



AmInvestment Bank

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

13 September 2023

Expanding into education

Company report

BUY

(Maintained)

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Rationale for Report: Company Update

Price **RM0.64**
Fair Value **RM0.75**
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	132.3	138.4
Adj. Distributable Income (RM mil)	34.0	34.8	34.4	39.3
EPU (sen)	7.2	7.2	5.7	6.4
Consensus Net Income (RM mil)	-	27.3	28.6	29.6
DPU (sen)	8.0	6.2	4.9	5.5
DPU Growth (%)	216.2	(18.1)	(20.9)	11.5
Distribution yield (%)	12.5	9.8	7.7	8.6
PE (x)	8.9	8.9	11.3	10.1
EV/EBITDA (x)	22.9	15.9	14.8	15.5
ROE (%)	13.0	5.4	5.3	6.0
Debt-to-asset ratio (%)	47.0	44.5	47.8	47.7

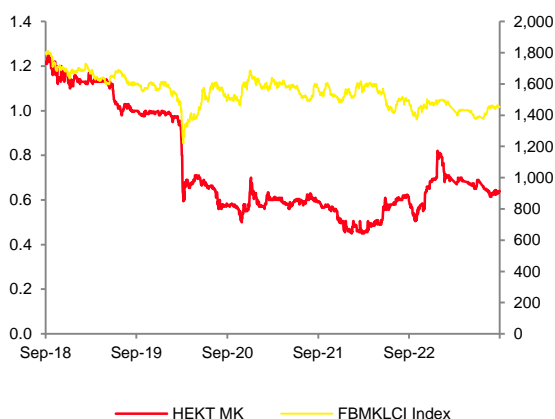
Stock and Financial Data

Shares Outstanding (million) 498.8
Market Cap (RM mil) 319.2
Book Value (RM/share) 1.14
P/BV (x) 0.6
ROE (%) 13.0
Debt-to-asset ratio (%) 47.0

Major Shareholders
Fraser's Centrepoint Trust (28.9%)
Hektar Black (25.8%)
Kong Goon Khing (1.0%)

Free Float 44.3
Avg Daily Value (RM mil) 0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(4.5)	(5.9)	7.6
Relative (%)	(8.9)	(7.2)	10.9



Investment Highlights

- We maintain BUY on Hektar with a lower fair value (FV) of RM0.75/unit (from RM0.81/unit previously) after accounting for the dilutive issuance of placement units to finance the acquisition of Kolej Yayasan Saad (KYS) on our dividend discount model (DDM). No change to our 4-star ESG rating (Exhibits 6 & 7).
- The FV implies a FY24F distribution yield of 6.5%, 0.5x standard deviation below its 5-year median.
- Mtrustee, as the trustee for Hektar entered into a conditional sale and purchase agreement (SPA) with KYS College to acquire a private school known as KYS in Ayer Keroh, Melaka for RM150mil cash.
- Established in 1995, KYS is a fully residential and co-educational private school which offers secondary school education under Malaysia's New National School Curriculum (KBSM) for students from Form 1 to Form 5.
- KYS comprises a single, 1 ½, 2 and 3-storey buildings which are categorised into administration, academic, residential and student facilities (Exhibit 2).
- The vendor, KYS College had on 22 June 2023 leased KYS to KYSA Education (the existing operator of KYS) for a period of 30 years.
- Upon the completion of acquisition in 2QFY24, the lease will be novated to Mtrustee by way of a deed of novation to be entered between KYS College (Vendor), Mtrustee (Trustee) and KYSA Education (Lessee).
- KYS will be leased to the lessee under a quadruple-net lease arrangement, whereby the lessee shall be responsible for the operation, maintenance, replacement and repair (including structural repair) of the property at its own cost and expense.
- The annual rental payment is fixed at RM8.1mil for the first year, followed by a 2.5% yearly rental escalation.
- The acquisition price of RM150mil is equivalent to its market value, as ascribed by independent valuer, Jones Lang Wootton.
- The acquisition will be funded through a combination of borrowings, internal funds and proceeds to be raised from a proposed placement.

