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Hektar REIT still on expansion drive

| BY TONY C H GOH |

Unfazed by the lacklustre equity and property markets, Hektar Real Estate Investment Trust (Hektar REIT) is focusing its attention on underserved secondary markets in Johor, Kedah, Perak and Sarawak.

According to Datuk Jaafar Abdul Hamid, the chairman and CEO of Hektar REIT Management Sdn Bhd, the manager of Hektar REIT, the company is comfortable with sticking to its existing business model of acquiring, refurbishing and growing retail malls in secondary markets.

"The expansion of our portfolio via acquisitions will continue, and talks are ongoing for some of the malls that have potential for turnaround in markets that have been identified as the next growth areas. There are also plans to expand our existing properties and to work with strategic partners to undertake private development from 2011 onwards," says Jaafar.

Hektar REIT currently has three retail malls in its stable — Subang Parade in Subang Jaya, Mahkota Parade in Melaka and Wetex Parade in Muar, Johor.

The three properties have a combined gross floor area of 2.7 million sq ft, of which the total net lettable area is 1.1 million sq ft. Subang Parade remains the largest property in Hektar REIT's portfolio, accounting for 49% and 50% of its revenue and net property income respectively for FY2008 ended Dec 31.

Jaafar acknowledges that there will be rental pressure this year, but remains optimistic that Hektar REIT is well positioned to maintain its good performance due to its solid business model.

"Of the REIT's portfolio of more than 300 tenants, tenancy expiring this year accounts for just 23% of the total income, which means at least 77% of our income for this financial year is secured," says Jaafar.

Analysts are expecting, at best, a flat growth in Hektar REIT's rental income for FY2009, but revenue could still be higher due to the accounting of the first full-year contribution from Wetex Parade in Muar, which was acquired in the middle of last year.

"With the current market sentiment, it is unlikely to see Hektar REIT repeating the 8% increase in rental income achieved last year, but revenue growth is still possible due to the addition of Wetex," says Mervin Chow, an analyst at OSK Research.

On funding for its expansions and debt position, Jaafar says there is still leeway for leverage as Hektar REIT's gearing level of 40.8% as at last year was still below the 50% threshold set by the Securities Commission. He adds that the group has no refinancing risk at the moment.

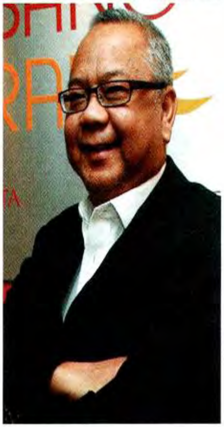
According to its financial statement as at Dec 31, 2008, Hektar REIT had RM184 million worth of debt maturing in 2011 and another RM120 million in 2013. The REIT is now exploring the possibility of issuing a private placement to fund its expansion plans.

Industry observers are optimistic about the potential of Hektar REIT because it has a strong partner in Frasers Centrepoint Ltd of Singapore. Its subsidiary, Frasers Centrepoint (M) Ltd, holds a 40% stake in Hektar REIT Management while Frasers Centrepoint Trust has 31% equity interest in Hektar REIT.

According to Jaafar, Hektar REIT is still committed to paying out dividends on a quarterly basis. The payout ratio was 93% in FY2007 and 90% in FY2008. Hektar REIT's historical dividend yield of 13.6% (FY2008 dividend over current share price) was also above the industry average of 10.9%.

In a recent report, AmResearch projected Hektar REIT to pay a higher dividend of 10.5 sen per unit for FY2009 and 11.6 sen per unit for FY2010, from 10.2 sen per unit in FY2008. It projected the REIT's net profit to be RM37.3 million for FY2009 and RM41.3 million for FY2010, from RM60.4 million in FY2008 (which included a property revaluation surplus of RM24.1 million).

Hektar REIT's total asset value increased by 25.6% to RM738.1 million at end-2008 from RM587.8 million as at Dec 31, 2007, while its net asset value grew from RM374.4 million to RM402.1 million or RM1.26 per share.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Jaafar: Overall, the REIT market will continue to grow alongside the broader economy as Malaysia's real estate scene continues to evolve

Jaafar says Hektar REIT has no intention of diversifying into other classes of properties at the moment as a lot of expertise and research is required to successfully transform these properties into viable, income-generating properties.

"The industry is composed of players that specialise in different real estate sectors. It is better for us to concentrate on one area that we are good at rather than spreading our wings too wide," he says.

Jaafar says most Malaysian REITs can only grow via third-party acquisitions, but this process takes time. Meanwhile, the market here is simply not big enough to attract major foreign funds.

"But our message to foreign investors is straightforward; given time, Malaysian REITs will grow and we will get there. Overall, the REIT market will continue to grow alongside the broader economy as Malaysia's real estate continues to evolve.

"Commercial developments are continuing in prime areas such as KLCC and KL Sentral, with retail malls developing outside the Klang Valley. These assets will eventually find their way to REITs, as it is a tax-efficient vehicle for holding commercial properties," he says. E