



AmInvestment Bank

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

24 Feb 2023

Company report

Khoo Zing Sheng

khoo.zing-sheng@ambankgroup.com

03-2036 2299

Rationale for report: Company results

BUY

(Maintained)

Price **RM0.685**
Fair Value **RM0.81**
52-week High/Low **RM0.84/RM0.44**

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)	—	—	—	—
DPU (sen)	8.0	6.2	6.2	6.2
DPU Growth (%)	216.2	(18.1)	(0.4)	(0.2)
PE (x)	9.5	9.8	9.6	9.9
EV/EBITDA (x)	23.0	16.0	14.8	14.8
Distribution yield (%)	11.7	8.9	9.1	9.1
ROE (%)	13.0	5.4	5.8	6.2
Debt-to-asset ratio (%)	47.0	44.5	46.2	46.1

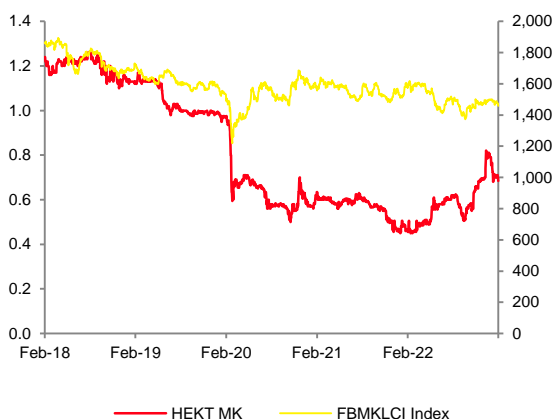
Stock and Financial Data

Shares Outstanding (million) 471.3
Market Cap (RMmil) 322.8
Book Value (RM/share) 1.22
P/BV (x) 0.6
ROE (%) 13.0
Debt-to-asset ratio (%) 47.0

Major Shareholders
Fraser's Centrepoint Trust (30.5%)
Hektar Black (28.3%)
Aventura (0.9%)

Free Float 40.3
Avg Daily Value (RMmil) 0.4

Price performance	3mth	6mth	12mth
Absolute (%)	4.6	10.5	48.9
Relative (%)	3.6	12.4	62.0



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.
- Hektar reported a FY22 distributable income of RM36mil. Excluding a one-off other income of RM2mil, its adjusted distributable income (ADI) of RM34mil (x2.7 YoY) was 17% below our forecast.
- The variance was mainly due to the lack of reversal of impairment losses in trade receivable in 4QFY22. Nevertheless, our FY23F/FY24F earnings are maintained as we have not factored in any writeback of impairment losses for the coming years.
- In FY22, Hektar's tenant sales recovered to 97% of the pre-pandemic level.
- We also take the opportunity to introduce our FY25F earnings with a growth of 4% on expectation of improving tenant sales, which increases the variable portion of rents tied to the level of retail stores' business transactions.
- In FY22, Hektar's gross revenue rose 22% YoY while net property income (NPI) expanded 25% YoY. The improvement was driven by higher rent tied to sales turnover and lower rental rebates offered to tenants.
- QoQ, Hektar's 4QFY22 revenue declined 10% while NPI dropped 45%. The weaker NPI was mainly attributed to higher mall upkeep as well as repair and maintenance expense incurred in 4QFY22 to cater for improving domestic demand as economic activities normalised.
- Hektar declared its gross distribution per unit (DPU) of 5.3 sen in 4QFY22. The FY22 DPU of 8 sen represents an impressive distribution yield of 12%. However, we anticipate a lower FY23F/FY24F DPU of 6.2 sen as our forecasts have not factored in any reversals on impairment of trade receivables, which will be distributable to unit holders.

