



AmInvestment Bank

Company report

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

24 Jun 2022

Flattish rental reversion expected for retail malls

HOLD

(Initiation)

AmInvestment Bank

Team Coverage

03 2070 2444

Rationale for report: Initiation

Price RM0.56
Fair Value RM0.60
 52-week High/Low RM0.63/RM0.44

Key Changes

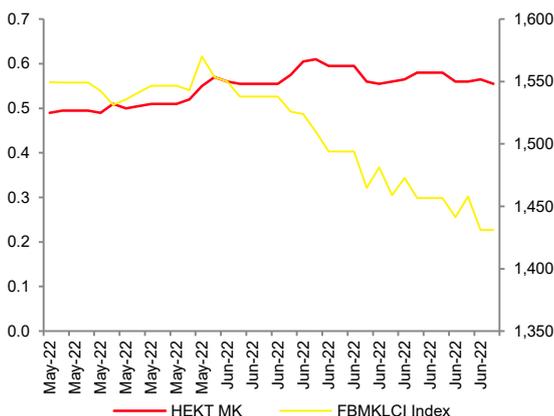
Fair value **Initiation**
 EPS **Initiation**

YE to Dec	FY21	FY22F	FY23F	FY24F
Gross Revenue (RM mil)	96.6	99.6	103.2	106.9
Net Income (RM mil)	(28.5)	18.6	19.1	19.4
EPU	(6.2)	4.4	4.6	4.6
DPU Growth (%)	181.1	58.3	2.5	1.5
Consensus Net Profit (RM mil)	-	-	-	-
DPU (sen)	2.5	4.0	4.1	4.2
PE (x)	(8.2)	12.5	12.2	12.0
EV/EBITDA (x)	19.3	21.3	20.1	18.9
Distribution yield (%)	5.0	7.2	7.4	7.5
ROE (%)	(5.2)	3.2	3.3	3.4
Net Debt/Assets (%)	42.4	41.7	41.4	41.1

Stock and Financial Data

Units Outstanding ('Mil)	471.3
Market Cap (RM' mil)	261.6
Book Value (RM/unit)	1.4
P/BV (x)	0.4
ROE (%)	(5.1)
Net Gearing (%)	41.7
Major Shareholders	Frasers Centrepoint Trust (30.5%) Hektar Black (30.1%) Aventura (0.9%)
Free Float	38.5
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	22.0	13.3	(6.7)
Relative (%)	36.2	20.0	2.0



Investment Highlights

- We initiate coverage on Hektar Real Estate Investment Trust (Hektar REIT) with a HOLD recommendation and a DDM-based fair value (FV) of RM0.60/unit. Our FV reflects a 3% premium for a 4-star ESG rating.
- The group is expected to record a net income of RM18.6mil in FY2F, RM19.1mil in FY23F and RM19.4mil in FY24F. This is after accounting for: (i) negative rental reversion rate in FY22F (ii) a 2%-4% increment in rental rate from FY23F onwards; (iii) 1% yearly rise in occupancy rates for retail properties held by the group; and (iv) higher borrowing cost.
- Frasers Centrepoint Trust (FCT) is a substantial unitholder and strategic partner with a 31% equity stake in Hektar REIT. It is also one of the largest owners of suburban retail centres in Singapore. The strategic partnership with FCT is envisaged to assist Hektar REIT in expediting its acquisition plans, via pursuing joint venture opportunities, securing funding and leverage synergies on expertise and retail connections.
- As of 31 December 2021, regional malls with a total net lettable area (NLA) of more than 500,000 square feet have contributed 61% of the group's total gross revenue. The key retail malls owned by the REIT are Subang and Mahkota Parade.
- The narrowing yield spread between Hektar REIT and 10-year MGS is mainly attributed to the increase in 10-year MGS yield. This follows the upward trend in the yield on the US 10-year Treasury (+152 bps). We forecast a distribution yield of 7.2% for FY22F, which is slightly above peers' average distribution yield of 5%, and its historical 5-year average distribution yield of 6%. In view of the rising interest rate environment, market sentiment on REITs is anticipated to remain subdued in the near term.
- We are cautious about Hektar REIT due to: (i) expectation of negative rental reversion in FY22F to boost occupancy rates amid the existing oversupply of retail spaces in Malaysia; (ii) bumpy outlook for retail sales amid inflationary pressures which is expected to dampen consumer spending on discretionary goods; (iii) declining occupancy rate for Subang Parade and Mahkota Parade; (iv) its concentrated tenant mix, with the tenants from departmental stores occupying a substantial 40% of total available NLA of the REIT's assets.

BUSINESS OVERVIEW

First retail-focused REIT in Malaysia

Hektar Real Estate Investment Trust (Hektar REIT) is the first retail-concentrated Real Estate Investment trust (REIT) in Malaysia, with a diverse portfolio of neighbourhood shopping centres placed strategically across Peninsular Malaysia (Exhibit 2). It was listed on the Bursa Malaysia's Main Board on 4 December 2006. As of 31 March 2022, the group owns 6 retail assets under its portfolio. This includes Subang Parade, Mahkota Parade, Wetex Parade, Central Square, Kulim Centre (previously Kulim Landmark Central) and Segamat Central (formerly 1Segamat Mall). As of December 31, 2021, the REIT has 384 tenants with a total net lettable area (NLA) of 2,041,898 sq.ft

The REIT is managed by Hektar Asset Management (REIT Manager) (Exhibit 1). The latter sets the strategic direction in managing the REIT's assets and liabilities for the benefit of unitholders and provides advice to the Trustee on potential acquisitions, investments and asset enhancements. The Manager holds a valid Capital Markets Services License (CMSL) issued by the Securities Commission (SC), as required by the Capital Markets and Services Act 2007 (CMSA) to conduct REIT management operations.

EXHIBIT 1: ORGANISATION STRUCTURE



Source: Hektar REIT

EXHIBIT 3: MILESTONES

FY2006	<ul style="list-style-type: none"> Listed on Bursa Malaysia's Main Market on December 4, 2006. It is Malaysia's first retail-focused REIT.
FY2007	<ul style="list-style-type: none"> Fraser's Centrepoint Trust, a Singapore-listed retail-focused REIT acquired a 27% stake in Hektar REIT.
FY2008	<ul style="list-style-type: none"> Hektar Asset Management and Fraser's Centrepoint Limited (a subsidiary of the Fraser & Neave Group), formed a joint venture to manage Hektar REIT. Fraser's Centrepoint Trust increased its stake in Hektar REIT to 31%. Acquired Wetex Parade & Classic Hotel.
FY2012	<ul style="list-style-type: none"> Acquired Landmark Central Shopping Centre and Central Square Shopping Centre for RM181mil.
FY2017	<ul style="list-style-type: none"> Acquired Segamat Central (formerly known as 1Segamat Mall).
FY2018	<ul style="list-style-type: none"> Won Gold at Asia Pacific Best of Breeds REITs Awards under "Retail REIT" category.
FY2019	<ul style="list-style-type: none"> Awarded National Energy Awards 2019 and ASEAN Energy Awards 2019 in the Energy Efficient Building—Retrofitted Building category. Awarded Green Initiative Award at the Asia Corporate Excellence & Sustainability Awards 2019.

