

CEO'S LETTER to Unitholders

DEAR VALUED UNITHOLDERS,

The year 2023 marks a pivotal turning point for Hektar REIT, characterised by the achievement of several significant milestones since our establishment in 2006. Commencing the year on a high note, Hektar REIT attained one of the highest dividend yields among listed REITs in Malaysia, culminating in the period under review with a pivotal proposal presented to unitholders regarding the diversification of Hektar REIT's portfolio. This strategic decision by Hektar REIT to explore diversification is a testament to our unwavering commitment to delivering enduring value to our esteemed unitholders.

JOHARI SHUKRI BIN JAMIL

Executive Director & Chief Executive Officer



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Embarking upon 2023 with prudent optimism amidst a volatile economic landscape shaped by a hawkish monetary policy responding to inflationary pressures, I am pleased to report that, notwithstanding the challenges, our asset portfolio's performance exhibited sustained improvement. This positive trajectory can be attributed to our unwavering commitment to optimising operations and fortifying our foundational strengths.

In adherence to our strategic objectives, we steadfastly maintain our focus on delivering sustainable returns to our unitholders while actively and judiciously pursuing growth opportunities. This commitment reflects our dedication to sound financial stewardship and the long-term prosperity of Hektar REIT.



Gross Revenue

RM111.5 million

2022: RM117.5 million



Total Assets

RM1.3 billion

2022: RM1.2 billion

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MARKET REVIEW

Overall, the 2023 growth for the Malaysian economy normalised to 3.7%, following a strong growth registered in the previous year (2022: 8.7%). Growth moderated amid a challenging external environment. Household spending remained supported by continued growth in employment and wages as economic activities rebounded post-pandemic.

On the inflation front, while headline inflation continues to moderate, core inflation has persisted above historical averages, leading to BNM's decision to increase the Overnight Policy Rate by 25 basis points (bps) to 3.0% in May. Despite the continued momentum in economic recovery, the global economy continues to be weighed down by elevated cost pressures and higher interest rates. To tackle the situation, Hektar REIT has rigorously embarked on a debt rebalancing programme to navigate the high-interest cost environment.

The year 2023 saw a rise in electricity generation costs for TNB due to increasing fuel prices, resulting in an increase in the Imbalance Cost Pass Through (ICPT) surcharge for non-domestic consumers, including shopping mall operators like Hektar REIT. The dramatic increase in the ICPT surcharge (from 3.7 sen/kWh to 20 sen/kWh for the first half of 2023, subsequently reduced to 17 sen/kWh for the second half of 2023) prompted the Manager to accelerate our cost optimisation initiatives to offset the rising utility costs, which constitute a huge portion of the REIT's expenditures.



The Malaysian retail industry, on the other hand, had a stellar start to the year, with the first quarter retail growth registered at 13.8% year-on-year, as reported by Retail Group Malaysia, beating the initial estimate of 9.2%. Throughout 2023, the retail landscape continued to moderate as consumer spending turned dovish due to the higher cost of living, with the industry forecasted to grow by 2.8% overall.

PORTFOLIO REVIEW

We are confident that Hektar REIT's comprehensive portfolio occupancy reached its nadir in 2022, signalling a resilient rebound to pre-pandemic levels. This is substantiated by the consistent uptick in the portfolio's occupancy rate, escalating from 82.0% in 2022 to a robust 86.7% in 2023. This growth trajectory for the occupancy rate is poised to persist as we transition beyond our 'Occupancy First' strategy in the post-pandemic era. Notably, three of our shopping malls achieved an occupancy rate surpassing 90%, with Kulim Central nearing full occupancy.

In terms of financial performance, Hektar REIT's portfolio recorded a Net Property Income (NPI) of RM60.05 million, marking a 2.32% year-on-year growth attributed to prudent cost optimisation. The primary contributor to this profitability was Mahkota Parade, owing to its size, high overall occupancy, and status as a prominent regional mall in southern Malaysia. Following closely in second place was Subang Parade, which, despite its current occupancy level, holds substantial potential for a resurgence to its prime. Consequently, significant efforts are being invested to strategically reposition Subang Parade, encompassing proactive leasing strategies, intensified marketing endeavours, and planned facility upgrades. Anticipating a revitalised customer experience, we aim to witness enhanced performance at Subang Parade from 2024 onward.

