



AmInvestment Bank

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

29 August 2023

Continuous improvement in occupancy rate

Company report

BUY

(Maintained)

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Rationale for Report: Company Results

Price	RM0.65
Fair Value	RM0.81
52-week High/Low	RM0.84/RM0.50

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY22	FY23F	FY24F	FY25F
Gross Revenue (RM mil)	117.4	121.1	125.5	130.1
Adj. Distributable Income (RM mil)	34.0	34.8	35.8	37.2
EPU (sen)	7.2	7.2	7.1	7.2
Consensus Net Income (RM mil)	-	27.3	28.6	29.6
DPU (sen)	8.0	6.2	6.2	6.2
DPU Growth (%)	216.2	(18.1)	(0.4)	(0.2)
Distribution yield (%)	12.4	9.7	9.6	9.6
PE (x)	8.9	9.0	9.1	9.0
EV/EBITDA (x)	23.0	16.0	14.8	14.8
ROE (%)	13.0	5.4	5.8	6.2
Debt-to-asset ratio (%)	47.0	44.5	46.2	46.1

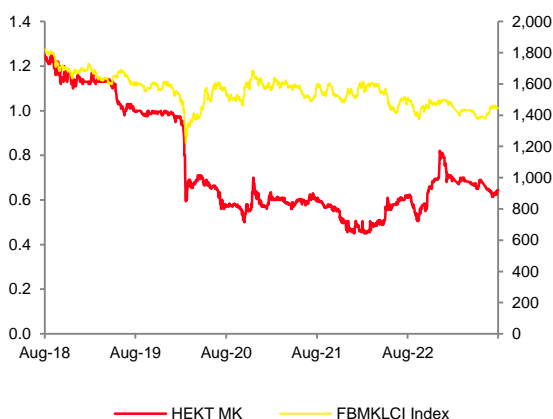
Stock and Financial Data

Shares Outstanding (million)	498.8
Market Cap (RM mil)	321.7
Book Value (RM/share)	1.24
P/BV (x)	0.5
ROE (%)	13.0
Debt-to-asset ratio (%)	47.0

Major Shareholders	Frasers Centrepoint Trust (28.9%) Hektar Black (25.8%) Kong Goon Khing (1.0%)
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Free Float	44.3
Avg Daily Value (RM mil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(4.4)	(6.5)	5.7
Relative (%)	(7.2)	(5.9)	9.9



Investment Highlights

- We maintain BUY on Hektar with an unchanged fair value (FV) of RM0.81/unit based on our dividend discount model (DDM), which incorporates a 4-star ESG rating (Exhibits 6 & 7).
- The FV implies a FY24F distribution yield of 8%, at parity to its 5-year median.
- We made no changes to our earnings forecasts as Hektar's 1HFY23 distributable income of RM16mil came in within our expectation. It accounted for 46% of our FY23F earnings and 59% of street's.
- In 1HFY23, Hektar's gross revenue fell 4% YoY while net property income (NPI) inched up 1% YoY. The improving NPI margin were attributed to the group-wide cost optimisation programme implemented since 2HFY22. However, its adjusted distributable income reduced 21% YoY from increased finance cost.
- QoQ, Hektar's 2QFY23 revenue declined 6% while NPI rose 2%. The stronger NPI was mainly attributed to the group-wide cost optimisation programme. However, its distributable income was 25% lower QoQ due to recognition of net provision of impairment loss in trade receivables of RM0.6mil vs. a reversal of impairment loss in trade receivables of RM2mil in previous quarter (1QFY23).
- Hektar declared its gross distribution per unit (DPU) of 2.7 sen (flattish YoY) in 2QFY23, representing a 12-month trailing distribution yield of 12%.
- QoQ, average occupancy rate increased 2% to 86% (Exhibit 2), with an improvement in all its retail malls. As at 30 June 2023, the committed occupancy rate of Hektar stood at 87%.
- Hektar has registered a slight negative reversion of 2.5% in 2QFY23, mainly due to negative reversion at Mahkota Parade and Central Square (Exhibit 4). For FY23F, we still expect a negative of rental reversion of <-5% as we believe Hektar need to offer more competitive rental rates in its underperforming malls, particularly Subang Parade, to retain existing and attract new tenants.