Source: Hektar REIT, AmlInvestment Bank

EXHIBIT 2: OVERVIEW OF PORTFOLIO

	Subang Parade	Mahkota Parade	Wetex Parade	Central Square	Kulim Central	Segamat Central
Location	Subang Jaya, Selangor	Bandar Melaka, Melaka	Muar, Johor	Sungai Petani, Kedah	Kulim, Kedah	Segamat, Johor
Property Description	First regional shopping centre in Selangor.	First regional shopping centre located in the heart of Melaka.	Integrated retail and hotel development in the commercial district.	Most established retail centre and recognisable landmarks in Sungai Petani	The only shopping centre in Kulim, Kedah	The only purpose-built shopping centre in Segamat
Type	Regional Mall	Regional Mall	Suburban Mall	Suburban Mall	Suburban Mall	Suburban Mall
Retail NLA	523,487 sq.ft	521,142 sq.ft	175,014 sq.ft	310,564 sq.ft	299,781 sq.ft	211,910 sq.ft
Tenancies	89	90	60	45	67	33
Acquisition	RM280.0mil	RM232.0mil	RM117.5mil	RM83.0mil	RM98.0mil	RM104.0mil
Valuation	RM423.0mil	RM323.5mil	RM142.0mil	RM90.0mil	RM129.0mil	RM57.0mil
Year Opened	1988 (34 years)	1994 (28 years)	1996 (26 years)	1997 (25 years)	2009 (13 years)	2011 (11 years)
Year Acquired	2006	2006	2008	2012	2012	2017

Source: Company, AmlInvestment Bank Bhd

Fraser's Centrepoint Trust- a key strategic partner with strong financial standing

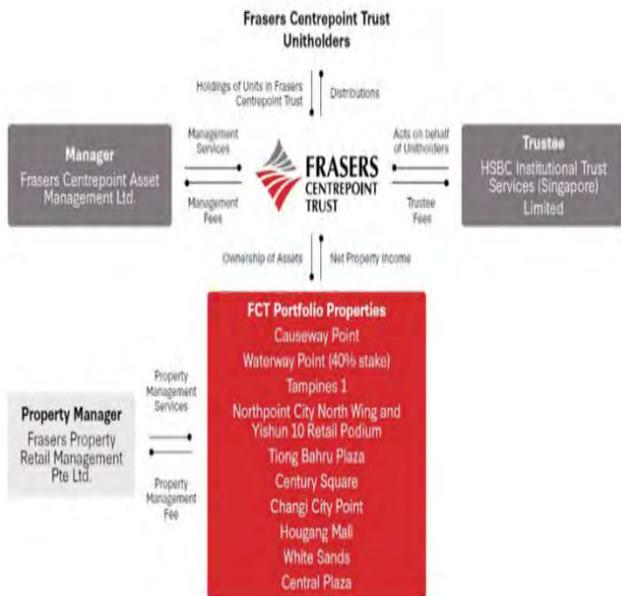
Fraser's Centrepoint Trust (FCT) is a substantial unitholder of Hektar REIT with an equity stake of 31%. Besides being the major unitholder, the trust is also the strategic partner of Hektar REIT (Exhibit 1).

Fraser's Centrepoint Trust (FCT) is a division of the Fraser's Property Group, the real estate division of Fraser and Neave (F&N). Fraser's Property Group is one of the top real estate firms in Singapore, with operations in several countries in the residential, hotel, retail, commercial and industrial sectors (Exhibit 5).

FCT was listed on the Singapore Exchange (SGX-REIT) and is one of the largest owners of suburban retail centres in Singapore. FCT's property portfolio comprised 9 retail malls and an office building, with a retail portfolio of more than 1,400 leases covering over 2.2 mill sq. ft of NLA (Exhibit 4). It is among the top 10 largest Singapore REITs (SREITs) by market capitalisation with a market value of S\$3.8bil.

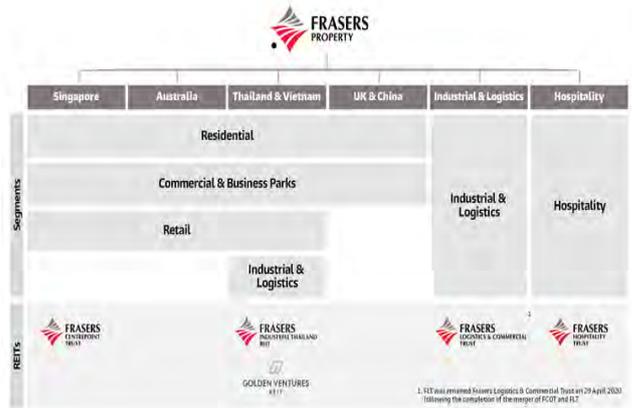
The strategic alliance with FCT will help Hektar REIT accelerate its acquisition strategy by collaborating on joint venture opportunities; obtaining financial support; and utilise synergies between respective domain expertise, experiences and retail connections. Presently, there are 3 representatives from FCT and 1 from Fraser's Property Group on the board of Hektar REIT.

EXHIBIT 4: TRUST STRUCTURE OF FRASERS CENTREPOINT TRUST



Source: Fraser's Centrepoint Trust

EXHIBIT 5: GROUP STRUCTURE OF FRASERS PROPERTY



Source: Fraser's Property

Led by experienced board of directors and key management personnel

The following are selected profiles of its directors and management:

Johari Shukri bin Jamil, Executive Director (ED) & Chief Executive Officer (CEO). Johari joined the board as a Non-Independent Non-Executive Director on 22 February 2022. On 11 June 2022, he was subsequently named as the ED and CEO. He has extensive experience in managing public and private companies.

Zarina Halim, Executive Director (ED) & Chief Corporate Officer. She was appointed on 1 February 2018. With the Hektar group for more than 19 years, Zarina was a member of the founding team in 2002 and was in charge of Hektar REIT's listing on Bursa Malaysia. She also has extensive experience in project management and business development. Zarina possesses a Capital Markets Services Representatives' License (CMSRL) for REITs.

Richard Ng, Non-Independent Non-Executive Director. Richard was appointed on 1 July 2019. He has 29 years of experience in the Singapore and regional property markets, spanning the areas of marketing, investment, asset and REIT management. He now serves as the Chief Executive Officer of Fraser Centrepoint Asset Management Ltd, which is the manager of Fraser's Centrepoint Trust - the strategic partner and substantial unitholder of Hektar REIT.

Tan Loo Ming, Non-Independent Non-Executive Director. Tan was appointed on 24 July 2021. She has been in the financial sector for more than 20 years. Currently, Tan is the Chief Financial Officer of Fraser's Centrepoint Asset Management Ltd.

Pauline Lim Poh Noy, Alternate Director to Mr Richard Ng. She was appointed on 12 January 2021. She has over 20 years of experience in real estate. Lim is currently the Head of Investment and Asset Management at Fraser's Centrepoint Asset Management Ltd.

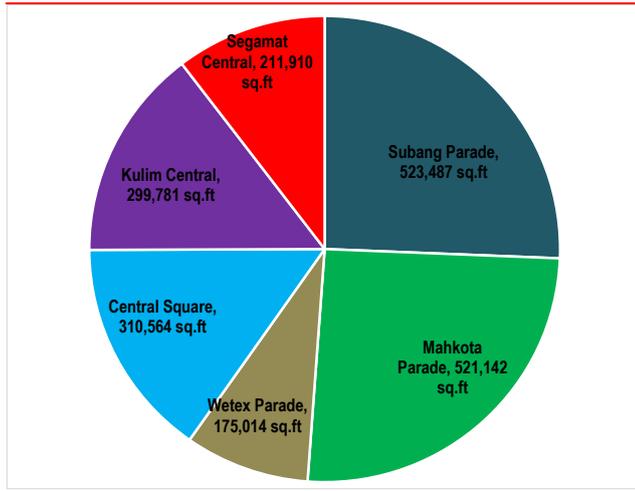
Khairul Ariffin bin Ibrahim, Chief Operating Officer. He has more than 20 years of expertise in transformation and quality management practices.

Regional malls contributed 61% of gross revenue

Regional malls with a net lettable area (NLA) of more than 500,000 sq ft contributed a sizable percentage (61%) of the portfolio's FY2021 gross income i.e. Subang and Mahkota Parade (Exhibits 2 & 6).

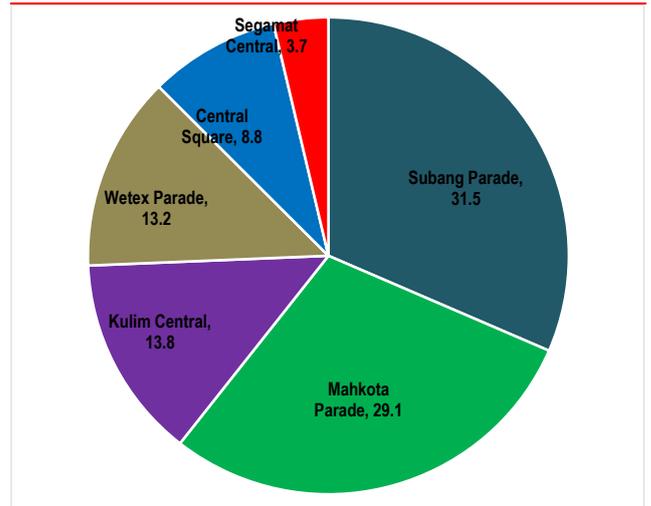
Looking forward, we anticipate that regional malls will continue to account for a significant share of gross revenue at 60%. This will be supported by a gradual increase in the number of shoppers visiting shopping centres following the reopening of the economy and further relaxation of SOPs (Exhibits 7 & 8).

