



AmInvestment Bank

## Company report

## HEKTAR REIT

(HEKT MK EQUITY, HEKR.KL)

29 Aug 2022

Stronger earnings due to minimal rental support

BUY

(Upgraded)

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Rationale for report: Company results

Price RM0.61  
Fair Value RM0.73  
52-week High/Low RM0.63/RM0.44

## Key Changes

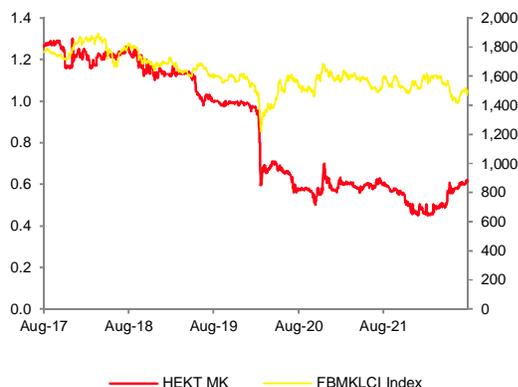
Fair value   
EPS

YE to Dec	FY21	FY22F	FY23F	FY24F
Gross Revenue (RM mil)	96.6	110.0	113.9	118.0
Distributable Income (RM mil)	12.7	27.1	27.6	28.2
EPU (sen)	3.0	5.7	5.8	6.0
Consensus Net Profit (RM mil)	—	—	—	—
DPU (sen)	2.5	5.2	5.3	5.4
DPU Growth (%)	>100	>100	1.9	2.4
PE (x)	(9.0)	10.6	10.4	10.2
EV/EBITDA (x)	19.9	22.0	17.4	16.2
Distribution yield (%)	5.0	8.5	8.6	8.8
ROE (%)	(5.1)	4.8	4.8	4.9
Debt-to-asset ratio (%)	47.2	46.3	46.1	46.0

## Stock and Financial Data

Shares Outstanding (million)	471.3
Market Cap (RM mil)	287.5
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 (30.1%) AVENTURA (0.9%)
Free Float	38.5
Avg Daily Value (RM mil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	19.6	20.8	2.5
Relative (%)	23.3	29.5	8.7



## Investment Highlights

- We upgrade Hektar to BUY from HOLD with a higher fair value (FV) of RM0.73/unit (from RM0.60/unit) based on the dividend discount model (DDM). The increase in our FV is based on a lower risk-free rate due to a decline in the 10-year Malaysian Government Securities (MGS) yield to 4% from 4.3%. Also, we have taken into account higher rental income and minimal rental rebates from FY22F onwards. No change to our 4-star ESG rating (Exhibits 3, 4).
- Hektar's distributable income of RM20mil in 1HFY22 came in way above our expectations, making up 109% of our earlier full-year estimates. The variance was mainly due to lower rental support to tenants.
- We raise our FY22F/FY23F/FY24F distributable income forecast by 45%/44%/45% by factoring in minimal rental assistance to tenants, coupled with higher rental income from improving footfalls in malls while pending further updates from management in its result briefing.
- In 1HFY22, Hektar's gross revenue rose 11% YoY while net property income (NPI) climbed 25% YoY. The improvement was driven by lower rental rebates offered to tenants, coupled with the reversals of trade receivable impairments (RM1.4mil).
- QOQ, Hektar's revenue was flattish at RM29mil while NPI declined 18%. The lower NPI QoQ was mainly attributed to increased property maintenance cost, coupled with a higher impairment of trade receivables of RM0.9mil in 2QFY22 vs. a reversal of RM1.4mil in 1QFY22.
- Hektar's net debt-to-asset ratio fell slightly to 46.7%, below the 60% statutory threshold required by the Securities Commission.
- As the group's borrowings are all on a floating rate, based on our sensitivity analysis, a 1% increase in interest rate will lower the group's CNP will by RM4mil or 14% of FY23F distributable income. We have already factored in a higher finance cost on its borrowings from FY22F onwards with the assumption that the OPR will rise to 2.75% by the end of FY22 and 3.25% by the end of FY23.
- Hektar declared its first interim gross DPU of 2.70 sen in 2QFY22, which represented a distribution payout ratio of 63%. It was 7% higher than the 2.53 sen (full-year distribution) in FY21 and 31% lower than the 3.93 sen in the pre-pandemic 1HFY19.