- QoQ, average occupancy rate remained stable at 83% (Exhibit 2). The increase in the occupancy rates of Kulim Central, Mahkota Parade and Segamat Central were offset by a lower occupancy rate in Subang Parade. As at 15 February 2023, the committed occupancy rate of Hektar stood at 84%.
- We are concerned on Hektar's rental reversion as the REIT has registered negative reversion since the beginning of the Covid-19 pandemic outbreak. However, we saw that the negative rental reversion has narrowed to 7% in 4QFY22 from 12%-17% in 3QFY21 to 2QFY22, in tandem with improving footfalls (Exhibit 4). We expect a further improvement in rental reversion (<-5%) in FY23F with the expectation of gradual improvement in tenant sales as compared to FY22.
- In light of the stronger-than-expected economic data as well as stickier inflation readings in January 2023, our in-house economist projects a more aggressive 0.75% hike (from 0.5%) in the Fed rate in 1HCY23 from the current level of 4.5%-4.75% to tackle inflationary pressures. Meanwhile, the likelihood of a rate cut in this year is dwindling. This means that we may see the Fed Funds Rate staying at 5.25%-5.5% towards the end of this year. Pending more clarity from the upcoming Federal Open Market Committee and Bank Negara Malaysia Monetary Policy Committee meetings, we anticipate that the 10-year MGS yield could remain fluid in the near future.
- Nevertheless, we expect to see the impact from the rate hike to be manifested in 2HFY22 with more signs of tapering inflation as well as slower wage growth. This could result in the stabilisation of Fed rate as well as 10-year MGS in 2HFY22. Hence, our in-house forecast on 10-year MGS yield is maintained at 3.8%-4% by the end of 2023.
- We also foresee the yield spread from FY23F onwards to widen to 5% 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 currently trades at a compelling FY24F PE of 10x vs. its 2-year average (pre-pandemic, FY18-19) of 15x. Meanwhile, FY24F distribution yield of 9% is attractive vs. 10-year MGS yield of 4%.
- 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.