EXHIBIT 6: RETAIL NLA (SQFT) BREAKDOWN BY ASSETS



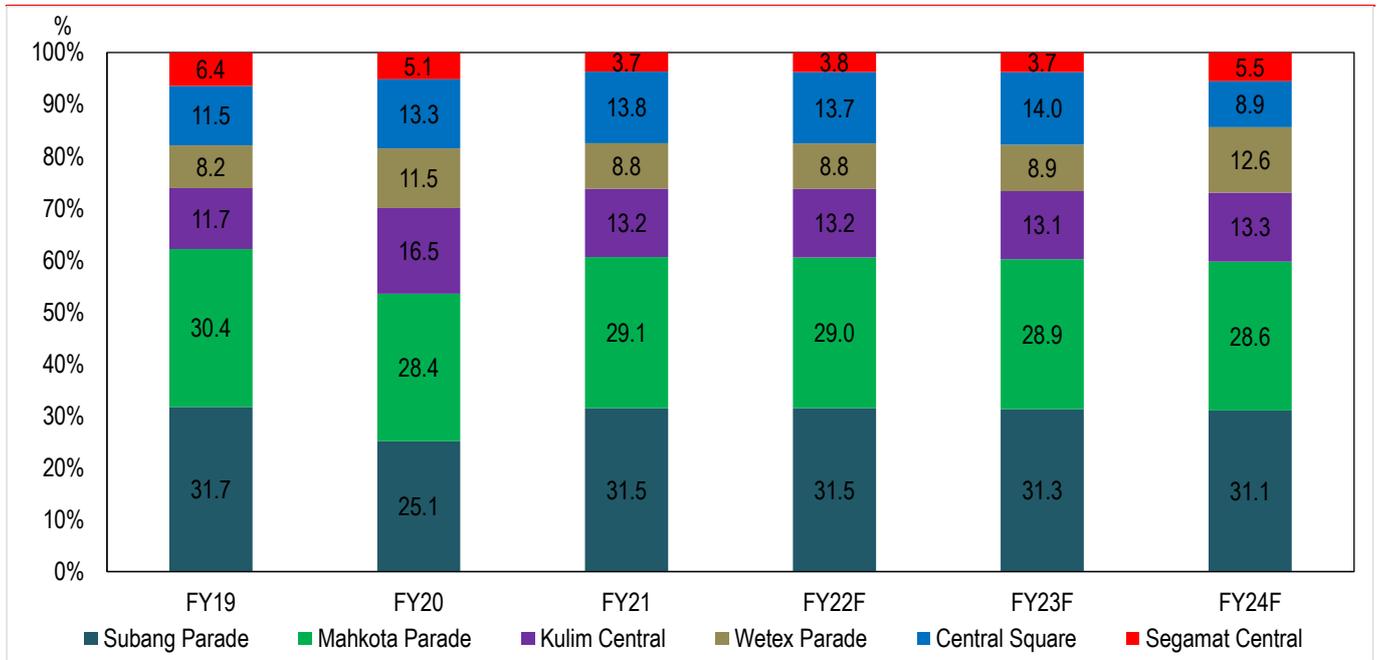
Source: Hektar REIT, AmlInvestment Bank

EXHIBIT 8: REVENUE BREAKDOWN BY ASSETS IN FY21



Source: Hektar REIT, AmlInvestment Bank

EXHIBIT 7: REVENUE BREAKDOWN BY ASSETS



Source: Hektar REIT, AmlInvestment Bank Bhd

INDUSTRY OUTLOOK

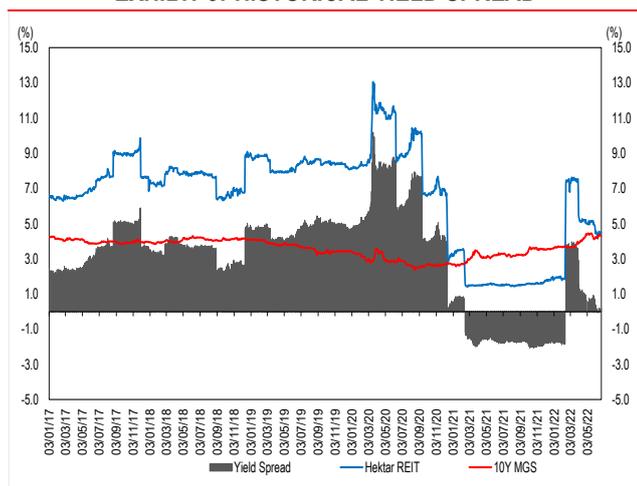
□ Narrowing yield spread against 10-year MGS

The yield spread between 10-year MGS and Hektar REIT has been shrinking. This is due to the increase in 10-year MGS yield by 40 basis points (bps) since 1Q2022 following the upward trend of US 10-year Treasury yield (+152 bps), which has climbed as the market anticipates higher interest rates. As of 22 June 2022, the yield difference between Hektar REIT and 10-year MGS yield was 18bps.

We forecast a distribution yield of 7.2% for FY22F, which is slightly above peers' average distribution yield of 5% and its historical 5-year average distribution yield of 6%.

Nevertheless, the yield is lower than the pre-pandemic level of 8% in FY2018, when the group announced a DPU of 9 sen based on RM1.11 closing price as at December 31, 2018. Our in-house economists are now projecting Bank Negara Malaysia (BNM) to raise its OPR by 25bps-50bps in 2H2022 to 2.25%-2.50%.

EXHIBIT 9: HISTORICAL YIELD SPREAD



Source: AmlInvestment Bank, Bloomberg

□ Weaker consumer sentiment ahead amid higher interest rates and inflationary pressure

The Department of Statistics Malaysia (DOSM) reported that in April 2022, the Consumer Price Index (CPI) rose 2.8% YoY to 125.9 while core inflation increased by 2.1% YoY (Exhibit 10). Malaysian Institute of Economic Research (MIER) observed a shift in consumers' spending patterns from "revenge spending" to "moderate spending", amid worries about rising prices of consumer goods.

The U.S. Federal Reserve increased its federal funds rate by 75 basis points last week, its largest hike since 1994, sparking a flurry of central bank activity at the Bank of England, Swiss National Bank and European Central Bank.

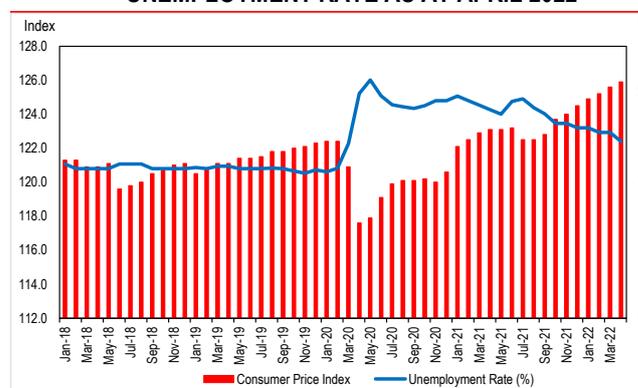
We expect BNM to raise the OPR by another 25bps in the forthcoming meeting in July 2022, following the trend of rising interest rates in developed countries. The higher OPR rate is targeted to support the ringgit from further weakening

against the US dollar due to the differential in interest rates between the 2 countries.

The expected interest rate hikes and rising inflation are anticipated to weigh on personal consumption expenditure due to higher borrowing costs and prices for consumer goods. We estimate that tenant sales ahead are likely to soften as consumers become more cautious in spending on discretionary goods.