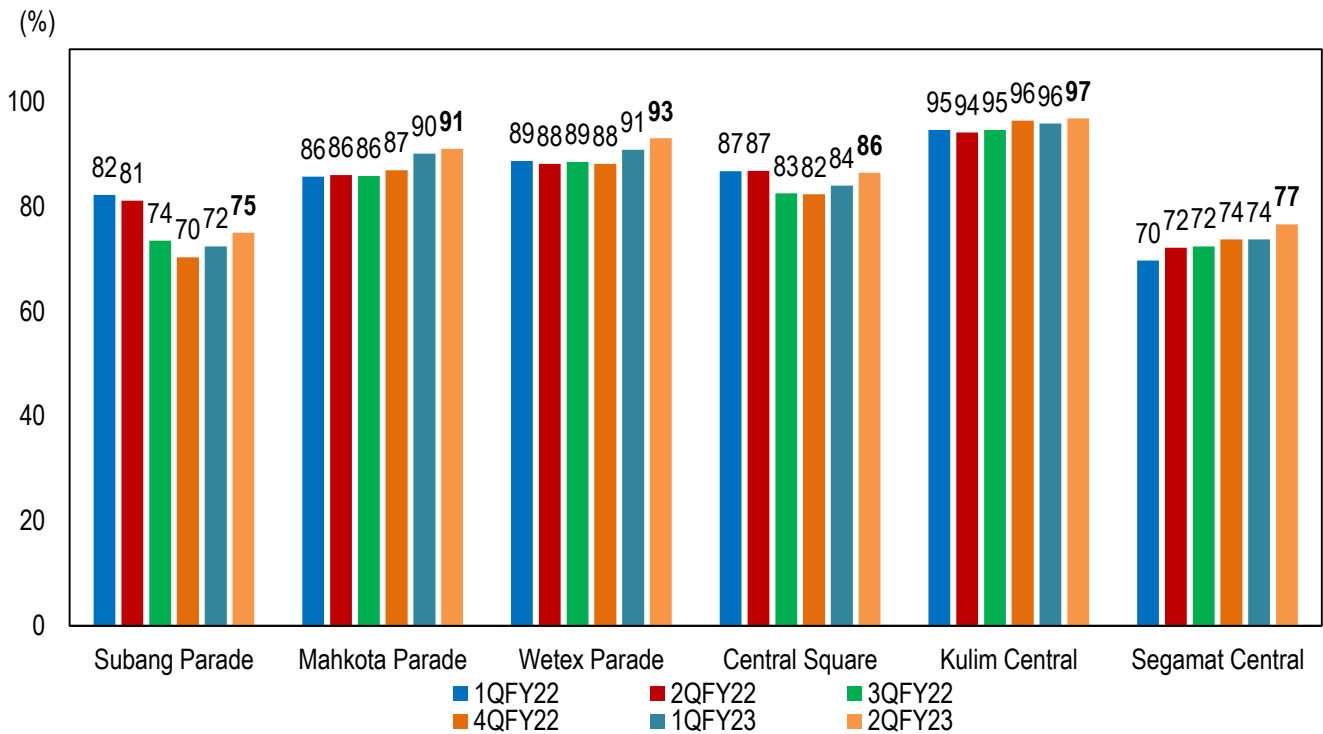
- Based on the information shared during the Federal Open Market Committee's post-meeting press conference, we understand that there is no certainty that another 0.25% rate hike will take place in the next meeting on 19th-20th September 2023. The decision to implement another 0.25% rate hike appears to hinge on incoming data, particularly related to labour market and inflation expectations. While awaiting economic data updates, our in-house economists maintain their forecast, anticipating that the Fed fund rate could peak between 5.5%-5.75% by 3QCY23 from current levels of 5.25%-5.5%.
- The recent less-hawkish interest rate guidance delivered by the Federal Reserve (Fed) may suggest that we are approaching the end of global monetary policy tightening. As such, we expect the uptrend in 10-year US Treasury yield to be tapering off with the expectation that the Federal Reserve may pause rate hikes after 3QCY23. Besides, our economist forecasts 10-year MGS to be lower at 3.75% (from current level of 3.85%) in 4QCY23 with a gradual decline to 3.5% in 4Q2024. However, we do not rule out the possibility that the 10-year MGS yield could be lower than our projection of 3.75% in 2023 should there be a change in Fed's hawkishness on rate hikes.
- From FY23F onwards, we anticipate Hektar's distribution yield spread against 10-year MGS to widen to 6% vs. 5-year median of 4%. Hence, we expect Hektar to be appealing to yield-seeking investors with its higher dividend spread against 10-year MGS (Exhibit 5).
- Hektar's FY24F distribution yield of 9.6% is attractive vs. 10-year MGS yield of 3.85%.
- We like Hektar due to:
 - (i) its diverse portfolio of neighbourhood shopping centres located strategically over 4 states (Selangor, Melaka, Johor and Kedah) in Peninsular Malaysia;
 - (ii) most of its retail malls (Kulim Central, Central Square and Wetex Parade) have a more consistent customer base since they are either the only mall in that particular town or the dominant shopping centre; and
 - (iii) its strategic collaboration with Frasers Centrepoint Trust will help Hektar expedite acquisition plans, work on joint venture prospects, obtain financial assistance and leverage on synergies in skills, experience and retail connections.