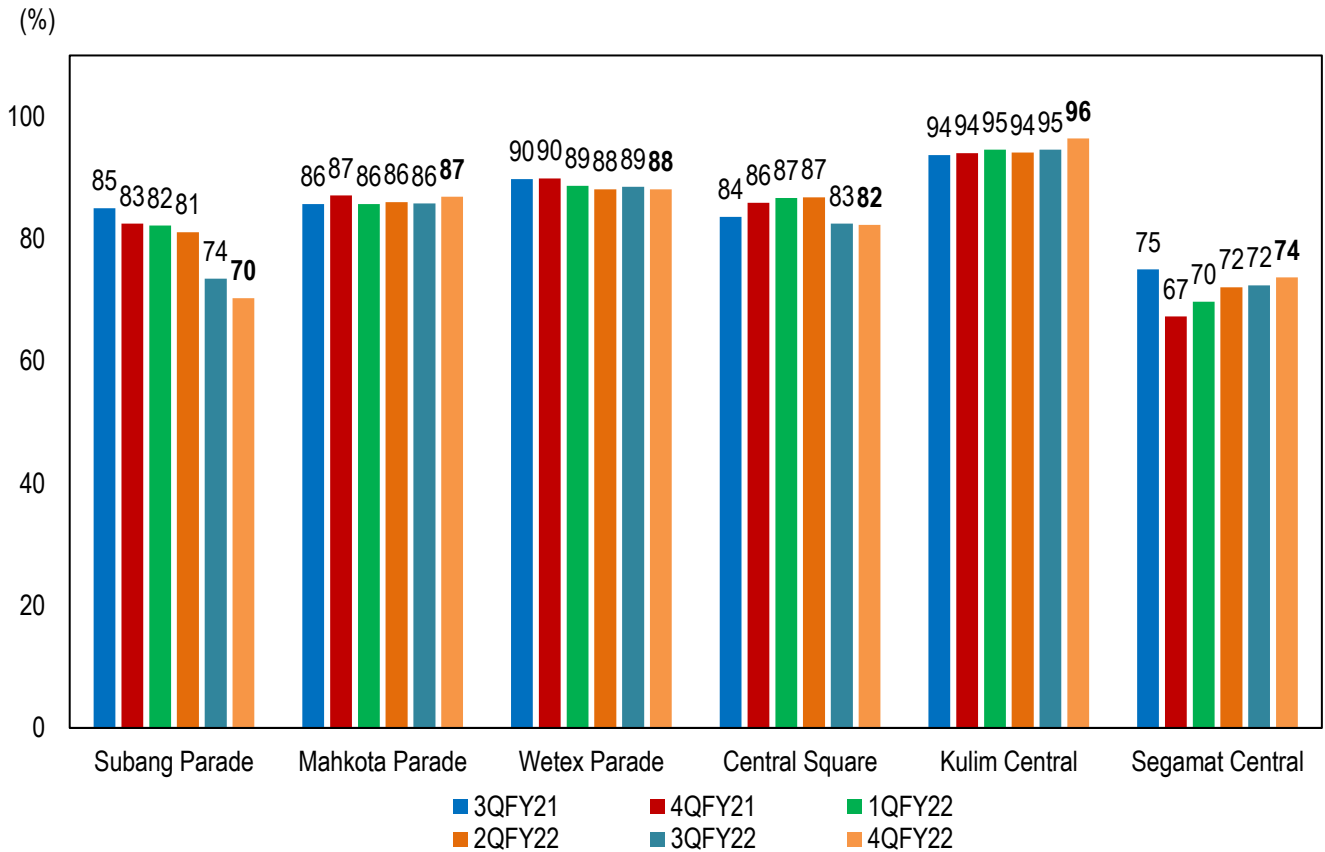
EXHIBIT 1: RESULT SUMMARY

(RM 'mil)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	25.0	31.1	27.9	(10.2)	11.7	96.6	117.4	21.6
Property operating costs	(12.6)	(12.8)	(17.8)	39.9	41.7	(49.6)	(58.8)	18.5
Net property income	12.4	18.3	10.0	(45.2)	(18.9)	47.0	58.7	24.8
Other income	0.1	0.2	(0.6)	(>100)	(>100)	0.4	1.8	>100
Net Investment Income	12.5	18.5	9.5	(48.9)	(24.1)	47.4	60.4	27.6
Other trust expenses	(4.8)	0.1	(2.4)	(>100)	(50.7)	(16.4)	(5.4)	(66.8)
EBIT	7.7	18.7	7.1	(61.9)	(7.5)	31.0	55.0	77.5
Net interest income/expenses	(4.5)	(5.2)	(4.5)	(12.2)	1.5	(18.3)	(18.6)	1.8
Profit before EI	3.2	13.5	2.6	(80.9)	(19.9)	12.7	36.4	>100
EI	(44.2)	0.0	41.6	n.m.	>100	(44.2)	0.0	>100
Profit Before Taxation	(41.0)	13.5	44.2	>100	>100	(31.5)	78.0	>100
Net Profit	(38.0)	13.5	40.8	>100	>100	(28.5)	74.6	>100
Distributable Adjustment	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Distributable Income	(38.0)	13.5	40.8	>100	>100	(28.5)	74.6	>100
One-off item	0.0	0.0	(38.3)	n.m.	n.m.	0.0	(40.7)	n.m.
Adjusted Distributable Income	(38.0)	13.5	2.6	(80.9)	>100	(28.5)	34.0	>100
<u>Distribution:</u>								
EPU - Diluted (Sen)	(8.2)	2.9	0.5	(81.2)	>100	(6.2)	4.8	>100
Proposed DPU (Sen) - Interim	2.5	0.0	5.3	n.m.	>100	2.5	8.0	>100
Distribution Yield (as at the end of the period) (%)	6.0	9.9	12.2	1.2	2.1	6.0	12.2	2.1
NAV/unit	1.1	1.2	1.2	5.4	6.9	1.1	1.2	6.9
<u>Margin:</u>								
NPI margin (%)	49.6	58.9	36.0	(22.9)	(13.6)	48.7	50.0	1.3
EBIT margin (%)	30.7	60.1	25.5	(34.6)	(5.3)	32.1	46.8	14.8
Net Interest coverage (x)	1.7	3.6	1.6	(2.0)	(0.2)	1.7	3.0	1.3
Net gearing ratio (x)	95.3	95.9	88.3	(7.5)	(6.9)	95.3	88.3	(6.9)
Debt-to-Asset Ratio (%)	47.2	46.4	44.6	(1.8)	(2.6)	47.2	44.6	(2.6)