After three consecutive years of challenging portfolio rental reversion, a result of the rental assistance programme during the COVID-19 outbreak and the timing of tenant remixing exercises involving key tenants, I am pleased to announce that Hektar REIT achieved a positive overall rental reversion in 2023. Looking ahead, we anticipate sustained positive growth in the rental reversion of the portfolio, driven by ongoing upgrades and enhancements across our malls.

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In steadfast pursuit of elevating our mall experience, we remain committed to undertaking marketing-intensive initiatives aimed at driving robust visitor footfall across our portfolio. The notable 10% increase in overall visitor traffic, totalling approximately 23.2 million visits in 2023, is a testament to the success of our intensified marketing efforts. These initiatives encompass a comprehensive range of sales and traffic-driven promotional campaigns meticulously implemented across all our malls.

Recognising the pivotal role of digital engagement in today's landscape, we have strategically embraced innovative online platforms and cutting-edge technologies. This approach extends our reach to a broader audience, effectively enhancing our ability to connect with consumers and entice them to experience the diverse offerings within our malls. Our unwavering commitment to marketing excellence underscores our dedication to creating vibrant, engaging spaces that resonate with the evolving preferences and expectations of our valued visitors. As we move forward, we will continue to innovate and leverage these initiatives to ensure sustained growth in visitor footfall, further solidifying our position as a premier destination for retail, entertainment, and community engagement.

PORTFOLIO DIVERSIFICATION

In our Circular to unitholders dated 21 December 2023, the Manager proposed the acquisition and lease of Kolej Yayasan Saad, which marks Hektar REIT's first acquisition of a non-retail asset in our 17-year history. The proposal was successfully approved by unitholders at the Extraordinary General Meeting held on 15 January 2024, and the Manager expects the acquisition exercise to be completed by Q2 2024. Upon completion, Hektar REIT's Asset Under Management (AUM) will increase to RM1.38 billion, and the asset will contribute an additional 7% to Hektar REIT's Gross Income.

This strategic decision by Hektar REIT to explore diversification is a testament to our unwavering commitment to delivering enduring value to our esteemed unitholders. Acknowledging the inherent susceptibility of the retail sector, like all industries, to economic cycles, our conviction in diversification arises from its potential to empower Hektar REIT to adeptly navigate potential downturns in retail by capitalising on gains from diverse sectors. Venturing into new sectors not only opens doors to fresh revenue streams but also strategically mitigates the risk associated with reliance on a single sector.



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As Malaysia's pioneer retail-focused REIT, Hektar REIT takes immense pride in this legacy, with substantial assets under management in our retail portfolio underscoring our extensive experience and enduring presence in the retail domain. However, in alignment with our forward-thinking ethos, we acknowledge the imperative of evolution and adapting to changing market dynamics. While our core identity remains deeply rooted in retail, our pursuit of diversification does not dilute this identity. On the contrary, we view diversification as a means of enhancing our capabilities and exploring opportunities in sectors with high growth potential, ensuring our portfolio remains dynamic, resilient, and primed for accretive yields.

In adherence to the principles embraced by any progressive organisation, we recognise the importance of evolution and the imperative to adapt to dynamic market forces. Although our core identity has historically revolved around the realm of retail, our commitment to diversification does not diminish this fundamental identity. Moving forward, we are steadfast in our pursuit of yield-accretive assets, actively exploring opportunities across both retail and non-retail sectors, distinguished by their high growth potential.

FINANCING REVIEW

Financing

Hektar REIT's current financing stands at RM562 million, of which the amount due in 2024 has been rolled over and refinanced to a longer maturity tenure. During the period under review, the Manager embarked on a rigorous debt rebalancing programme via the introduction of the Income Distribution Reinvestment Plan (IDRP) and refinancing of existing facilities with lower and more flexible repayment terms. The Manager also established a Medium Term Note programme of up to RM500 million, with the first Guaranteed Tranche of RM215 million, rated AAA(fg) by RAM Rating Services Berhad, successfully issued on 15 February 2024. The proceeds will not only be used to improve Hektar REIT's debt maturity profile but also to build up Hektar REIT's war chest in pursuing meaningful acquisitions moving forward.