EXHIBIT 1: RESULT SUMMARY

(RM 'mil)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	29.4	28.9	27.2	(6.0)	(7.4)	58.5	56.2	(4.0)
Property operating costs	(15.7)	(13.7)	(11.7)	(14.7)	(25.2)	(28.2)	(25.5)	(9.6)
Net property income	13.7	15.2	15.5	1.8	13.0	30.3	30.7	1.2
Other income	0.6	0.6	0.6	(5.0)	5.3	2.1	1.2	(41.9)
Net Investment Income	14.3	15.8	16.1	1.5	12.7	32.5	31.9	(1.6)
Other trust expenses	(3.1)	(0.4)	(3.3)	>100	5.3	(3.2)	(3.7)	13.9
EBIT	11.2	15.4	12.8	(16.8)	14.7	29.2	28.3	(3.3)
Net interest income/expenses	(4.6)	(6.2)	(5.9)	(5.4)	27.4	(8.9)	(12.1)	35.7
Profit before EI	6.6	9.2	7.0	(24.5)	5.8	20.3	16.2	(20.5)
EI	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Profit Before Taxation	6.6	9.2	7.0	(24.5)	5.8	20.3	16.2	(20.5)
Net Profit	6.6	9.2	7.0	(24.5)	5.8	20.3	16.2	(20.5)
Distributable Adjustment	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Distributable Income	6.6	9.2	7.0	(24.5)	5.8	20.3	16.2	(20.5)
One-off item	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Adjusted Distributable Income	6.6	9.2	7.0	(24.5)	5.8	20.3	16.2	(20.5)
<u>Distribution:</u>								
EPU - Diluted (Sen)	1.4	1.9	1.4	(28.4)	(0.7)	4.3	3.3	(22.9)
Proposed DPU (Sen)	2.7	0.0	2.7	n.m.	0.0	2.7	2.7	0.0
NAV/unit	1.2	1.2	1.2	(1.1)	3.2	1.2	1.2	3.2
Weighted average unit ('000)	471.3	498.8	498.8	0.0	5.8	471.3	498.8	5.8
<u>Margin:</u>								
NPI margin (%)	46.7	52.6	56.9	4.4	10.2	51.9	54.7	2.8
EBIT margin (%)	38.1	53.3	47.2	(6.1)	9.1	50.0	50.3	0.3
Net Interest coverage (x)	2.4	2.5	2.2	(0.3)	(0.2)	3.3	2.3	(0.9)
Net gearing ratio (x)	95.2	88.2	86.8	(1.4)	(8.4)	95.2	86.8	(8.4)
Debt-to-Asset Ratio (%)	46.7	44.3	44.1	(0.2)	(2.5)	46.7	44.1	(2.5)

