



AmInvestment Bank

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

16 Nov 2022

Higher turnover rent amid improving footfall

Company report

BUY

(Maintained)

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03-2036 2299

Rationale for report: Company results

Price	RM0.56
Fair Value	RM0.81
52-week High/Low	RM0.63/RM0.44

Key Changes

Fair value	f
EPS	f

YE to Dec	FY21	FY22F	FY23F	FY24F
Gross Revenue (RM mil)	96.6	115.6	121.1	125.5
Adj Distributable Income (RM mil)	12.7	39.9	34.8	35.8
EPU (sen)	3.0	8.5	7.2	7.1
Consensus Net Income (RM mil)	—	—	—	—
DPU (sen)	2.5	7.6	6.2	6.2
DPU Growth (%)	181.1	201.2	(18.1)	(0.4)
PE (x)	(8.4)	7.0	8.3	8.3
EV/EBITDA (x)	19.5	21.6	13.2	13.7
Distribution yield (%)	5.0	13.3	10.9	10.8
ROE (%)	(5.1)	6.9	5.8	5.9
Debt-to-asset ratio (%)	47.2	46.1	45.9	45.8

Stock and Financial Data

Shares Outstanding (million)	471.3
Market Cap (RMmil)	263.9
Book Value (RM/share)	1.24
P/BV (x)	0.5
ROE (%)	(5.1)
Debt-to-asset ratio (%)	47.2

Major Shareholders	Frasers Centrepoint Trust (30.5%) Hektar Black (29.7%) Aventura (0.9%)
Free Float	38.5
Avg Daily Value (RMmil)	0.1

Price performance	3mth	6mth	12mth
Absolute (%)	(6.7)	13.1	-
Relative (%)	(4.0)	19.3	4.6



Investment Highlights

- We maintain BUY on Hektar with a higher fair value (FV) of RM0.81/unit (from RM0.73/unit) based on the dividend discount model (DDM).
- The increase in our FV is mainly attributed to stronger-than-expected rental and other income in FY22F, partially offset by higher risk-free rate due to the surge in 10-year Malaysian Government Securities (MGS) to 4.3% from 3.9%. No changes to our 4-star ESG rating (Exhibits 6, 7).
- Hektar reported a 9MFY22 distributable income of RM34mil. Excluding a one-off other income of RM2mil, its adjusted distributable income (ADI) of RM31mil (x3.3 YoY) came in way above our FY22F distributable income. It accounted for 116% of our earlier full-year estimates.
- The variance was mainly due to reversal of impairment losses of trade receivable totaling RM4mil in 9MFY22. Nevertheless, we do not foresee a material reversal of impairment in the upcoming quarters based on our recent checks with management.
- Additionally, higher tenant sales have increased the variable portion of rents tied to the level of retail stores' business transactions. In 9MFY22, Hektar's tenant sales had recovered to 89% of the pre-pandemic level.
- We raise our FY22F/FY23F/FY24F ADI forecast by 47%/26%/27%. This is to factor in the higher reversal of impairment losses of trade receivables in FY22F, and raise our assumption on higher turnover rent due to improving footfall expectations in FY23F/FY24F.
- In 3QFY22, Hektar's gross revenue rose 62% YoY while net property income (NPI) climbed 77% YoY. The improvement was driven by higher turnover rent and lower rental rebates offered to tenants.
- QOQ, Hektar's revenue expanded 6% to while NPI improved 34%. The higher NPI was mainly attributed to lower property maintenance cost in 3QFY22.
- No distribution was proposed for 3QFY22 as Hektar intends to make distributions on a semi-annual basis. We anticipate a higher reported distribution per unit (DPU) of 7.6 sen in FY22F vs. 6.2 sen in FY23F/FY24F due to recognition of one-off other income and reversals on impairment of trade receivables, which will be distributable to unit holders.