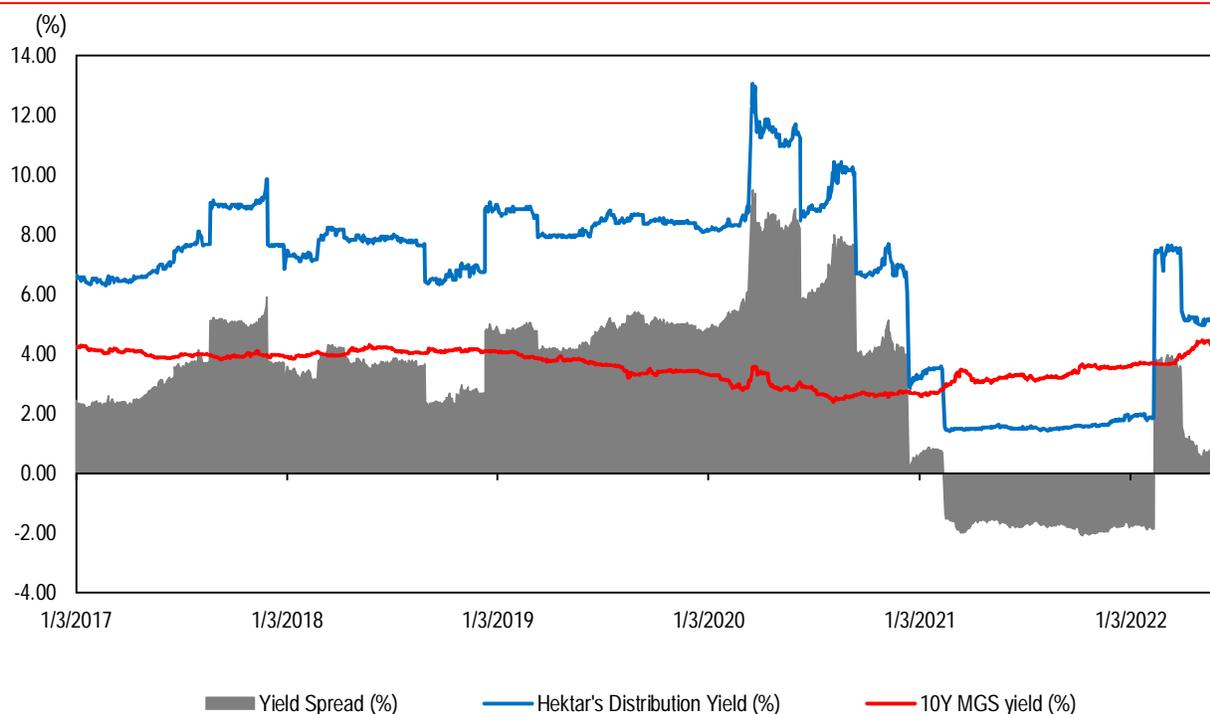
- Since the beginning of 2022, the yield spread between Hektar and 10-year MGS has been narrowing. This was contributed by the surge in the 10-year MGS yield which followed closely the rising trend of the 10-year US Treasury yield (UST). However, we see a stabilisation in the 10-year MGS yield with a decline to 4.0% from the peak of 4.4% following heavy foreign selling in June 2022 and also a tapering in inflationary pressures with the retreat in commodity prices from their high levels. As Hektar's FY23F distribution yield is estimated at 9%, we expect the stock to be appealing to yield-seeking investors with its higher spread against 10-year MGS (Exhibit 2).
- Hektar currently trades at a compelling FY23F PE of 10x vs. its 2-year average (pre-pandemic FY18-19) of 15x. Meanwhile, FY23F distribution yield of 9% 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. This enables the group to benefit from the gradual increase in the number of shoppers following the reopening of the economy;
  - (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)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
<b>Revenue</b>	<b>25.7</b>	<b>29.1</b>	<b>29.4</b>	<b>0.9</b>	<b>14.2</b>	<b>52.5</b>	<b>58.5</b>	<b>11.4</b>
Property operating costs	(15.5)	(12.5)	(15.7)	25.4	1.0	(28.2)	(28.2)	(0.1)
<b>Net property income</b>	<b>10.2</b>	<b>16.6</b>	<b>13.7</b>	<b>(17.5)</b>	<b>34.3</b>	<b>24.3</b>	<b>30.3</b>	<b>24.8</b>
Other income	0.1	1.6	0.6	(63.2)	>100	0.2	2.1	>100
<b>Net Investment Income</b>	<b>10.3</b>	<b>18.2</b>	<b>14.3</b>	<b>(21.4)</b>	<b>38.9</b>	<b>24.5</b>	<b>32.5</b>	<b>32.5</b>
Other trust expenses	(4.1)	(0.1)	(3.1)	>100	(23.8)	(6.9)	(3.2)	(53.3)
<b>EBIT</b>	<b>6.2</b>	<b>18.0</b>	<b>11.2</b>	<b>(37.9)</b>	<b>79.8</b>	<b>17.6</b>	<b>29.2</b>	<b>66.1</b>