*exclude the recognition of one-off other income

Source: Company, AmlInvestment Bank Berhad

EXHIBIT 2: OCCUPANCY RATE

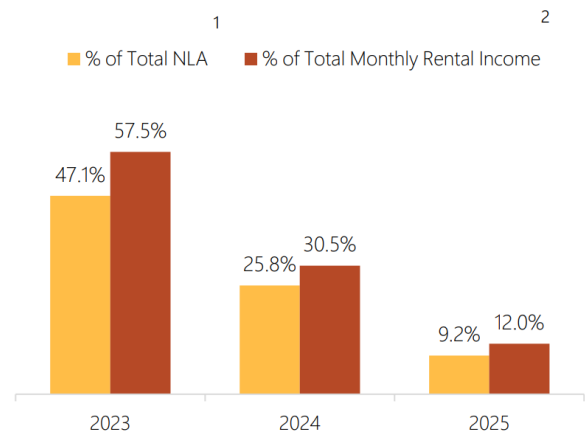


Source: Hektar, AmlInvestment Bank Bhd

EXHIBIT 3: PORTFOLIO TENANCY EXPIRY PROFILE

PORTFOLIO TENANCY EXPIRY PROFILE 2023-2025

Period End December	Number of Tenancies Expiring	Expiring NLA (Sq. Ft.)
2023	213	962,565
2024	94	528,121
2025	58	187,202
Total	365	1,677,887



¹Based on the total Net Lettable Area (NLA) of 2,045,196 sq. ft. as at 31 December 2022.

²Based on monthly rental income for December 2022. Figures may not round to 100% due to misc. items.

Source: Hektar

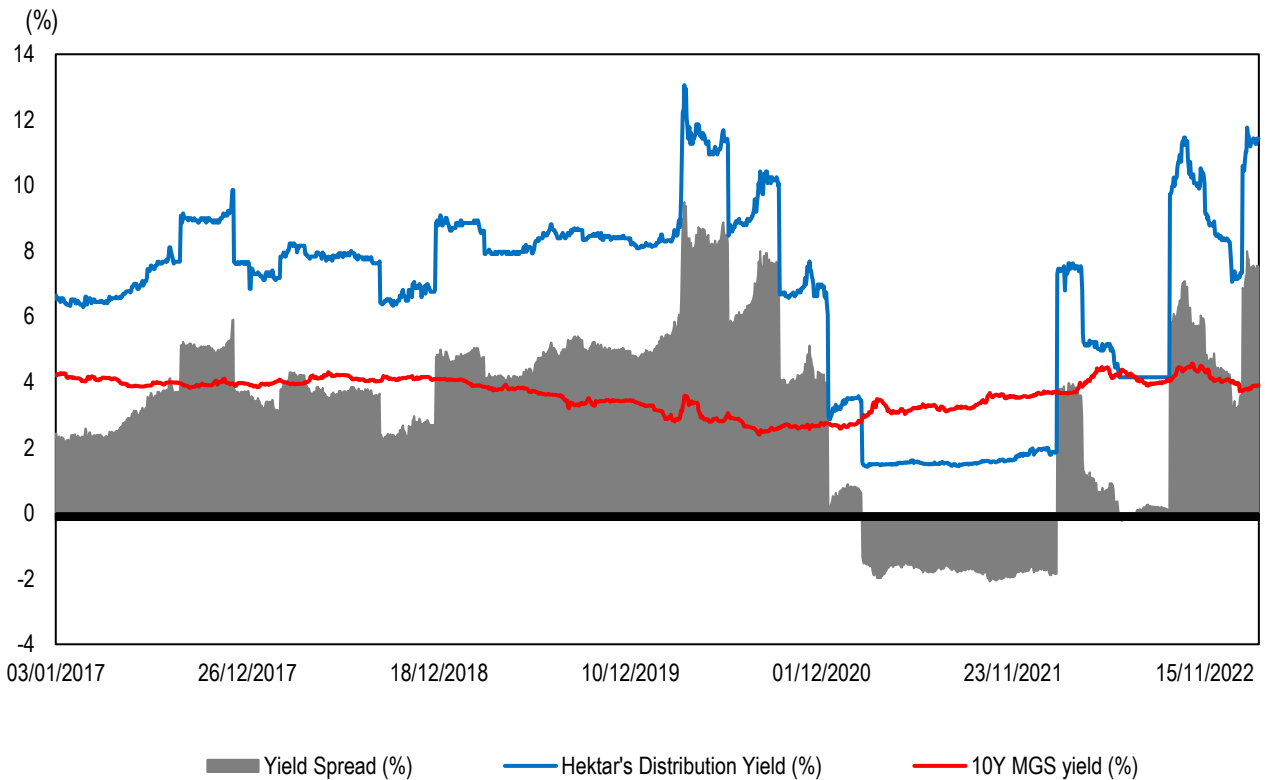
EXHIBIT 4: PORTFOLIO RENTAL REVERSION IN 3QFY22