Source: Company, AmlInvestment Bank Berhad

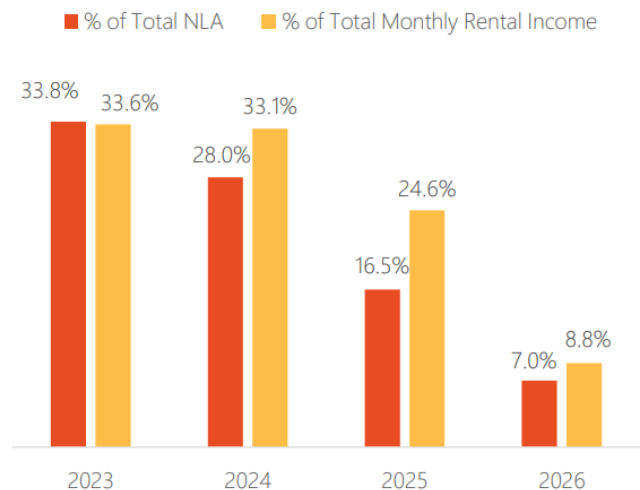
EXHIBIT 2: OCCUPANCY RATE



Source: Hektar, AmlInvestment Bank Bhd

EXHIBIT 3: PORTFOLIO TENANCY EXPIRY PROFILE

PORTFOLIO TENANCY EXPIRY PROFILE 2023-2026		
Period Ended June 2023	Number of Tenancies Expiring	Expiring NLA (Sq. Ft.)
2023	125	691,581
2024	121	572,464
2025	105	336,629
2026	26	142,102
Total	377	1,742,776



¹ Based on the total Net Lettable Area (NLA) of 2,043,428 sq. ft. as at 30 June 2023.

² Based on monthly rental income for June 2023. Figures may not round to 100% due to misc. items.

Source: Hektar

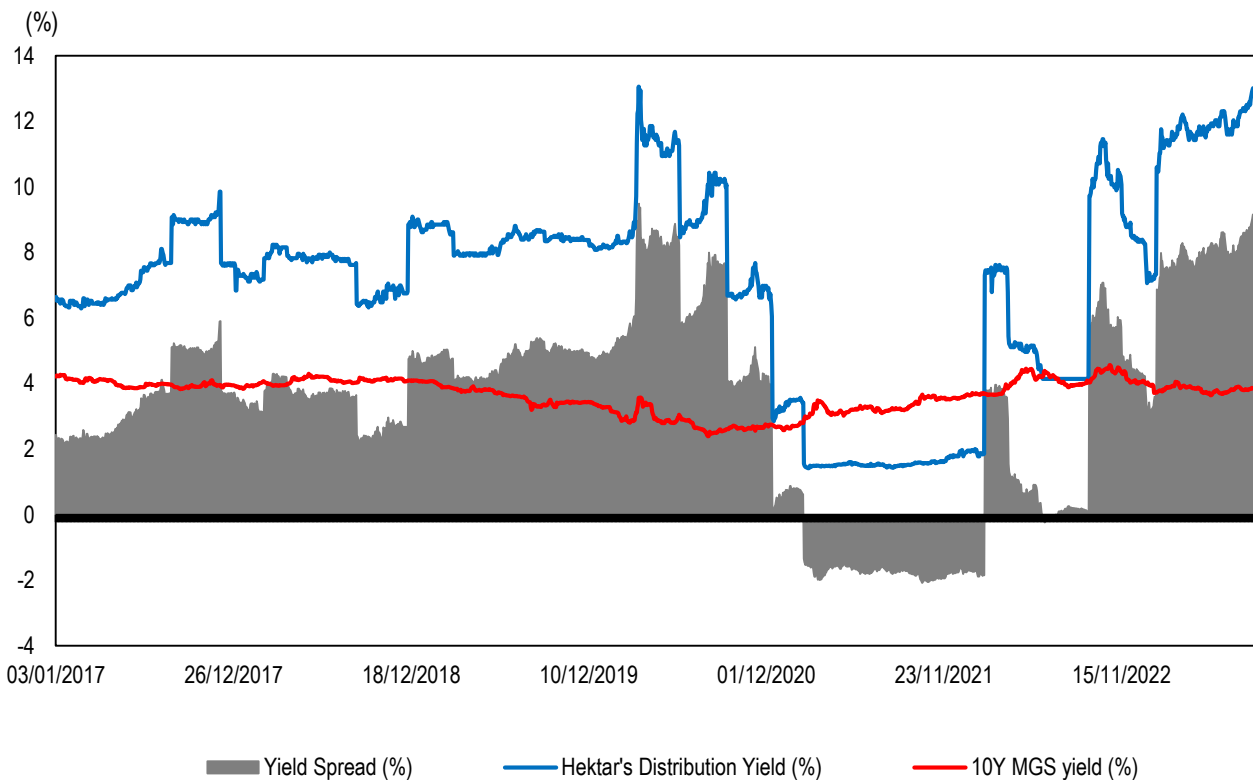
EXHIBIT 4: PORTFOLIO RENTAL REVERSION IN 3QFY22

