

HLIB Research

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HOLD (Maintain)

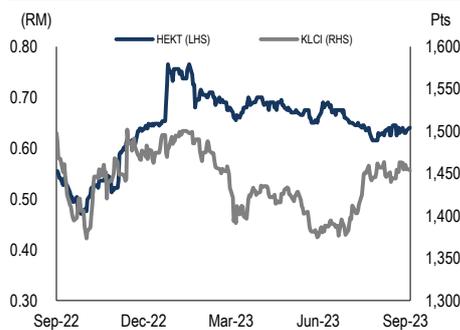
Target Price: RM0.60
Previously: RM0.60
Current Price: RM0.64

Capital upside -6.3%
Dividend yield 9.5%
Expected total return 3.2%

Sector coverage: REIT

Company description: Hektar REIT is a retail-focused REIT invest in real estate in Malaysia, which is primarily used for retail purposes. The Trust's portfolio currently consists of six properties

Share price



Historical return (%)	1M	3M	12M
Absolute	-0.8	-6.0	3.3
Relative	-1.3	-9.5	7.8

Stock information

Bloomberg ticker	HEKT MK
Bursa code	5121
Issued shares (m)	499
Market capitalisation (RM m)	319
3-mth average volume ('000)	355
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Frasers Centrepoint Trust	28.9%
Hektar Black Sdn Bhd	25.4%

Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PAT – core	27.6	30.2	32.7
EPU – core (sen)	5.9	6.4	6.9
P/E (x)	10.9	10.0	9.3

Hektar REIT

Foray into education asset

Hektar has proposed to acquire the building and facilities of KYS College at a purchase consideration of RM150m, to be partially satisfied via 20% placement of existing issued units. The property is being leased to KYSA Education Sdn Bhd (operator of KYS College), commencing from 22 June-23 on a quadruple-net lease basis for 30 years with a guaranteed rent of RM8.1m for the first year, followed by a 2.5% annual step up. Based on our estimation, the deal is expected to enhance our FY23f forecasted core net profit by 18.9%. Accounting for the expansion in share base of 20%, EPU for FY23f is expected to be diluted by -1.8% while gearing is expected to increase to 46% as at 2Q23 (from 44%). Maintain forecasts pending completion of the exercises, reiterate HOLD with TP of RM0.60.

NEWSBREAK

Hektar yesterday announced that it has entered into a conditional SPA with KYS College Sdn Bhd for the proposed acquisition of administration (single storey), academic (1.5 storey), residential (2-storey) and student facilities (3-storey) forming part of the fully residential and co-educational private school known as Kolej Yayasan Saad (KYS College) at the purchase consideration of RM150m. The land area of the properties spans over 121 acres located in Melaka.

To partially finance the acquisition, Hektar has also proposed to undertake a placement of up to 99.8m new units, implying 20% of existing issued units. At an indicative issue price of RM0.567 per unit, the proposed placement is expected to raise gross proceeds of RM56.6m.

HLIB's VIEW

The good... The property is being leased to KYSA Education Sdn Bhd (existing operator of KYS College), commencing from 22 June-23 on a quadruple-net lease basis (lessee responsible for operation, maintenance and repair of the property). Hektar is entitled to a guaranteed rent of RM8.1m for the first year, followed by a 2.5% yearly step up. Although the rental yield at the first year term works out to be only at 5.4% (vs c.7% portfolio rental yield in FY22), it is well compensated by the (i) 30-year stable rental stream with annual increment of 2.5%, (ii) timely diversification from the highly competitive retail industry, especially for neighbourhood malls, and (iii) minimal opex required due to the nature of quadruple net lease agreement, in our view.

...and the bad. Based on our calculation, the deal is expected to enhance our FY23f forecasted core net profit by 18.9%. Accounting for the expansion in share base of 20%, FY23f EPU is expected to be diluted by -1.8%. Assuming the deal is to be completed, our TP would decrease to RM0.57. This is under the assumption that the remaining balance of RM93m (net of RM57m equity issuance) would be funded by debt given Hektar's limited cash available in its balance sheet (RM16m as at 2Q23). Gearing is expected to increase to 46% as at 2Q23 (from 44%), approaching the permissible gearing limit of 50%.

Forecast. We maintain our forecasts pending completion of the exercises.