- The proposed placement involves the issuance of up to 99.8mil placement units, representing up to 20% of the REIT's existing issued units. The issue price will not exceed a discount of 10% to the 5-day volume weighted average market price (VWAP) of Hektar immediately preceding the price-fixing date.
- Assuming the issue price at RM0.567, which represents a discount of 10% to the current 5-day VWAP, we project that Hektar will raise RM57mil from the placement with the remaining RM93mil from borrowings.
- Based on our assumptions, the contribution from KYS is estimated to be RM2mil to Hektar's distributable income in FY25F-FY26F (Exhibit 1).
- Hence, we raise our FY25F distributable income by 6% after accounting for the contribution from KYS. However, we lower our FY24F distributable income by 4% as the increased revenue is unable to offset the recognition of one-off placement related expenses, which amounts to RM2mil. We also lower our FY24F/FY25F DPU by 12%/2% from the new issuance of units.
- Upon completion of acquisition, Hektar's FY24F debt-to-asset ratio will increase to 0.48x from 0.46x.
- The acquisition of KYS will benefit Hektar in the long term, as it diversifies the overall property mix and reduces reliance on the retail sector. It is also secured by a quadruple-net lease arrangement, which provides stable recurring rental income and minimal occupancy risk to Hektar for the next 30 years.
- However, we are negative on the acquisition in the short term as the issuance of placement units will lead to a dilution of Hektar's DPU before the earnings from KYS start contributing significantly.
- Nevertheless, Hektar's FY24F distribution yield of 7.7% is attractive vs. 10-year MGS yield of 3.88%.

EXHIBIT 1: ESTIMATED CONTRIBUTION FROM KOLEJ YAYASAN SAAD

	Assumption	2024	2025	2026
Annual rental payment (RM'mil)	Annual rental increment of 2.5%	8.1	8.3	8.5
Rental payment for the year		6.8	8.3	8.5
Net property income margin (%)	Expense to be borne by lessee under quadruple-net lease arrangement.	100.0	100.0	100.0
Net property income (RM'mil)		6.8	8.3	8.5
<u>Minus:</u>				
Manager's fee	Base fee of 1% and performance fee of 5%	1.8	1.9	1.9
Finance cost @ 4.53%	Current average interest rate	4.2	4.2	4.2
Estimated expenses of the placement		2.0	-	-
Distributable income (RM'mil)		(1.3)	2.2	2.4
Share base (mil)		598.6	598.6	598.6
Distributable income per share (sen)		(0.22)	0.36	0.39

Source: Hekar REIT

EXHIBIT 2: COMPONENTS WITHIN KOLEJ YAYASAN SAAD

Components within KYS College	Gross floor area (sq ft)
Administration & Academic	122,536
Staffs & Students Accommodation	231,581
Outbuilding/ Facilities	42,757
Total	396,874

Source: Hekar REIT

EXHIBIT 3: DETAILS OF THE PROPERTY

Address	PN 62892, Lot 9808, Mukim of Durian Tunggal, District of Alor Gajah, state of Melaka
Tenure	99-year leasehold interest expiring on 20.12.2098
Titled land area	49.18 hectares (121.526427 acres)
Category of land use	Bangunan
Existing use	Occupied by KESB by virtue of the Lease
Net lettable area	396,874 sq ft
Rental rate	RM1.70 per sq ft

Source: Hekar REIT

EXHIBIT 4: MODE OF SETTLEMENT OF PURCHASE CONSIDERATION

Payment terms	Timing of settlement	RM mil	%
Cash Deposit	Upon execution of the SPA	7.5	5
Defect Retention Sum	On or before the expiry of the completion period	1.5	1
Lease Retention Sum	On or before the expiry of the completion period	13.5	9
First Balance Sum	On or before the expiry of the completion period	92.5	62
Final Balance Sum	On or before the expiry of the completion period, with an automatic extension of 3 months from the expiry of the completion period or such other extended period as may be mutually agreed between the parties	35.0	23
Total		150.0	100

Source: Hekar REIT

EXHIBIT 5: UTILISATION OF PROCEEDS OF PRIVATE PLACEMENT

Details	Timeframe for utilisation	RMmil
Final Balance Sum	Within 12 months from unconditional date of the SPA	35.0
Working capital	Within 12 months from completion	19.6
Estimated expenses	Upon completion	2.0
Total		56.6

Source: Hekar REIT

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%

Average Cost of Debt 4.8%

Capital Structure: (RM Mil)

Market Cap	319.2	35.5%
Total Borrowing	581.1	64.5%
Total	900.3	100.0%

Weighted Average Cost of Capital (WACC):

Cost of Equity (Ke)	35.5%	13.9%	4.9%
Average Cost of Debt	64.5%	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	0.049	0.055	0.056	0.058	0.740
Present Value (RM)	0.06	0.05	0.04	0.04	0.04	0.50
Valuation	0.73					
(+) 3% premium for 4-star ESG rating	0.02					
Fair Value/unit (RM)+ESG	0.75					
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

