

Hektar's focus on neighbourhood mall concept

► **Recommendation:**

Re-initiate buy

Target price RM1.09

By AmResearch

Resilient business model

FOCUSING on neighbourhood mall concept, Hektar Real Estate Investment Trust Bhd's focus on neighbourhood malls should provide stable earnings as these malls cater primarily to households residing within the primary trade area which is five to ten minutes drive away, ensuring steady visitor traffic even during an economic downturn.

Further to that, neighbourhood malls typically offer necessities and small ticket items ensuring stable income to the REIT. Visits to this type

	► HEKTAR REIT			
	2008	2009F	2010F	2011F
REVENUE (RM mil)	84.1	88.7	92.9	97.2
NET PROFIT (RM mil)	60.4	37.3	41.3	45.1
EPU (sen)	18.9	11.7	12.9	14.1
ROE (%)	15.0	9.3	10.3	11.3

of mall would also more frequent with shorter shopping duration.

Flipside, a regional shopping centre such as MidValley MegaMall and One Utama are typical one-stop shopping centres. This type of mall captures both primary trade and secondary trade, which covers 30-45 minutes driving radius.

These malls mainly offer

retail goods that are demand elastic thus mostly moving in tandem with economic cycles which indicates greater volatility in income and visitor traffic.

Visits are less frequent and households tend to shop for longer hours compared to a neighbourhood mall. Nonetheless, these two types of malls are complementary

to each other and both malls are part of Hektar's asset acquisition strategy.

Recommendation

We re-initiate our coverage on Hektar REIT (Hektar) with a 'buy' call and fair value of RM1.09/share based on 30% discount to our discounted cash flow model. At our fair value, this translates to an im-

plied yield of 9.6% and 570 basis points spread over a ten year Malaysian Government Securities (MGS) yield of 3.9%.

Our 'buy' call is based on the following four factors, namely, resilient or stable business model, strong strategic partner, no refinancing risk in immediate term, and acquisition strategy.

Hektar's focus on neighbourhood malls should provide stable earnings as these malls mainly offer necessities and small ticket items. Subang Parade, Mahkota Parade and Wetex Parade cater primarily to households travelling within the primary trade area which is five-ten minutes drive away and ensuring steady visitor traffic even

during a downturn.

About 77% of total monthly rental income is secured for FY09F with only 23% of monthly income or 84 tenants lease rental agreements expiring. Hektar also boasts a fairly diversified tenant base from international brands.

In Frasers Centrepoint Trust, a part of the Fraser & Neave Limited, Hektar has a strong strategic partner. Currently holding 32% stake in the group, Frasers is a diversified real estate group.

Hektar would be able to benefit from Frasers' expertise and know-how in running a retail/commercial REIT currently operating seven urban and suburban malls in Singapore.