- Hektar's debt-to-asset ratio fell slightly to 46.4%, below the REITs' statutory limit of 50% (statutory limit after 31 December 2022).
- QoQ, average occupancy rate declined to 83% from 85%, mainly attributed to the lower occupancy rates in Subang Parade and Central Square. The occupancy rate in Subang Parade fell to 74% from 81% due to the exit of 2 major tenants in 3QFY22. We understand from management that Hektar is in the midst of discussion with several parties to occupy the space, which is expected to be filled up after the Chinese New Year in 2023 (Exhibit 2).
- On a positive note, the occupancy rate for Mahkota Parade, Wetex Trade, Kulim Central and Segamat Central remained stable in 3QFY22 (Exhibit 2).
- 22% of its tenancies (based on net lettable area) are set to expire in FY22F. As at 30 September 2022, 14% of the tenancies have been renewed while the remaining 8% will be renewed in 4QFY22 (Exhibit 3).
- We are concerned on Hektar's rental reversion as it has registered negative reversion since the beginning of the Covid-19 pandemic outbreak. However, we saw that the negative rental reversion has narrowed to 6.2% in 3QFY22 from 12%-17% in 3QFY21 to 2QFY22, in tandem with improving footfalls (Exhibit 4). Nevertheless, we foresee a narrower negative rental reversion (<-5%) in FY23F with the expectation of gradual improvement in tenants' sales as compared to FY22F.
- The recent aggressive policy rate hikes in the United States (US) has caused the US treasury yield to rise and this in turn has spilled over and resulted in an increase in 10-year MGS yield. However, we anticipate that the uptrend in 10-year UST yield to be tapering off with the expectation that the Federal Reserve may ease off aggressive rate hikes after the end of 2022 as a result of weaker economic data.
- Meanwhile, we anticipate the yield spread to be widening from FY22F onwards with the gradual recovery of retail footfalls and tenant sales, which will translate into higher distribution yields of 10%-13% on a reported basis in FY22F-24F vs. 5% in FY21. We expect Hektar to be appealing to yield-seeking investors with its higher yield spread against 10-year MGS (Exhibit 5)
- Hektar currently trades at a compelling FY23F PE of 8x vs. its 2-year average (pre-pandemic, FY18-19) of 15x. Meanwhile, distribution yield for FY23F of 11% is attractive vs. 10-year MGS yield of 4%.
- We like Hektar due to:
 - (i) its diverse portfolio of neighbourhood shopping centres located strategically over 4 states (Selangor, Melaka, Johor and Kedah) in Peninsular Malaysia;
 - (ii) most of its retail malls (Kulim Central, Central Square and Wetex Parade) have a more consistent customer base since they are either the only mall in that particular town or the dominant shopping centre; and
 - (iii) its strategic collaboration with Frasers Centrepoint Trust will help Hektar expedite acquisition plans, working on joint venture prospects, obtaining financial assistance and leverage synergies on skills, experiences and retail connections.