Hektar REIT's gearing ratio improved to 42.8% at the end of 2023 from 44.6% at the end of 2022, allowing headroom for future yield-accretive acquisitions.



Distribution

We remain committed to maintaining a distribution policy of at least 90% of our distributable income and announced on 23 January 2024 a final income distribution of 2.3 sen per unit for the fourth quarter ended 31 December 2023, taking our total distribution for the financial year 2023 to 5.0 sen per unit. Based on the closing price of 65 sen on 29 December 2023, the DPU represents a yield of approximately 7.7%. At the end of 2023, Hektar REIT had over 7,000 unitholders – a testament to retail investors' confidence in Hektar REIT's strong fundamentals and future growth prospects.

Corporate Proposal

On 11 October 2023, UOB Kay Hian Securities (M) Sdn Bhd, on behalf of the Manager, announced that Hektar REIT intended to undertake a private placement of up to 20% of the total number of issued units of Hektar REIT pursuant to the authority granted by unitholders at the AGM dated 6 April 2023. The placement size was subsequently revised to 15% pursuant to the announcement made on 7 November 2023. I am delighted to share with unitholders that the private placement exercise was successfully completed on 15 December 2023, where the 15% placement size was fully placed out in a single issuance, and a total of RM42.5 million in proceeds was raised. Several new institutional unitholders were welcomed on board pursuant to the private placement exercise, further enhancing and broadening the profile of Hektar REIT's investor base.

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SUSTAINABILITY

Sustainability maintained its paramount status throughout 2023 at Hektar REIT. We meticulously undertook an extensive Materiality Assessment, underscoring our dedication to prioritising issues that are most material to our organisation. This robust process reaffirmed our commitment to business excellence and enhanced our adept management of Environmental, Social and Governance (ESG) aspects that are crucial to our stakeholders. Furthermore, we strategically aligned our material factors with the corresponding United Nations Sustainable Development Goals (SDGs), a move designed to maximise our positive impact on a global scale. As a continued testament to our commitment, Hektar REIT proudly retains our status as a constituent member of the FTSE4Good Bursa Malaysia Index. This serves as both inspiration and encouragement to persist in enhancing initiatives across the three core dimensions of ESG, embedding these principles deep into the fabric of our business DNA.

While steadfastly maintaining our commitment to environmental sustainability, our focus in 2023 expanded beyond the ecological domain to encompass the social aspect. This evolution is evident in the increased training hours allocated for our staff, demonstrating our dedication to continuous learning and skill development. Moreover, stringent compliance measures were implemented through anti-bribery and anti-corruption training initiatives, underscoring our commitment to upholding ethical standards. We have also pledged our commitment to human rights, recognising the vital role we play in promoting and protecting these fundamental principles. Notably, our increased activities and contributions to Corporate Social Responsibility underscore our commitment to making a positive impact on the communities we serve. Looking ahead, we remain resolutely committed to further advancing our efforts in managing material sustainability matters, spanning environmental conservation, climate change mitigation and adaptation, water and waste management, and energy consumption. Our steadfast commitment includes the incorporation of renewable energy sources into our energy mix, reinforcing our role as a responsible and forward-thinking steward in the realm of real estate investment.

AWARDS

In 2023, Hektar REIT's dedication to community engagement garnered notable recognition at the Sustainability & CSR Malaysia Awards, specifically in the "Company of the Year – Best in Sustainability Reporting & Community Support" category. Throughout the years, Hektar REIT has actively forged numerous partnerships and collaborations with both local and international organisations. These initiatives have consistently provided vital support to NGOs and charity programmes aimed at uplifting underprivileged and marginalised communities. In tandem with this commitment, our efforts have extended to advancing and empowering women, fostering improved financial independence for the betterment of families.

We are delighted to share the exciting news that Hektar REIT has earned distinction by receiving two prestigious Gold awards at The Edge Malaysia ESG Awards 2023. These accolades were granted in the "Outstanding ESG & Dividend Return for the last five years" and "REIT Sector Award" categories. The awards serve as a commendation of Malaysian companies committed to advancing their business operations in alignment with ESG principles. This recognition is particularly gratifying as it reflects our unwavering dedication to sustainability initiatives, a focus we embarked on in 2017 centred on the three pillars of environmental, social, and governance.