We believe that reduced consumer spending could impact Hektar REIT's profitability amid lower tenant sales. The shopping centres owned by Hektar REIT are typically neighbourhood-focused and mostly cater to low-to-middle income consumers. These customers are typically more susceptible to increase in product prices from inflationary pressures. For FY22F-24F, we expect a gradual growth in revenue by 3%-3.6% (Exhibit 22).

EXHIBIT 10: CONSUMER PRICE INDEX AND UNEMPLOYMENT RATE AS AT APRIL 2022



Source: AmlInvestment Bank, Department of statistics Malaysia (DOSM)

□ Existing oversupply of retail spaces persist

The retail properties of Hektar REIT are geographically well-diversified in 4 states across Peninsular Malaysia, which are Selangor, Melaka, Johor and Kedah.

Based on the National Property Informational Centre (NAPIC), the average occupancy rate of retail premises in Melaka (-2.9%-point QoQ), Johor (-0.6%-point QoQ), and Kedah (-0.4%-point QoQ) slipped marginally in 1Q2022 (Exhibits 11 & 12). This was consistent with a decline in the average occupancy rate of shopping centres in Malaysia. In contrast, the average occupancy rate in Selangor improved by 0.1%-point QoQ to 80.8%.

As comparison with its historical 5-year occupancy rate, we saw a gradual decrease in the occupancy rate for retail malls under Hektar REIT, which was in tandem with the downward trend of occupancy rate of shopping centres in Malaysia. In 1QFY22, Hektar REIT reported a negative rental reversion of 17.4% for its retail portfolios.

We expect the pressure on occupancy rate and rental reversion for all retail properties owned by Hektar REIT to persist due to the ongoing excess supply of existing retail spaces as well as weaker tenant sales ahead.

Subang and Mahkota Parade (regional malls) caters to the low-to-middle income retail customers. With the increasing oversupply of retail spaces and higher inflationary pressures, these malls which do have diversified and attractive retail outlet/stores are anticipated to have lower footfall and spending by consumers as compared to the other more established malls.

Elsewhere, the impact on suburban malls (Kulim Central, Central Square and Wetex Parade) will likely stay muted. This is in view that they are the only malls in town, hence, have a dependable group of consumers to patronise them. We are targeting a further negative rental reversion for regional malls and slightly negative rental rates for suburban malls in Hektar REIT in FY22F.

EXHIBIT 11: TOTAL RETAIL SPACE IN MALAYSIA AS AT 1Q2022

State	Total Retail Space ('000 s.m.)		
	4Q2021	1Q2022	QoQ (%)
MALAYSIA	17,281.7	17,254.6	(0.2)
Selangor	3,729.67	3,744.81	0.4
W.P KL	3,397.19	3,297.71	(2.9)
Johor	2,442.3	2,440.3	(0.1)
Pulau Pinang	1,863.71	1,824.35	(2.1)
Perak	991.06	1,085.83	9.6
Sarawak	1,084.34	1,084.34	0.0
Sabah	745.8	746.21	0.1
Melaka	635.4	635.4	0.0
Negeri Sembilan	605.5	605.5	0.0
Kedah	582.4	585.7	0.6
Pahang	448.8	448.8	0.0
Kelantan	381.3	381.3	0.0
Terengganu	203.38	203.41	0.0
W.P Putrajaya	86.02	86.02	0.0
Perlis	56.42	56.42	0.0
W.P Labuan	28.61	28.61	0.0

Source: AmlInvestment Bank Bhd, National property information center (Naptic)

EXHIBIT 12: AVERAGE OCCUPANCY RATES IN MALAYSIA'S SHOPPING CENTRE AS AT 1Q2022

State	Average Occupancy Rate (%)		
	4QFY21	1QFY22	QoQ (%)
MALAYSIA	76.3	76.2	(0.2)
W.P Labuan	95.7	97.3	1.6
Perlis	92.0	92.0	0.0
W.P Putrajaya	88.0	85.8	(2.2)
W.P KL	79.8	81.0	1.2
Selangor	80.7	80.7	0.1
Kelantan	79.1	79.1	0.0
Terengganu	77.5	77.8	0.3
Sarawak	76.0	76.3	0.4
Perak	83.1	76.3	(6.9)
Sabah	73.8	75.8	2.0
Kedah	75.2	74.8	(0.4)
Johor	73.0	72.3	(0.6)
Pahang	69.4	71.3	2.0
Pulau Pinang	70.9	71.2	0.2
Negeri Sembilan	66.8	66.7	(0.1)
Melaka	63.8	60.9	(2.9)

Source: AmlInvestment Bank Bhd, National property information center (Naptic)

EXHIBIT 13: SWOT ANALYSIS

Strengths	Weaknesses
All retail properties are geographically well-diversified in 4 states across Peninsular Malaysia, which are Selangor, Melaka, Johor and Kedah.	Concentrated tenant mix. Tenants from departmental stores/supermarkets shops occupy a substantial 40% of the total portfolio's NLA.
Strategic collaboration with FCT might help Hektar REIT expedite acquisition plans, working on joint venture prospects, obtaining financial assistance, and to leverage the synergies on skills, experiences, and retail connections.	Declining trend in occupancy rate over the past 5 years.
Opportunities	Threats
Yield-accretive asset acquisitions that could expand gross revenue.	Bumpy track record in distribution yields over the past 5 years.
	Increasing competition amid the existing oversupply of retail spaces across Malaysia may result in flattish rental rates.
	Weaker consumer spending which could dampen tenant sales and affect the REIT's earnings.
	Market sentiment remain unattractive due to narrowing yield spread against 10-year MGS with the rising interest rate environment.

Source: Company, AmlInvestment Bank Bhd

KEY HIGHLIGHTS

❑ **31.6% of total NLA are expiring in FY2022**

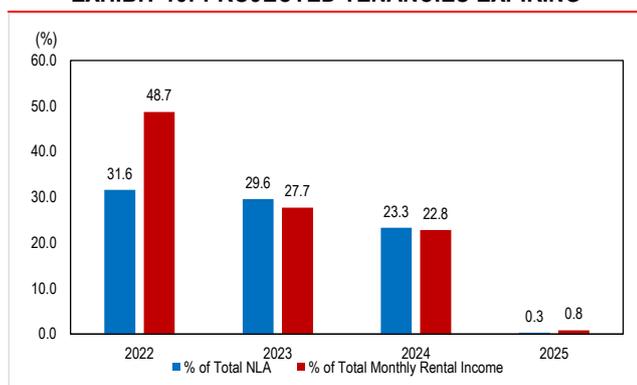
By total NLA, 31.6% of Hektar REIT's leases are due to expire in FY2022 (Exhibits 14 & 15). In 1Q2022, management has renewed 41 tenancies or 6.8% of total NLA. Moving forward, we are aware that tenants will continue to be conservative in lease negotiations owing to market uncertainty and the disparate recovery rates of the various retail trade sectors. We expect the excess retail space and lower tenant sales amid decreased consumer spending from higher inflation to exert pressure on rents for new and renewal leases.

EXHIBIT 14: PROJECTED NUMBER OF TENANCIES

Period end march	Number of Tenancies Expiring
2022	262
2023	56
2024	58
2025	6

Source: Hektar REIT

EXHIBIT 15: PROJECTED TENANCIES EXPIRING



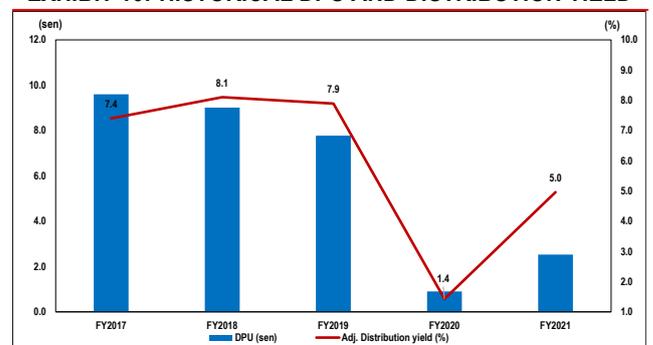
Source: Hektar REIT

❑ **Uneven distribution yield**

Hektar REIT has a bumpy track record of distribution yields over the past 5 years (Exhibit 16). We saw a sharp decline in the DPU and distribution yield in FY2020 due to the: (i) rental rebates offered to tenants, (ii) lower occupancy rates for retail malls; (iii) a recognised loss in the changes of fair value of investment properties.