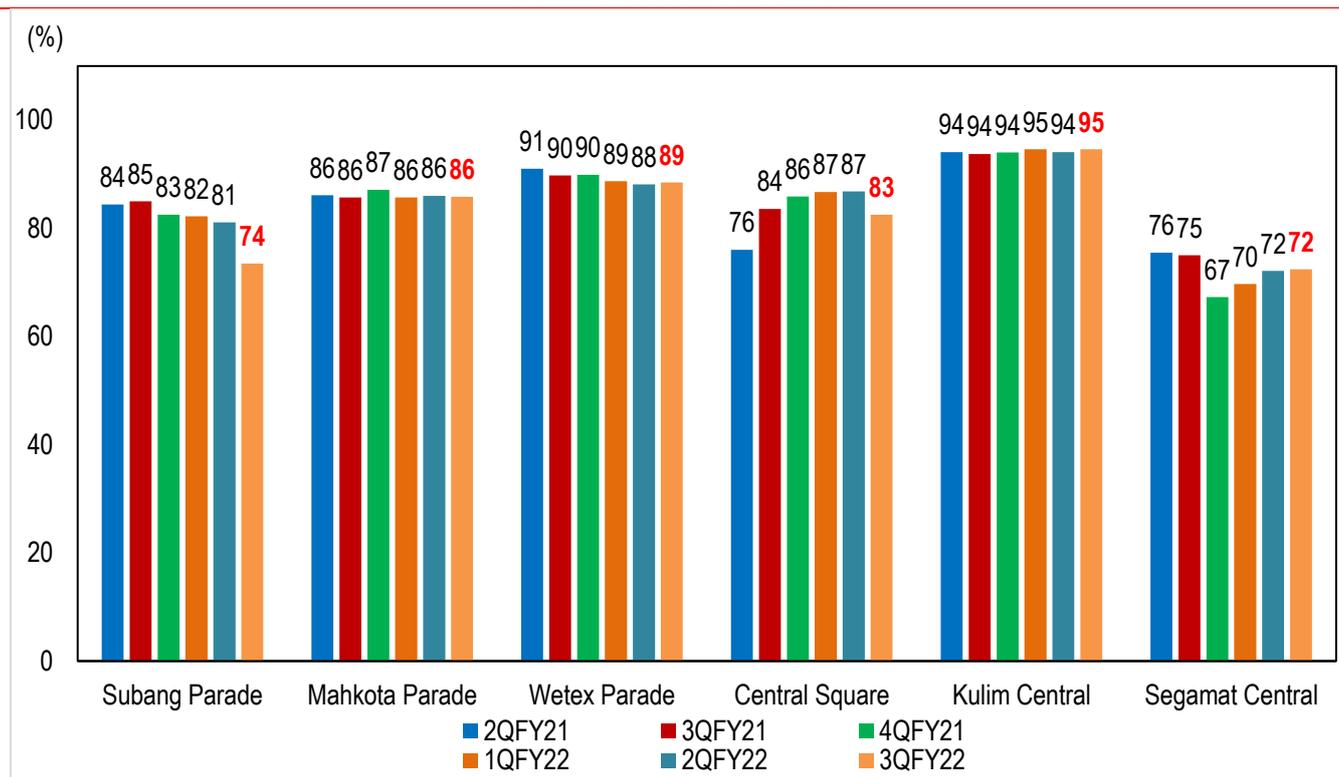
EXHIBIT 1: RESULT SUMMARY

(RM 'mil)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	19.1	29.4	31.1	5.8	62.4	71.6	89.6	25.0
Property operating costs	(8.8)	(15.7)	(12.8)	(18.6)	45.0	(37.0)	(40.9)	10.6
Net property income	10.3	13.7	18.3	33.6	77.2	34.6	48.6	40.4
Other income	0.1	0.6	0.2	(62.9)	>100	0.3	2.3	>100
Net Investment Income	10.4	14.3	18.5	29.7	77.9	34.9	51.0	46.0
Other trust expenses	(4.7)	(3.1)	0.1	>100	>100	(11.6)	(3.1)	(73.4)
EBIT	5.7	11.2	18.7	66.8	>100	23.3	47.9	>100
Net interest income/expenses	(4.3)	(4.6)	(5.2)	11.9	19.9	(13.8)	(14.1)	1.9
Profit Before Taxation	1.4	6.6	13.5	>100	>100	9.5	33.8	>100
Taxation	-	-	-	n.m.	n.m.	-	-	n.m.
Net Profit	1.4	6.6	13.5	>100	>100	9.5	33.8	>100
Distributable Adjustment	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Distributable Income	1.4	6.6	13.5	>100	>100	9.5	33.8	>100
One-off item*	0.0	(1.0)	0.0	(100.0)	n.m.	0.0	(2.4)	n.m.
Adjusted Distributable Income	1.4	5.6	13.5	142.2	861.8	9.5	31.4	231
Distribution:								
EPU - Diluted (Sen)	0.3	1.4	2.9	>100	>100	2.1	7.2	>100
Proposed DPU (Sen) - Interim	0.0	2.7	0.0	(100.0)	n.m.	0.0	2.7	n.m.
Distribution Yield (as at the end of the period) (%)	1.7	9.0	9.9	0.9	8.2	1.7	9.9	8.2
NAV/unit	1.3	1.2	1.2	0.0	(7.7)	1.3	1.2	(5.4)
Weighted average unit ('000)	462.0	471.3	471.3	0.0	2.0	462.0	471.3	2.0
Margin:								
NPI margin (%)	54.0	46.7	58.9	12.3	4.9	48.4	54.3	6.0
EBIT margin (%)	29.9	38.1	60.1	22.0	30.2	32.5	53.5	20.9
Net Interest coverage (x)	1.3	2.4	3.6	1.2	2.3	1.7	3.4	1.7
Debt-to-Asset Ratio (%)	45.9	46.7	46.4	(0.3)	0.5	45.9	46.4	0.5