The significance of these awards is profound, representing a historical milestone and propelling us further in our sustainability mission. Looking ahead, we maintain a deep commitment to not only upholding but also exceeding the high standards that have earned us these accolades. We recognise the weighty responsibility that comes with this success, and we embrace it with enthusiasm, passion, and unwavering dedication. Our journey is ongoing, and with these three awards serving as guiding stars, we are resolutely determined to explore new horizons. It is our firm belief that adopting a sustainable approach is not merely an option but a definitive path toward a more promising future for all.

Hektar REIT remains steadfast in its commitment to integrating ESG principles across all facets of our business, from financial management to operations and future planning. This dedication stands as a cornerstone of our mission, aiming to deliver robust and enduring value to our stakeholders, positioning us for a prosperous and sustainable future.

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I would like to acknowledge the efforts of our Legal team for being named as finalists for the 'In-House Counsel of the Year' and 'In-House Industry Awards (Property, Infrastructure & Logistics)' categories at the In-House Community's (IHC) Counsels of the Year Awards 2023 in November 2023. These prestigious awards recognise and honour legal teams and counsels who have demonstrated a steadfast commitment to excellence in their roles.

MOVING FORWARD

Malaysia's economic momentum is projected to gain traction in the coming year, with a GDP growth forecast of 4.5%-5.5% in 2024, and the retail industry landscape is poised for better growth at 3.5% on the premise of easing inflation. Despite this, the Manager maintains a cautiously optimistic stance, committed to fortifying our portfolio against potential unforeseen challenges in the market and industry movements expected in 2024.

Our paramount objective remains unwavering – to deliver substantial returns to our esteemed unitholders. A key strategy in achieving this goal involves ensuring that the assets within our portfolio consistently yield robust, steady, and reliable returns. In our capacity as the asset manager, we are resolute in our commitment to continually evaluate, reposition, and maximise the potential of our existing assets. Simultaneously, we actively seek new assets with yield-accretive potential to seamlessly integrate into our portfolio.

In the short-to-medium term, our strategic outlook envisions retail assets maintaining a substantial presence, with other asset classes gradually expanding to achieve a more balanced and well-diversified composition. Over the next five years, we envisage a scenario where at least 20% of our portfolio, measured by asset value, will comprise non-retail assets. However, the realisation of this projection is contingent upon the collective performance of the assets within our portfolio.

When contemplating a new asset type, our management rigorously assesses our capability to effectively oversee its unique characteristics. The focus is not only on maximising returns but also on mitigating potential operational risks that may arise post-acquisition. This diligent approach is integral to maintaining a well-balanced and resilient investment strategy, safeguarding our income streams, and ensuring the sustained prosperity of Hektar REIT.

ACKNOWLEDGEMENT

Our deepest appreciation goes to Frasers Centrepoint Trust (FCT), our esteemed long-term strategic partner from 2006 to 2023. Hektar REIT has greatly benefitted from FCT's wealth of experience in retail asset management and its adept handling of an extensive portfolio.

On behalf of the Board of Directors, I extend sincere gratitude to Mr Richard Ng, Mr Philip Eng Heng Nee, and Ms Audrey Tan Loo Ming, who have served on the Board as representatives of FCT. Their dedication and unwavering support to Hektar REIT have been invaluable.

I also wish to express our heartfelt thanks to Encik Hasli bin Hashim, Datuk Siti Zauyah Md Desa, Puan Zarina Halim, and Dr Chew Tuan Chiong, who resigned from our Board to pursue personal interests. Their commitment and contributions during their tenure on the Board are sincerely appreciated.

The management team of the Manager takes this opportunity to express gratitude to all our stakeholders for their resilience in facing challenges throughout the year. As we continue to navigate and overcome headwinds, we remain dedicated and look forward to the ongoing support of all our stakeholders as we endeavour to propel Hektar REIT to greater heights in 2024.

JOHARI SHUKRI BIN JAMIL

Executive Director & Chief Executive Officer