Moving forward, we estimate a flattish prospective DPU trajectory at 4.0 sen in FY22F, 4.1 sen in FY23F and 4.2 sen in FY24F. This translates to a fair distribution yield of 7.2% for FY22F, 7.4% for FY23F and 7.5% for FY24F.

EXHIBIT 16: HISTORICAL DPU AND DISTRIBUTION YIELD



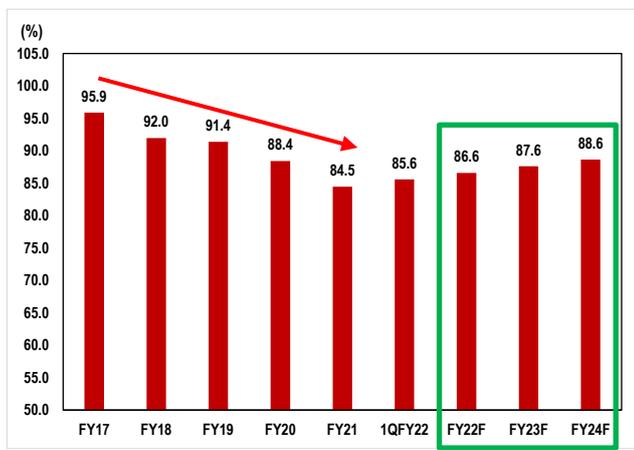
Source: Hektar REIT, AmlInvestment Bank (Based on the share price as of 22 June 2022)

Declining trend in the portfolio's average occupancy rate

In the past, the average occupancy rates was above 88%. This was supported by properties which are well spread out geographically over 4 states in Peninsular Malaysia, where most of its retail malls (Kulim Central, Central Square and Wetex Parade) have a more consistent customer base since they are either the only malls in a particular town or the dominant shopping centre.

However, we saw a downward trend in Hektar REIT's historical average occupancy rate even before the MCO period (Exhibit 19). We estimate a modest increase in the portfolio occupancy rate from 86.6% in FY22F to 88.6% in FY24F.

EXHIBIT 17: PORTFOLIO'S OVERALL OCCUPANCY RATE, FY2017-FY2024F



Source: Hektar REIT, AmlInvestment Bank

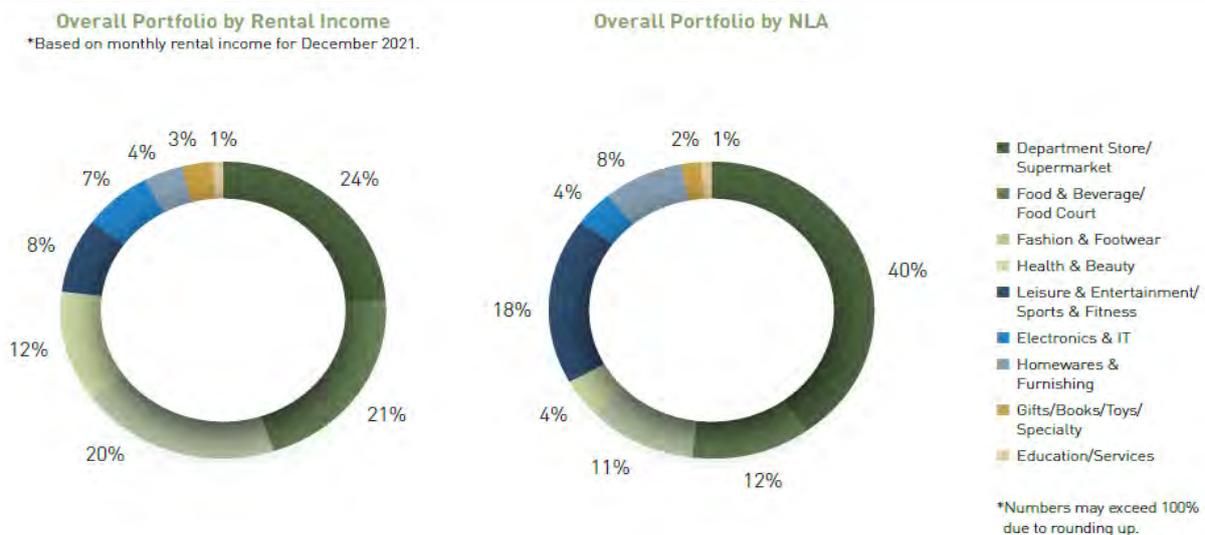
Concentrated tenant mix

Hektar REIT has a total of 384 tenants in its portfolio. As of 31 December 2021, departmental stores/supermarkets continue to dominate the portfolio in terms of NLA occupancy at 40% of total NLA (Exhibit 17). This was followed by Food & Beverages/Food Court (11%) and Fashion & Footwear (12%). Tenants from the departmental store/supermarket, food & beverage segments and fashion & footwear are the biggest contributors to the rental of total portfolio. These top 3 segments made up 65% of the portfolio's FY21 total rental income.

Parkson and The Store are among the top 10 tenants taking up a combined 25.8% of the total portfolio's NLA. Parkson (11.7%) is the only tenant contributing more than 10% of the portfolio's monthly rental income (Exhibit 18).

The financial performance of Hektar REIT has greater risk of being significantly impacted by the departure of its tenant from department shops or supermarkets. We anticipate that the loss of key/anchor tenants could instantly lead to a rise in vacancy rates and drop in revenue.

EXHIBIT 18: TENANT PROFILE BY RENTAL INCOME AND/OR NLA



Source: Hektar REIT

EXHIBIT 19: HEKTAR REIT'S TOP 10 TENANTS

Tenant	Trade Sector	NLA (Sq Ft)	% of total NLA	% of Monthly Rental Income*
Parkson	Department Store/Supermarket	252,515	12.4%	11.7%
The Store	Department Store/Supermarket	273,198	13.4%	8.8%
GSC	Leisure & Entertainment/Sports & Fitness	88,670	4.3%	2.5%
MR. D.I.Y.	Homewares & Furnishing	74,301	3.6%	2.4%
Seleria Food Court	Food & Beverage/Food Court	42,105	2.1%	2.4%
Watson's	Health & Beauty	11,965	0.6%	2.3%
Guardian	Health & Beauty	12,164	0.6%	2.1%
Giant Superstore	Department Store/Supermarket	72,140	3.5%	2.0%
MM Cineplexes	Leisure & Entertainment/Sports & Fitness	75,928	3.7%	1.8%
KFC	Food & Beverage/Food Court	15,792	0.8%	1.7%
Top 10 Tenants (by monthly rental income)		918,778	45.0%	37.7%
Other Tenants		1,123,120	55.0%	62.3%
Total		2,041,898	100.0%	100.0%

Source: Hektar REIT

FINANCIAL OVERVIEW

1QFY22 earnings improved YoY and QoQ

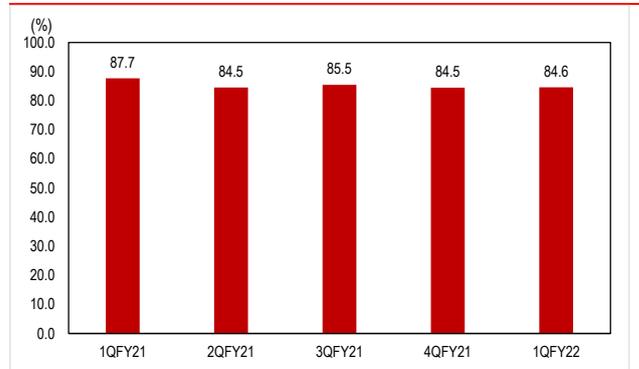
Hektar REIT's 1QFY22 gross revenue rose 8.7% YoY to RM29.1mil while net property income surged 17.9% YoY to RM16.6mil. This was lifted by lower rental assistance offered to tenants and the reversals in impairment of trade receivables. Net Investment Income jumped 27.8% YoY to RM18.2mil, attributed to an RM1.2mil claim granted by the court against third parties and this was recognised as part of other income.