*exclude the recognition of one-off other income

Source: Company, AmlInvestment Bank Berhad

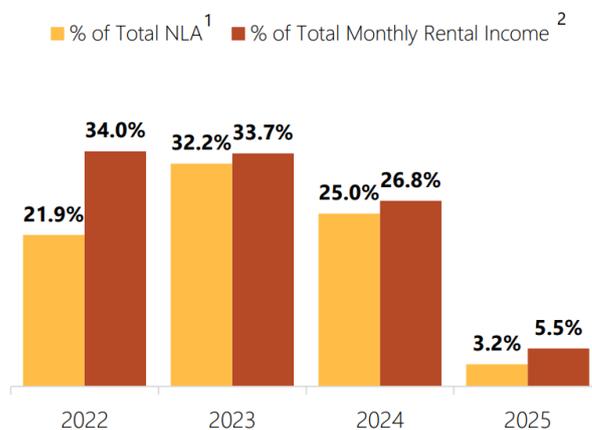
EXHIBIT 2: OCCUPANCY RATE



Source: Hektar, AmlInvestment Bank Bhd

EXHIBIT 3: PORTFOLIO TENANCY EXPIRY PROFILE

PORTFOLIO TENANCY EXPIRY PROFILE			2022-2025
Period End September	Number of Tenancies Expiring	Expiring NLA (Sq. Ft.)	
2022	178	447,373	
2023	86	657,417	
2024	77	510,641	
2025	28	66,026	
Total	369	1,681,457	



¹Based on the total Net Lettable Area (NLA) of 2,043,536 sq. ft. as at 30 September 2022.

²Based on monthly rental income for September 2022. Figures may not round to 100% due to misc. items.

