

Hektar REIT’s dividend yield attractive

► **Recommendation:**

Initiate buy

Target Price 99 sen

By OSK Research

Buy On Dividend Yield

THE basis of our buy call is mainly premised on its attractive dividend yield of 13.6%, representing a substantial 990 basis point spread over the 10-year Malaysian Government Securities (MGS) yield of 3.7%.

Although our Dividend Discounted Model suggests a fair value of RM1.84, our target price of 99 sen is based on achieving the targeted dividend yield of 10.9% that is the average of its peers, a yield which is almost on par with that of Starhill, another real

	► HEKTAR REIT			
	2008F	2009F	2010F	2011F
TURNOVER (RM mil)	81.2	82.0	83.3	83.5
NET PROFIT (RM mil)	40.4	36.7	37.3	39.1
DPS (sen)	10.7	10.7	10.7	11.2
ROE (%)	10.6	9.5	9.5	9.9

estate investment trust (REIT) focused primarily on retail and hospitality.

Hektar REIT is currently trading at a significant 35% discount to its net asset value (NAV). To recap, Hektar REIT’s business model makes its earnings relatively more resilient even during a downturn, which ensures that it will at least be able to maintain its

current dividend payout.

This include its shopping malls in prime locations are usually more resilient.

Although tenants may try to cut occupancy cost, most have relatively lower bargaining power because their main business, ie retailing, and prospects depend very much on being in the shopping mall itself.

ta Parade (Melaka).

Diversified Tenant Base And Serving The Right Segment

Its tenants comprise a healthy mix of consumer-driven businesses focused on providing daily necessities to the residents in the vicinity.

During an economic downturn when consumer sentiment softens, consumers may hold back on the purchase of luxury goods and other big ticket items but are highly unlikely to significantly cut down their expenditure on essential items and daily consumables.

In addition, with the exception of Parkson, no other tenant contributes more than 3%

of the REIT’s total monthly income; and all assets combined, none of its tenancy expiry account for more than 29% of its monthly rental income in any given year.

However, do keep a close watch on Mahkota Parade, where approximately 36% of the mall’s monthly income (over 58% of the mall’s net lettable area) is due for tenancy expiry in FY09.

We initiate coverage on Hektar REIT with a buy rating and an estimated target price of RM0.99 based on a peers yield comparison approach, which implies a dividend yield of 10.9% and an approximately 720 basis point spread over the 10-year MGS yield of 3.7%.