CFO'S REVIEW

"Despite a confluence of factors that impacted Malaysia's economic growth in 2023, KLCCP Stapled Group continued to demonstrate robust resilience, with our top and bottom lines growing substantially YoY and our PBT exceeding that achieved in 2019, pre-pandemic."

The year 2023 was another challenging year despite the recovery and stabilisation of the economy post pandemic. Geopolitical volatilities impacted global trade, increasing the cost of goods and supplies. The United States' Federal Reserve repeatedly raised its interest rates to supress inflation. In Malaysia, Overnight Policy Rate (OPR) hikes by Bank Negara Malaysia, a depreciating Ringgit together with a high-cost environment impacted consumer spending.

Exacerbating the situation, utility costs increased by 32.9% YoY as a result of the 300% hike in electricity tariff following the Imbalance Cost Pass Through (ICPT) review at end 2022. Meanwhile, the addition of 1,347 new 5-star hotel rooms and 1.4 million sq ft of retail space added further pressure in a market facing oversupply.

Amid this backdrop of weakened consumer spending, higher cost of doing business and heightened competition, we remained focused on improving our cash flow from operations (CFFO) whilst maintaining discipline in our capital management. The ultimate objective, as always, was to ensure growth in our bottom line and a strong balance sheet to meet our financial obligations with sufficient resources to capitalise on any opportunities that arise.

Our revenue achieved growth of 11.0% contributing 7.9% higher PBT (excluding fair value adjustments) than 2022. The collaborative efforts with KLCC precinct partners, innovative marketing initiatives, and a strong customer focus have propelled our revenue from the hotel and retail sectors. Simultaneously, our office segment continues to provide a stable return for the Group.

A significant focus in 2023 was to dive deeper into cost optimisation and create efficiencies across the value chain, from energy utilisation to procurement. Leveraging technology, we continue to improve our energy and water efficiencies and have even started the use of remote gondola monitoring with GPS technology, all managed from the IBCC. At the same time, we have centralised certain aspects of our procurement for more streamlined processes and to enjoy economies of scale. We are also enhancing our reporting and collaboration amongst divisions and business units with the use of digital tools. This includes the online access of financial reports and Limit of Authority (LOA) which further improve performance monitoring and interaction capabilities for effective decision making.

REVENUE

RM1.6 billion

2022: RM1.5 billion

+11.0%

PROFIT BEFORE TAX*
excluding fair value adjustments

RM1.0 billion

2022: RM0.9 billion

+7.9%

MARKET VALUE – INVESTMENT PROPERTIES

RM16.1 billion

2022: RM15.9 billion

+1.1%

Acknowledging the vital role of the finance function in advancing our Environmental, Social and Governance (ESG) agenda, our strategic approach not only supports but also aligns with the intricate interrelations between financial considerations and sustainability measures. This commitment is reinforced by our dedication to climate change adaptation and management, in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

We have always been prudent in our capital management, with more than 80% of our financing on a fixed rate. This has protected us against the spike in interest/profit rates with our cost of debt within the reasonable level of 4.6%. At the same time, we continue to adopt a diligent approach for potential investment to ensure satisfactory returns.

As a result of conscientious efforts to maintain the quality of our assets, their valuations continue to increase. For the year 2023, the investment properties held by the Group were valued at RM16.1 billion, RM172.3 million more than in 2022. This indicates healthy rental reversion, fortifying our leasing position and concurrently bolstering our overall profitability.

Of particular note, our performance enabled us to declare a dividend of 40.50 sen per stapled security compared to 38.00 sen in FY2022, marking a 6.6% or 2.50 sen increase. This is the highest dividend declared by KLCCP Stapled Group.

OUTLOOK

The immediate future is looking exciting as, during the year, we received the Board's mandate to expand our investment portfolio. This has spurred us to explore new property investments from 2024 onwards. In the meanwhile, we have also developed a framework for diversifying into new ventures. Our current gearing, at 18%, is very healthy and provides ample room for growth.

A key focus in 2024 will be to meet our financing obligations. We have two sukuk tranches totalling RM1.1 billion maturing in April and December. Our strong AAA/Stable rating, together with an anticipated moderation in interest/profit rates in the coming year, lend us confidence to raise the funds required at optimal cost.

Nevertheless, the year will not be without challenges. Starting from March 2024, Malaysia's Sales and Service Tax (SST) is to be increased from 6% to 8%. This is to be followed by the introduction of a High Value Goods Tax (HVGT) effective 1 May. While the impact of these has yet to be seen, we will continue to provide exceptional service to our retail and office tenants as well as guests at MOKUL Hotel while looking at growth opportunities and stepping up our focus on ESG. We believe that in doing so, we will not only preserve but grow KLCCP Stapled Group's prestige and place ourselves on an even stronger footing to face any challenges that come our way.

Rohizal Bin Kadir
Chief Financial Officer