On quarterly basis, the group's 1QFY22 gross revenue improved by 16.6% QoQ. Net property income rose by 34.3% QoQ underpinned by higher revenue with the improving retail sales of tenants and reversal in impairment of trade receivables.

In 1QFY22, the group's average occupancy rate remained steady at 84.8% (Exhibits 20 & 21). The occupancy rates at Central Square (+0.8% QoQ), Kulim Central (+0.6% QoQ), and Segamat Central (+2.4% QoQ) all posted a marginal improvement.

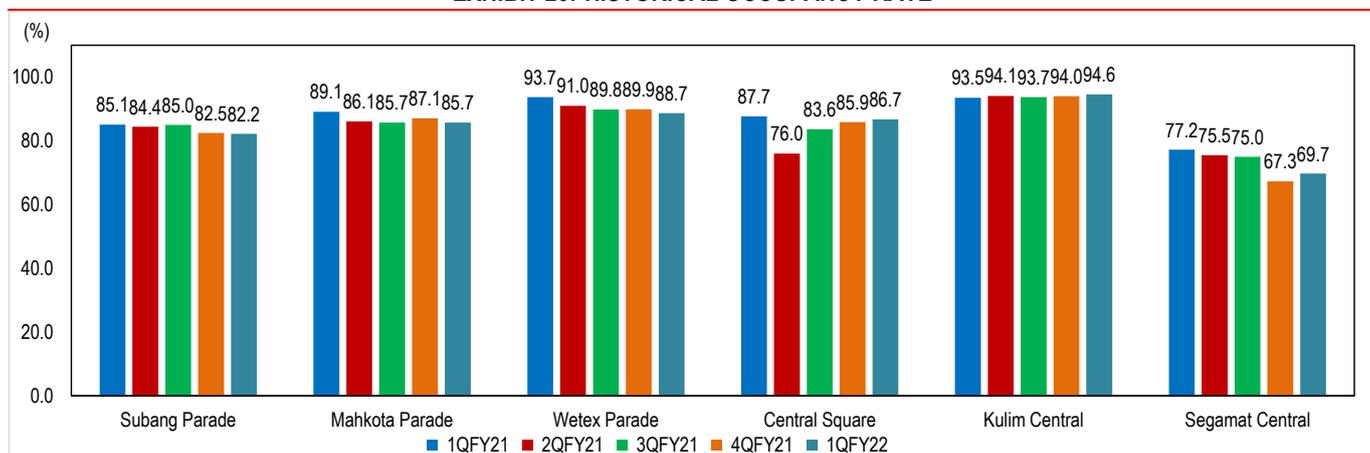
The group did not declare DPU for this quarter as the distribution frequency of Hektar REIT has been changed to semi-annual basis.

EXHIBIT 21: AVERAGE OCCUPANCY RATE



Source: Hektar REIT

EXHIBIT 20: HISTORICAL OCCUPANCY RATE

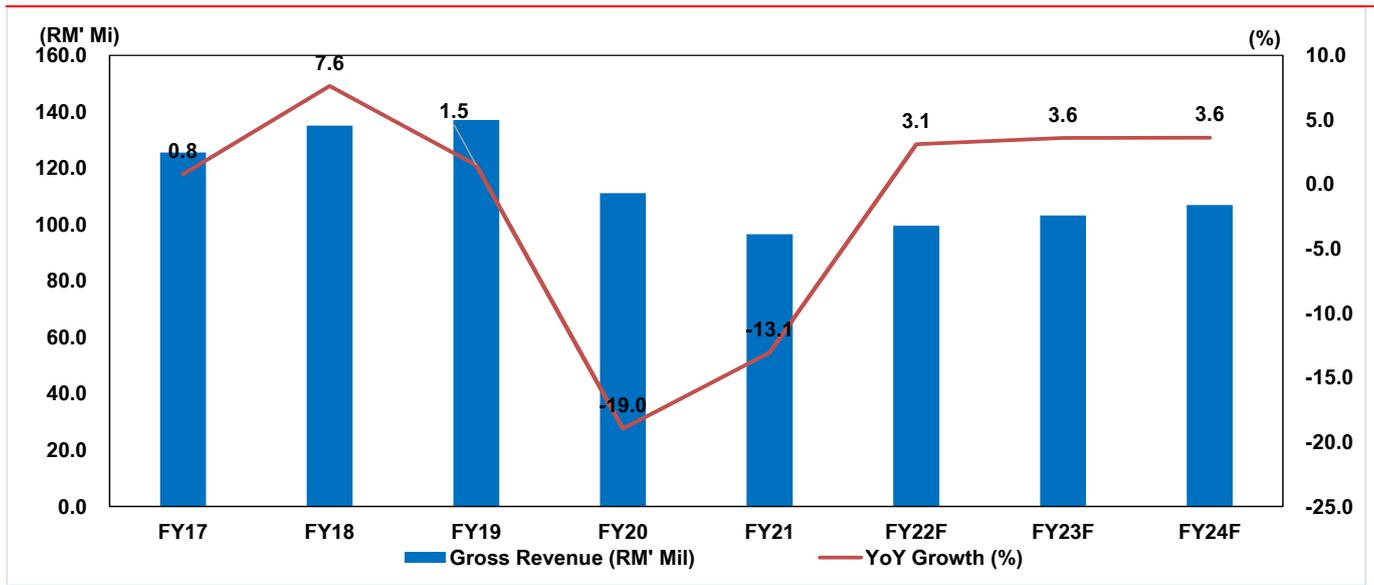


Source: Hektar REIT, AmlInvestment Bank Bhd

❑ **Flattish FY23F-FY24F earnings trajectory**

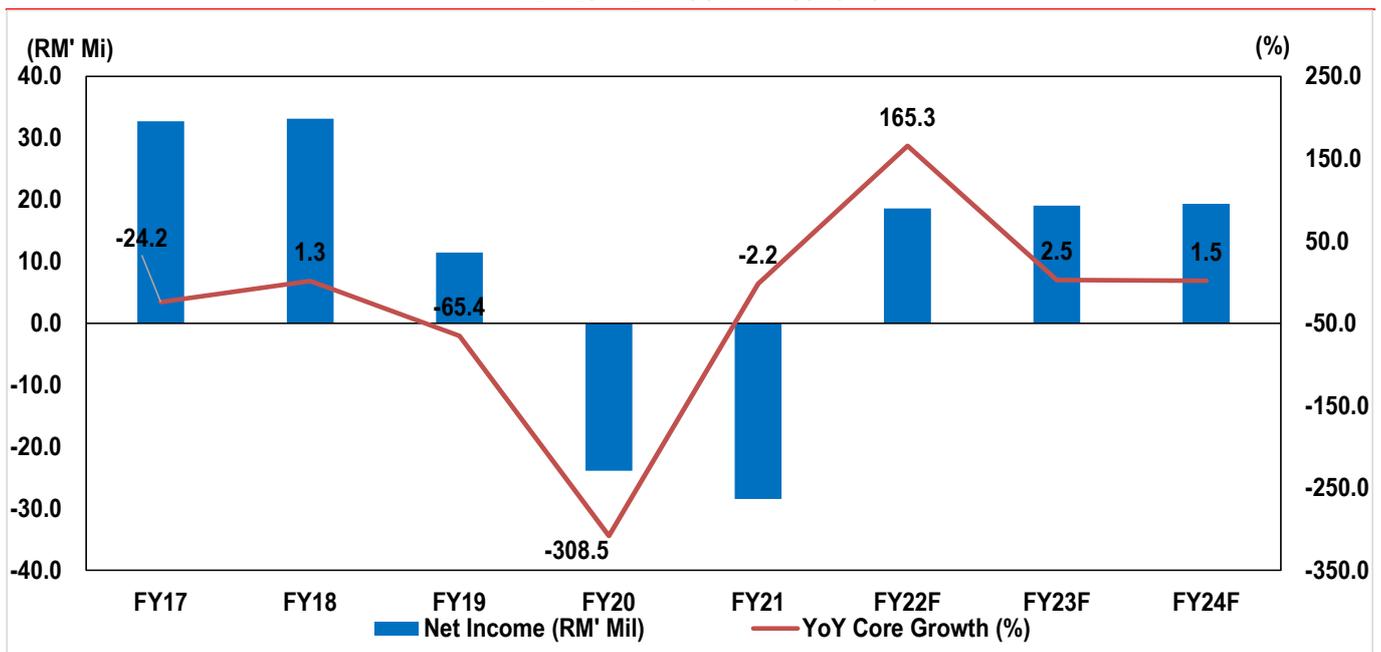
We expect Hektar REIT to register a mild gross revenue growth of 3.1%-3.6% to RM100mil in FY22F, RM103mil in FY23F and RM107mil in FY24F (Exhibit 22). Meanwhile, we estimate a core net income growth of 165% to RM18.6mil for FY22F, 2.5% to RM19.1mil for FY23F and 1.5% to RM19.4mil for FY24F after accounting for moderately higher financing costs due to expectations of higher interest rates (Exhibit 23). According to our projected distribution payment of 90%, DPU will increase yearly by 58% to 4.0 sen for FY22F, 2.5% to 4.1 sen for FY23F and 1.5% to 4.2 sen for FY24F.