Second Quarter Ended 30 June 2023 (3 months)	Number of New Tenancies/ Renewals	NLA (Sq. Ft.)	Percentage of Total NLA	Percentage Change Over Previous Rent Rates
Subang Parade	9	12,284	2.3%	-1.2%
Mahkota Parade	5	9,327	1.8%	-11.7%
Wetex Parade	6	4,370	2.6%	0.6%
Central Square	10	23,284	7.5%	-2.1%
Kulim Central	8	12,209	4.1%	6.1%
Segamat Central	5	7,364	3.5%	6.3%
Total/Average	43	68,838	3.4%	-2.5%

Note: Average weighted by NLA

Source: Hektar, AmlInvestment Bank Bhd

EXHIBIT 5: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: AmlInvestment Bank Bhd, Bloomberg

EXHIBIT 6: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate	3.9%
Beta	0.96
Market Return	14.3%

Cost of Equity (Ke)	13.9%
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Average Cost of Debt	4.8%
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Capital Structure: (RM Mil)

Market Cap	321.7	35.6%
Total Borrowing	581.1	64.4%
Total	902.8	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	35.6%	13.9%	5.0%
Average Cost of Debt	64.4%	4.8%	3.1%
WACC			8.0%

Multi-Stage DDM	2023	2024	2025	2026	2027	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.062	0.062	0.062	0.063	0.063	0.796
Present Value (RM)	0.06	0.05	0.05	0.05	0.04	0.54
Valuation	0.79					
(+) 3% premium for 4-star ESG rating	0.02					
Fair Value/unit (RM)+ESG	0.81					
Rate of Return (%)	8.0%					
Growth Rate (%)	0.2%					

Source: Company, AmlInvestment Bank Berhad

EXHIBIT 7: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★	★	★	
Energy, Water & Waste management	★	★	★	★	
Pollution Control	★	★	★		
Health and safety compliance	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Employees welfare & training	★	★	★		
Corruption free pledge	★	★	★		
Diversity and inclusion	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 8: PB BAND CHART