Maintain HOLD, TP: RM0.60. We are overall neutral on this development as the favourable lease structure of the property is anticipated to be offset by EPU dilution in the mid-term. Nonetheless, we believe the rental upside for this property in the long run would outpace its existing neighbourhood mall assets. Our TP is based on FY24 DPU on targeted yield of 11.0% – derived from 5-year historical average yield spread between Hektar and MAG10YR.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Cash	60.7	23.2	20.5	24.3	27.1
Investment properties	1164.6	1206.1	1206.1	1206.1	1206.1
Others	5.5	6.3	4.3	4.4	4.5
Total Assets	1230.7	1235.5	1230.9	1234.8	1237.6
Payables	76.8	57.9	51.8	54.0	55.2
Debt	581.1	551.4	551.4	551.4	551.4
Others	24.9	28.2	28.2	28.2	28.2
Total Liabilities	682.7	637.5	631.4	633.7	634.8
Unitholders' capital	548.0	598.0	599.5	601.1	602.8
Others	-	-	-	-	-
Equity	548.0	598.0	599.5	601.1	602.8
Total Liab & Equity	1230.7	1235.5	1230.9	1234.8	1237.6

Cash Flow Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	-31.5	78.0	30.2	32.7	33.8
Interest expense	18.7	20.2	23.3	22.8	22.8
Interest income	-0.7	-1.6	-1.6	-1.3	-0.7
Working capital	13.2	-10.9	-4.1	2.1	1.1
Tax paid	-	-	-	-	-
Others	50.4	-50.4	0.0	0.0	0.0
CFO	50.0	35.4	47.8	56.3	57.0
Disposal / (purchase)	-	-	-	-	-
Others	0.3	(7.6)	1.6	1.3	0.7
CFI	0.3	-7.6	1.6	1.3	0.7
Distribution paid	-4.2	-24.6	-28.7	-31.1	-32.1
Borrowings draw down	30.0	0.0	0.0	0.0	0.0
Borrowings repaid	-30.0	-29.6	0.0	0.0	0.0
Others	-14.4	-20.2	-23.3	-22.8	-22.8
CFF	-18.6	-74.5	-52.0	-53.8	-54.9
Net CF	31.7	-46.7	-2.6	3.8	2.8
Beginning Cash	27.3	59.1	23.2	20.5	24.3
Short term funds		10.8			
End Cash	59.1	23.2	20.5	24.3	27.1

Income Statement

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Total revenue	96.6	117.4	126.6	132.1	135.6
Prop opex	(49.6)	(58.8)	(65.9)	(69.1)	(70.7)
Net prop income	47.0	58.7	60.7	63.0	64.9
Other income	0.8	3.4	3.4	3.1	2.5
Net investment income	47.8	62.1	64.0	66.1	67.3
Mgmt fees	(6.9)	(7.5)	(6.7)	(6.8)	(6.9)
Trustee fees	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other trust exp	(3.0)	(6.3)	(3.4)	(3.4)	(3.4)
Finance costs	(18.7)	(20.2)	(23.3)	(22.8)	(22.8)
Profit before tax	18.8	27.6	30.2	32.7	33.8
Tax	-	-	-	-	-
Core PAT	18.8	27.6	30.2	32.7	33.8
Els	(47.3)	47.0	-	-	-
Reported PAT	(28.5)	74.6	30.2	32.7	33.8

Valuation & Ratios

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	2.7	5.9	6.4	6.9	7.1
P/E (x)	23.7	10.9	10.0	9.3	9.0
DPU (sen)	2.5	8.0	6.1	6.6	6.8
Dividend yield	4.0	12.5	9.5	10.2	10.6
Distribution payout ratio	94%	137%	95%	95%	95%
NTA/ unit	1.4	1.3	1.2	1.2	1.3
P/ NTA	0.5	0.5	0.5	0.6	0.5
BVPS (RM)	1.4	1.3	1.2	1.2	1.3
P/B (x)	0.6	0.5	0.5	0.5	0.5
NPI margin	49%	50%	48%	48%	48%
Core PAT margin	19%	24%	24%	25%	25%
ROE	3.4%	4.6%	5.0%	5.4%	5.6%
ROA	1.5%	2.2%	2.5%	2.6%	2.7%
Gearing	47.2%	44.6%	44.8%	44.7%	44.6%
Net gearing	42.3%	42.8%	43.1%	42.7%	42.4%

Key Assumptions

FYE Dec	FY21	FY22	FY23f	FY24f	FY25f
Gross rental income:					
Subang Parade	20.7	23.1	26.4	28.1	28.4
Mahkota Parade	19.1	25.2	27.4	28.0	28.5
Wetex Parade	9.6	11.2	11.8	12.4	12.8
Central Square	6.6	7.3	7.9	8.6	9.1
Kulim Central	9.6	12.3	13.1	13.7	14.2
Segamat Central	2.8	3.4	3.8	3.9	4.1
Total	68.5	82.5	90.4	94.7	97.0

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

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NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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