EXHIBIT 22: GROSS REVENUE PROJECTION



Source: Hektar REIT, AmlInvestment Bank Bhd

EXHIBIT 23: NET INCOME PROJECTION



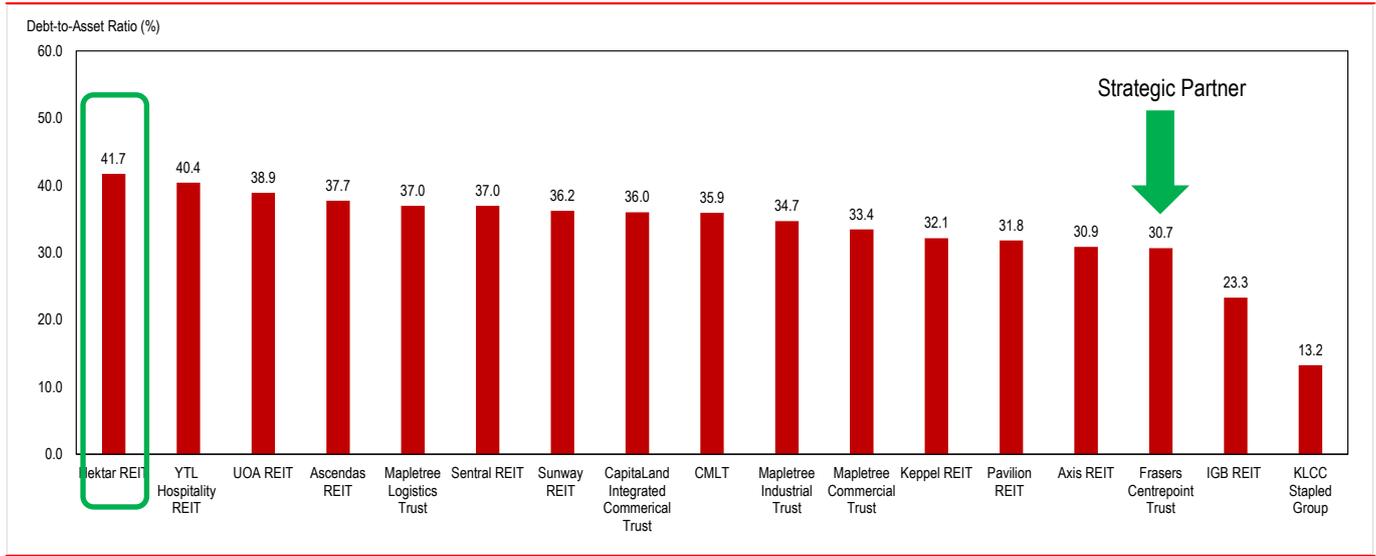
Source: Hektar REIT, AmlInvestment Bank Bhd

Higher gearing ratio among peers

We project Hektar REIT's net debt-to-asset ratio for FY22F to be 41.7%. This will be well below the statutory threshold of 60%. However, it is higher than peer's average debt-to-asset ratio of 35.4% for all REITs under our coverage.

Nevertheless, we see room for Hektar REIT to increase its debt level to fund future acquisitions, given that the Securities Commission Malaysia (SC) has temporarily extended REIT's statutory limit to 60% (from 50% before) until the 31 December 2022.

EXHIBIT 24: COMPARISON OF GEARING RATIO



Source: AmInvestment Bank Bhd, Bloomberg

INITIATE COVERAGE WITH HOLD**□ DDM-based fair value of RM0.60/unit**

We initiate coverage on Hektar Real Estate Investment Trust (Hektar REIT) with a HOLD call at a fair value (FV) of RM0.60/unit, which offers a potential upside of 9%.

Our FV of RM0.60/unit is based on the Dividend Discount Model (DDM) approach, which is the same valuation methodology used to determine the target prices for all REITs under our coverage (Exhibit 25).

We believe the DDM valuation approach is the most appropriate to better capture the medium to long-term prospects of the company, as Hektar REIT distributes at least 90% of its net income to unitholders. We also rated the REIT with a 4-star ESG rating score, resulting in a 3% premium adjustment to our fair value.

Hektar REIT's distribution yield is targeted at 7.2% for FY22F, slightly above peers' average FY22F distribution yield of 5%. However, it is lower than its pre-pandemic level of 8.1% in 2018.

We are cautious on Hektar REIT due to:

1. Negative rental reversion in FY22F to boost occupancy rates amid the existing oversupply of retail spaces in Malaysia
2. A bumpy outlook for retail sales amid the acceleration of inflation which might inevitably reduce consumer purchasing power;
3. The declining occupancy rate for Subang Parade and Mahkota Parade, which together contributed 61% of the portfolio's total income in FY2021;
4. A concentrated tenant mix, with departmental stores/supermarkets shops accounting for 40% of total available NLA and continuing to dominate the portfolio in terms of total portfolio NLA;
5. Higher borrowing cost due to rising interest rate; every 25 basis points (bps) increase in rates might result in borrowing cost increasing by RM1.5mil (amounting 9% of its net income for FY22F)
6. Narrowing yield spread against 10-year MGS amid growing share price and rising interest rates environment.

EXHIBIT 25: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate	4.3%
Beta	0.94
Market Return	14.8%

Cost of Equity (Ke)	14.2%
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Average Cost of Debt	4.8%
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Capital Structure: (RM Mil)

Market Cap	261.6	31.0%
Total Borrowing	581.1	69.0%
Total	842.7	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	31.0%	14.2%	4.4%
Average Cost of Debt	69.0%	4.8%	3.3%
WACC			7.7%

Multi-Stage DDM	2022	2023	2024	2025	2026	Terminal Value
Period	1	2	3	4	5	
Dividends (RM)	0.04	0.04	0.04	0.04	0.05	0.60
Present Value (RM)	0.04	0.04	0.03	0.03	0.03	0.42
Valuation	0.59					
(+0%) no adjustment for 3-star ESG rating	0.02					
Fair Value/unit (RM)+ESG	0.60					
Rate of Return (%)	7.7%					
Growth Rate (%)	0.2%					

