria.

As always, the Group will be guided in our growth by the sound counsel of our highly experienced Directors, and the strategic thinking of our Leadership Team; while all plans outlined will be executed by our driven and dynamic team. I would like to express my gratitude to everyone in this fantastic team for your commitment to our shared values and goals. At the same time, I would like to acknowledge the invaluable contributions of all our stakeholders over the last 10 years without which we would not be where we are today. Thanks to all our internal and external stakeholders, the Group has enjoyed *A Decade of Excellence*. With your continued support, we will extend this excellence well past another decade into the future.

Datuk Md. Shah Bin Mahmood
Chief Executive Officer