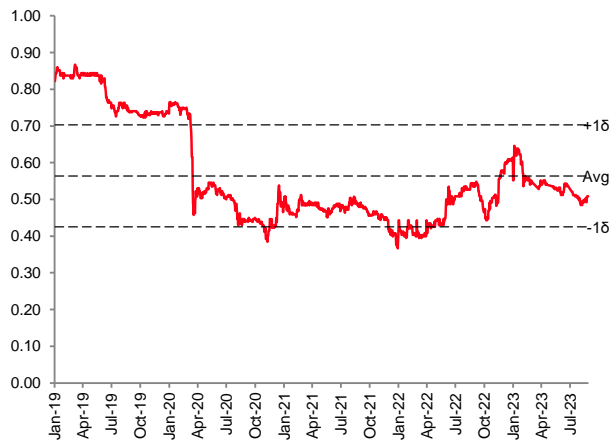


EXHIBIT 9: PE BAND CHART

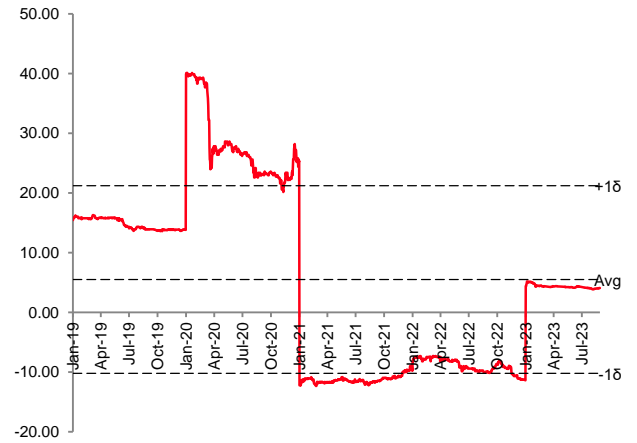


EXHIBIT 10: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Gross Revenue	96.6	117.4	121.1	125.5	130.1
Net Property Income	47.0	58.7	67.2	70.2	73.2
Net Investment income	47.0	60.4	67.4	70.3	73.4
EBITDA	36.8	55.0	56.6	59.2	61.9
Net interest	(17.9)	(18.6)	(21.7)	(23.4)	(24.8)
Exceptional items (EI)	(50.3)	41.6	0.0	0.0	0.0
Pretax profit	(31.5)	78.0	34.8	35.8	37.2
Taxation	3.0	(3.3)	(1.1)	(1.1)	(1.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	(28.5)	74.6	33.7	34.7	35.7
Adjusted Distributable income	12.7	34.0	34.8	35.8	37.2
Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22F	FY23F	FY24F	FY25F
Other investments	1.7	0.1	1.6	1.6	1.6
Investment properties	1,164.6	1,206.1	1,206.1	1,206.1	1,206.1
Total non-current assets	1,166.2	1,206.2	1,207.7	1,207.7	1,207.6
Cash & equivalent	59.1	23.2	24.0	26.1	27.2
Other receivables	2.7	1.7	9.6	9.9	10.3
Trade receivables	2.7	4.5	14.5	15.0	15.5
Total current assets	64.5	29.4	48.1	51.0	53.0
Trade payables	16.6	5.7	10.0	10.3	10.6
Short-term borrowings	15.0	9.0	15.0	15.0	15.0
Other payables and accruals	51.0	26.6	42.9	44.0	45.2
Total current liabilities	82.6	41.3	70.7	69.2	70.7
Long-term borrowings	566.1	542.4	566.1	566.1	566.1
Other long-term liabilities	34.1	53.8	43.7	45.1	46.6
Total long-term liabilities	600.2	596.3	609.8	611.2	612.7
Total Unitholders' funds	548.0	598.0	575.3	578.2	577.2
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.3	1.3	1.3	1.2	1.1
Cash Flow (RMmil, YE 31 Dec)	FY21	FY22F	FY23F	FY24F	FY25F
Pretax profit	(31.5)	78.0	34.8	35.8	37.2
Net change in working capital	13.2	(10.9)	(10.3)	0.8	0.9
Others	68.3	(31.8)	8.8	18.0	18.9
Cash flow from operations	50.0	35.4	33.3	54.6	56.9
Capital expenditure	(0.4)	0.0	0.0	0.0	0.0
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	0.7	(7.6)	2.3	4.0	3.0
Cash flow from investing	0.3	(7.6)	2.3	4.0	3.0
Debt raised/(repaid)	0.0	(29.6)	29.6	0.0	0.0
Equity raised/(repaid)	4.2	0.0	0.0	0.0	0.0
Distribution paid to unitholders	(4.2)	(24.6)	(30.4)	(31.2)	(32.1)
Others	(18.7)	(20.2)	(23.2)	(25.3)	(26.7)
Cash flow from financing	(18.6)	(74.5)	(24.0)	(56.5)	(58.9)
Net cash flow	31.7	(46.7)	11.6	2.1	1.1
Net cash/(debt) b/f	27.3	59.1	12.4	24.0	26.1
Net cash/(debt) c/f	59.1	12.4	24.0	26.1	27.2
Key Ratios (YE31 Dec)	FY21	FY22F	FY23F	FY24F	FY25F
Revenue growth (%)	(13.1)	21.6	4.8	3.6	3.6
Net Property Income growth (%)	(11.2)	24.8	9.0	4.4	4.3
Pretax margin (%)	(32.6)	66.4	28.8	28.5	28.6
Net income margin (%)	(29.5)	63.6	27.8	27.6	27.5
Net Interest cover (x)	2.1	3.0	2.6	2.5	2.5
Effective tax rate (%)	9.6	3.9	3.9	3.9	3.9
DPU payout (%)	141.9	90.0	90.0	90.0	90.0
Receivable turnover (days)	13.1	43.6	43.6	43.6	43.6
Payable turnover (days)	121.4	67.8	67.8	67.8	67.8

Source: Company, AmlInvestment Bank Bhd estimates

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