PORTFOLIO RENTAL REVERSIONS				4Q 2022
Fourth Quarter Ended 31 December 2022 (3 months)	Number of New Tenancies/ Renewals	NLA (Sq. Ft.)	Percentage of Total NLA	Percentage Change Over Previous Rent Rates
Subang Parade	14	36,281	6.9%	5.3%
Mahkota Parade	17	90,023	17.3%	-20.5%
Wetex Parade	4	1,640	0.9%	-1.9%
Central Square	2	2,067	0.7%	4.0%
Kulim Central	12	23,589	7.9%	19.0%
Segamat Central	9	30,109	14.2%	-12.3%
Total/Average*	58	183,709	9.0%	-6.9%

* 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%

Average Cost of Debt 4.8%

Capital Structure: (RM Mil)

Market Cap	322.8	35.7%
Total Borrowing	581.1	64.3%
Total	903.9	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	35.7%	13.9%	5.0%
Average Cost of Debt	64.3%	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

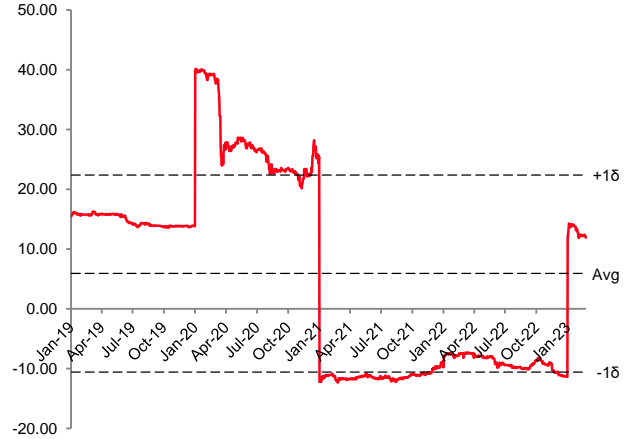


EXHIBIT 10: FINANCIAL DATA

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
Other current assets	0.0	0.0	0.0	0.0	0.0
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)	(2.0)	18.0	18.9
Cash flow from operations	50.0	35.4	22.5	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	3.2	2.3	4.0	3.0
Cash flow from investing	0.3	3.2	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	(35.9)	0.9	2.1	1.1
Net cash/(debt) b/f	27.3	59.1	23.1	24.0	26.1
Net cash/(debt) c/f	59.1	23.1	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

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.

This report has been prepared by AmInvestment pursuant to the Research Incentive Program under Bursa Research Incentive Scheme (“Bursa RISE”) administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.