Source: AmlInvestment Bank Bhd, Bloomberg

EXHIBIT 26: PEER COMPARISON TABLE

Companies	Country	Rec.	Price @ 23Jun	FV (RM)	Upside (%)	Mkt Cap (RM'mil)	FYE	DPU Yield (%)		PE Ratio (x)		NAV/unit	Debt-to- asset (%)
								CY22F	CY23F	CY22F	CY23F		
Diversified													
Sunway REIT	MY	BUY	RM1.51	1.76	16.6	5,171.5	Dec	5.3	6.0	18.9	16.7	1.5	36.2
Ascendas REIT	SG	N/A	SGD 2.81	—	—	37,434.7	Dec	5.5	5.5	17.6	16.9	2.4	37.7
Axis REIT	MY	N/A	RM1.93	—	—	3,167.2	Dec	4.9	4.9	19.9	18.4	1.5	30.9
Simple Average								5.2	5.5	18.8	17.3	1.8	34.9
Retail Mall													
IGB REIT	MY	HOLD	RM1.60	1.74	8.7	5,727.08	Dec	5.1	5.5	23.3	23.4	1.0	23.3
Hektar REIT	MY	HOLD	RM0.56	0.67	19.6	263.91	Dec	6.6	7.0	13.6	12.9	1.3	41.7
Capitaland Malaysia Trust (CMLT)	MY	N/A	RM0.56	—	—	1,196.14	Dec	3.3	3.3	15.0	13.9	1.1	35.9
Simple Average								5.0	5.3	17.3	16.7	1.2	33.6
Commerical (Retail & Offices)													
Pavilion REIT	MY	HOLD	RM1.33	1.43	7.5	4,060.2	Dec	5.5	5.7	17.9	17.5	1.0	31.8
UOA REIT	MY	BUY	RM1.15	1.37	19.1	776.9	Dec	7.7	7.8	12.6	12.3	1.5	38.9
Capitaland Integrated Commerical Tru:	SG	N/A	SGD 2.19	—	—	46,041.62	Dec	4.8	4.8	18.9	17.4	2.1	36.0
Mapletree Commercial Trust	SG	N/A	SGD 1.83	—	—	19,313.57	Mar	5.2	5.2	21.3	22.9	1.7	33.4
Keppel REIT	SG	N/A	SGD 1.13	—	—	13,337.19	Dec	4.3	4.3	21.7	21.3	1.3	32.1
KLCC Stapled Group	MY	N/A	RM6.77	—	—	12,222.10	Dec	5.0	5.0	18.2	17.0	7.2	13.2
Frasers Centrepoint Trust	SG	—	SGD 2.25	—	—	12,141.56	Sept	5.3	5.3	17.9	17.5	2.3	30.7
Sentral REIT	MY	N/A	RM0.96	—	—	1,023.55	Dec	7.8	7.8	12.4	12.2	1.2	37.0
Simple Average								5.7	5.7	17.6	17.3	2.3	31.6
Hospitality													
YTL Hospitality REIT	MY	HOLD	RM0.94	1.01	10.4	1,602.13	Jun	6.5	9.1	21.6	11.8	1.5	40.4
Simple Average								6.5	9.1	21.6	11.8	1.5	40.4
Industrial & Logistics													
Mapletree Logistics Trust	SG	N/A	SGD 1.66	—	—	25,206.40	Mar	4.8	4.8	15.5	19.2	1.6	37.0
Mapletree Industrial Trust	SG	N/A	SGD 2.60	—	—	22,163.40	Mar	4.7	4.7	15.8	18.2	1.9	34.7
								4.7	4.7	15.7	18.7	1.7	35.8

*N/A for non-rated stocks and forecast for non-rated stocks are based on Bloomberg's consensus forecast

Source: Hektar REIT, AmlInvestment Bank Bhd, Bloomberg

INVESTMENT RISK

The downside risks to our investment thesis are:

1. A lower-than-anticipated tenancy renewal with 31.6% of total NLA set to expire in 2022;
2. Further contraction against 10-year MGS amid a larger-than-expected increase in interest rates; and
3. The potential for stagflation, which may significantly reduce the business's income and profits as a result of decreased occupancy rates and lower rental rates.

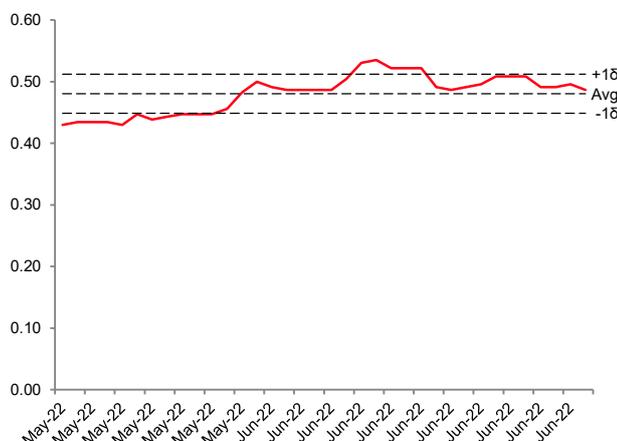
EXHIBIT 27: ESG RATING

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

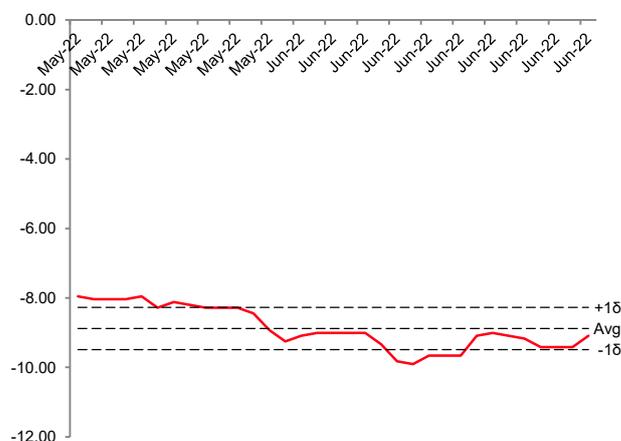
Source: AmlInvestment Bank

EXHIBIT 28: PB BAND CHART



Source: AmlInvestment Bank

EXHIBIT 29: PE BAND CHART



Source: AmlInvestment Bank

EXHIBIT 30: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Gross Revenue	111.1	96.6	99.6	103.2	106.9
Net Property Income	52.9	47.0	48.5	50.8	53.1
Net Investment income	53.0	47.0	48.6	50.9	53.3
EBITDA	42.3	36.8	38.8	41.2	43.3
Net interest	(20.4)	(17.9)	(19.2)	(21.0)	(22.9)
Exceptional items (EI)	(46.1)	(50.3)	0.0	0.0	0.0
Pretax profit	(24.1)	(31.5)	19.6	20.1	20.4
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)	18.6	19.1	19.4
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	61.2	63.7	66.4
Other receivables	17.4	2.7	7.9	8.1	8.4
Trade receivables	4.3	2.7	11.9	12.3	12.8
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	49.0	64.5	81.0	84.2	87.6
Trade payables	16.4	16.6	9.5	9.7	10.0
Short-term borrowings	45.0	15.0	15.0	15.0	15.0
Other payables and accruals	48.2	51.0	43.3	44.4	45.5
Total current liabilities	109.5	82.6	67.8	69.1	70.5
Long-term borrowings	536.1	566.1	566.1	566.1	566.1
Other long-term liabilities	37.0	34.1	37.5	38.7	40.0
Total long-term liabilities	573.1	600.2	603.6	604.8	606.0
Total Unitholders' funds	576.4	548.0	575.9	576.5	577.2
Minority interests	-	-	-	-	-
NAV per unit (RM)	1.4	1.3	1.4	1.4	1.4
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	(24.1)	(31.5)	19.6	20.1	20.4
Net change in working capital	(4.8)	13.2	(26.6)	0.9	1.0
Others	66.5	68.3	45.1	17.1	18.9
Cash flow from operations	37.5	50.0	38.1	38.2	40.3
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	0.9	3.6	4.0
Cash flow from investing	(8.5)	0.3	0.9	3.6	4.0
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)	(16.7)	(17.2)	(17.4)
Others	(20.9)	(18.7)	(20.1)	(22.2)	(24.2)
Cash flow from financing	(12.1)	(18.6)	(36.9)	(39.3)	(41.6)
Net cash flow	16.8	31.7	2.2	2.5	2.6
Net cash/(debt) b/f	10.5	27.3	59.1	61.2	63.7
Net cash/(debt) c/f	27.3	59.1	61.2	63.7	66.4
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	(19.0)	(13.1)	3.1	3.6	3.6
Net Property Income growth (%)	(29.8)	(11.2)	3.1	4.7	4.7
Pretax margin (%)	(21.7)	(32.6)	19.7	19.5	19.1
Net income margin (%)	(21.5)	(29.5)	18.7	18.5	18.1
Net Interest cover (x)	2.1	2.1	2.0	2.0	1.9
Effective tax rate (%)	1.0	9.6	5.3	5.3	5.3
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

§ From this year onwards year end is Dec

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