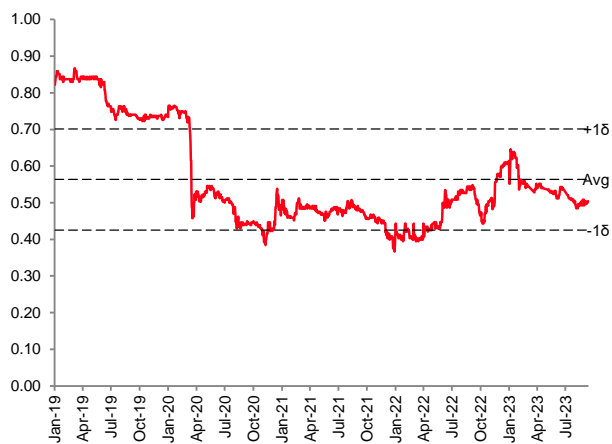


EXHIBIT 9: PE BAND CHART

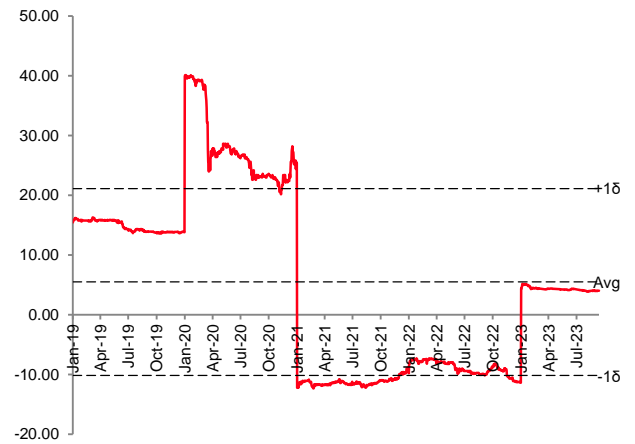


EXHIBIT 10: FINANCIAL DATA

Income Statement (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Gross Revenue	96.6	117.4	121.1	132.3	138.4
Net Property Income	47.0	58.7	67.2	74.8	81.4
Net investment income	47.0	60.4	67.4	75.0	81.6
EBITDA	36.8	55.0	56.6	62.2	68.7
Net interest	(17.9)	(18.6)	(21.7)	(27.8)	(29.4)
Exceptional items (EI)	(50.3)	41.6	0.0	0.0	0.0
Pretax profit	(31.5)	78.0	34.8	34.4	39.3
Taxation	3.0	(3.3)	(1.1)	(1.1)	(1.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	(28.5)	74.6	33.7	33.3	37.8
Adjusted Distributable income	12.7	34.0	34.8	34.4	39.3
Balance Sheet (RM mil, YE 31 Dec)	FY21	FY22	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	1,356.1	1,356.1
Total non-current assets	1,166.2	1,206.2	1,207.7	1,357.7	1,357.6
Cash & equivalent	59.1	23.2	24.0	27.5	28.9
Other receivables	2.7	1.7	9.6	10.4	10.9
Trade receivables	2.7	4.5	14.5	15.8	16.5
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	64.5	29.4	48.1	53.8	56.4
Trade payables	16.6	5.7	10.0	10.7	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	45.6	45.3
Total current liabilities	82.6	41.3	70.7	71.3	70.8
Long-term borrowings	566.1	542.4	566.1	659.5	659.5
Other long-term liabilities	34.1	53.8	43.7	47.3	48.8
Total long-term liabilities	600.2	596.3	609.8	706.9	708.3
Total Unitholders' funds	548.0	598.0	575.3	633.3	634.9
Minority interests	-	-	-	-	-
NAV per unit (RM)	1.3	1.3	1.3	1.0	1.0
Cash Flow (RM mil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	(31.5)	78.0	34.8	34.4	39.3
Net change in working capital	13.2	(10.9)	(10.3)	2.0	(1.8)
Others	68.3	(31.8)	8.8	3.5	25.9
Cash flow from operations	50.0	35.4	33.3	39.9	63.4
Capital expenditure	(0.4)	0.0	0.0	0.0	0.0
Net investments & sale of fixed assets	0.0	0.0	0.0	(150.0)	0.0
Others	0.7	(7.6)	2.3	5.4	3.4
Cash flow from investing	0.3	(7.6)	2.3	(144.6)	3.4
Debt raised/(repaid)	0.0	(29.6)	29.6	93.4	0.0
Equity raised/(repaid)	4.2	0.0	0.0	74.5	0.0
Distribution paid to unitholders	(4.2)	(24.6)	(30.4)	(30.0)	(34.0)
Others	(18.7)	(20.2)	(23.2)	(29.7)	(31.4)
Cash flow from financing	(18.6)	(74.5)	(24.0)	108.2	(65.3)
Net cash flow	31.7	(46.7)	11.6	3.5	1.4
Net cash/(debt) b/f	27.3	59.1	12.4	24.0	27.5
Net cash/(debt) c/f	59.1	12.4	24.0	27.5	28.9
Key Ratios (YE31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	(13.1)	21.6	4.8	9.2	4.6
Net Property Income growth (%)	(11.2)	24.8	9.0	11.3	8.8
Pretax margin (%)	(32.6)	66.4	28.8	26.0	28.4
Net income margin (%)	(29.5)	63.6	27.8	25.2	27.3
Net Interest cover (x)	2.1	3.0	2.6	2.2	2.3
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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