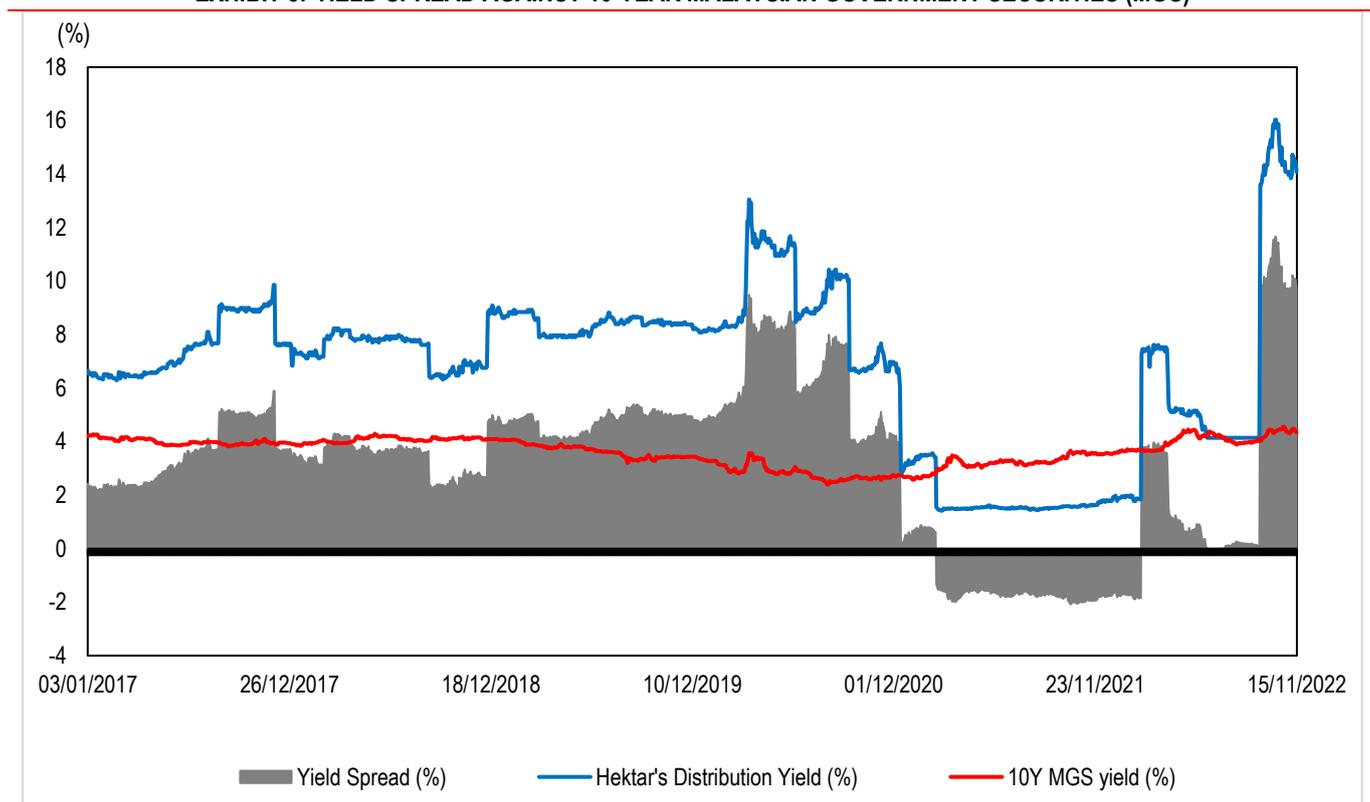
Source: Hektar

EXHIBIT 4: PORTFOLIO RENTAL REVERSION IN 3QFY22

Portfolio rental reversion for Q3'22 Ended 30th September 2022	No. of New Tenancies	NLA (sq. ft.)	% of Total NLA	% Increase / (Decrease) Over Previous Rent Rates
Subang Parade	7	9,426	1.8	-17.7
Mahkota Parade	12	46,448	8.9	-6.2
Wetex Parade	6	10,030	5.7	-6.9
Central Square	-	-	-	-
Kulim Central	6	8,491	2.8	8.5
Segamat Central	7	21,032	9.9	1.7
Portfolio Average	38	95,427	4.7	-6.2

Source: Hektar, AmInvestment Bank Bhd

EXHIBIT 5: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: AmInvestment Bank Bhd, Bloomberg

EXHIBIT 6: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate	4.3%
Beta	1.05
Market Return	16.2%
Cost of Equity (Ke)	16.8%

Average Cost of Debt **4.8%**

Capital Structure: (RM Mil)

Market Cap	271.0	31.8%
Total Borrowing	581.1	68.2%
Total	852.1	100.0%

Weighted Average Cost of Capital (WACC):

Cost of Equity (Ke)	Weight	Cost	W X C
Average Cost of Debt	31.8%	16.8%	5.3%
WACC	68.2%	4.8%	3.2%
			8.6%

Multi-Stage DDM	2022	2023	2024	2025	2026	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.08	0.06	0.06	0.06	0.07	0.79
Present Value (RM)	0.07	0.05	0.05	0.05	0.04	0.53
Valuation	0.79					
(+) 3% premium for 4-star ESG rating	0.02					
Fair Value/unit (RM)+ESG	0.81					
Rate of Return (%)	8.6%					
Growth Rate (%)	0.2%					

Source: Company, AmlInvestment Bank Berhad

EXHIBIT 7: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★	★	★	
Energy, Water & Waste management	★	★	★	★	
Pollution Control	★	★	★		
Health and safety compliance	★	★	★	★	
Corporate social responsibility	★	★	★	★	
Employees welfare & training	★	★	★		
Corruption free pledge	★	★	★		
Diversity and inclusion	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmlInvestment Bank Bhd

EXHIBIT 8: PB BAND CHART



EXHIBIT 9: PE BAND CHART

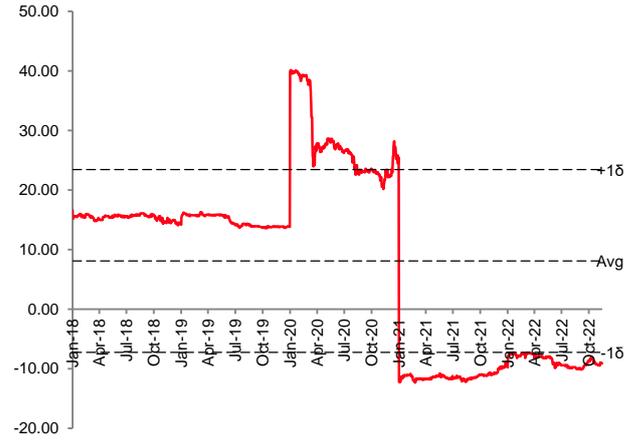


EXHIBIT 10: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Gross Revenue	111.1	96.6	115.6	121.1	125.5
Net Property Income	52.9	47.0	61.6	67.2	70.2
Net Investment income	53.0	47.0	64.2	67.4	70.3
EBITDA	42.3	36.8	59.0	56.6	59.2
Net interest	(20.4)	(17.9)	(19.1)	(21.7)	(23.4)
Exceptional items (EI)	(46.1)	(50.3)	0.0	0.0	0.0
Pretax profit	(24.1)	(31.5)	39.9	34.8	35.8
Taxation	0.2	3.0	(1.0)	(1.1)	(1.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	(23.9)	(28.5)	38.9	33.7	34.7
Adj. distributable income	14.2	12.7	39.9	34.8	35.8
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Plant and equipment	0.1	0.1	0.0	0.0	0.0
Investment Properties	1,208.4	1,164.6	1,164.6	1,164.6	1,164.6
Total non-current assets	1,210.0	1,166.2	1,166.2	1,166.2	1,166.1
Cash & equivalent	27.3	59.1	71.0	74.8	77.9
Other receivables	17.4	2.7	9.1	9.6	9.9
Trade receivables	4.3	2.7	13.8	14.5	15.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	49.0	64.5	94.0	98.9	102.8
Trade payables	16.4	16.6	10.0	10.0	10.3
Short-term borrowings	45.0	15.0	15.0	15.0	15.0
Other payables and accruals	48.2	51.0	45.6	45.7	46.8
Total current liabilities	109.5	82.6	70.6	70.7	72.1
Long-term borrowings	536.1	566.1	566.1	566.1	566.1
Other long-term liabilities	37.0	34.1	42.2	43.7	45.1
Total long-term liabilities	573.1	600.2	608.3	609.8	611.2
Total Unitholders' funds	576.4	548.0	581.2	584.6	585.7
Minority interests	-	-	-	-	-
NAV per unit (RM)	1.4	1.3	1.2	1.2	1.2
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	(24.1)	(31.5)	39.9	34.8	35.8
Net change in working capital	(4.8)	13.2	(26.2)	(1.1)	0.9
Others	66.5	68.3	53.3	18.3	18.0
Cash flow from operations	37.5	50.0	67.0	52.1	54.6
Capital expenditure	(9.0)	(0.4)	0.0	0.0	0.0
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	0.5	0.7	1.1	5.3	5.0
Cash flow from investing	(8.5)	0.3	1.1	5.3	5.0
Debt raised/(repaid)	18.0	0.0	0.0	0.0	0.0
Equity raised/(repaid)	0.0	4.2	0.0	0.0	0.0
Distribution paid to unitholders	(9.2)	(4.2)	(35.9)	(30.4)	(31.2)
Others	(20.9)	(18.7)	(20.1)	(23.2)	(25.3)
Cash flow from financing	(12.1)	(18.6)	(56.0)	(53.6)	(56.5)
Net cash flow	16.8	31.7	12.0	3.8	3.1
Net cash/(debt) b/f	10.5	27.3	59.1	71.0	74.8
Net cash/(debt) c/f	27.3	59.1	71.0	74.8	77.9
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(19.0)	(13.1)	19.6	4.8	3.6
Net Property Income growth (%)	(29.8)	(11.2)	31.1	9.0	4.4
Pretax margin (%)	(21.7)	(32.6)	34.5	28.8	28.5
Net income margin (%)	(21.5)	(29.5)	33.7	27.8	27.6
Net Interest cover (x)	2.1	2.1	3.1	2.6	2.5
Effective tax rate (%)	1.0	9.6	3.9	3.9	3.9
DPU payout (%)	117.4	141.9	90.0	90.0	90.0
Receivable turnover (days)	39.8	13.1	43.6	43.6	43.6
Payable turnover (days)	80.0	121.4	67.8	67.8	67.8

Source: Company, AmlInvestment Bank Bhd estimates

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