Net interest income/expenses	(4.7)	(4.3)	(4.6)	7.5	(0.7)	(9.5)	(8.9)	(6.2)
<b>Profit before EI</b>	<b>1.6</b>	<b>13.7</b>	<b>6.6</b>	<b>(52.1)</b>	<b>&gt;100</b>	<b>8.1</b>	<b>20.3</b>	<b>&gt;100</b>
<b>Profit Before Taxation</b>	<b>1.6</b>	<b>13.7</b>	<b>6.6</b>	<b>(52.1)</b>	<b>&gt;100</b>	<b>8.1</b>	<b>20.3</b>	<b>&gt;100</b>
<b>Net Profit</b>	<b>1.6</b>	<b>13.7</b>	<b>6.6</b>	<b>(52.1)</b>	<b>&gt;100</b>	<b>8.1</b>	<b>20.3</b>	<b>&gt;100</b>
<b>Distributable Income</b>	<b>1.6</b>	<b>13.7</b>	<b>6.6</b>	<b>(52.1)</b>	<b>&gt;100</b>	<b>8.1</b>	<b>20.3</b>	<b>&gt;100</b>
<u>Distribution:</u>								
EPU - Diluted (Sen)	0.3	2.9	1.4	(52.1)	>100	1.8	4.3	>100
Proposed DPU (Sen) - Interim	0.0	0.0	2.7	n.m.	n.m.	0.0	2.7	n.m.
Distribution Yield (as at the end of the period) (%)	1.6	5.0	9.0	80.0	>100	1.6	9.0	>100
NAV/unit	1.2	1.2	1.2	(1.1)	(7.5)	1.2	1.2	(7.5)
Weighted average unit ('000)	462.0	471.3	471.3	0.0	2.0	462.0	471.3	2.0
<u>Margin:</u>								
NPI margin (%)	39.7	57.1	46.7	(10.4)	7.0	46.3	51.9	5.6
EBIT margin (%)	24.2	61.9	38.1	(23.8)	13.9	33.5	50.0	16.5
Net Interest coverage (x)	1.3	4.2	2.4	(1.8)	1.1	1.9	3.3	1.4
Debt-to-Asset Ratio (%)	46.2	47.3	46.7	(0.7)	0.5	46.2	46.7	0.5

Source: Company, AmInvestment Bank Berhad

## EXHIBIT 2: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: AmInvestment Bank Bhd, Bloomberg

## EXHIBIT 3: DIVIDEND DISCOUNT MODEL (DDM)

## Assumption for Weighted Average Cost of Capital (WACC)

Risk Free Rate	4.0%
Beta	0.94
Market Return	14.8%

**Cost of Equity (Ke) 14.1%**

**Average Cost of Debt 4.8%**

## Capital Structure: (RM Mil)

Market Cap	287.5	33.1%
Total Borrowing	581.1	66.9%
Total	868.6	100.0%

## Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	33.1%	14.1%	4.7%
Average Cost of Debt	66.9%	4.8%	3.2%
<b>WACC</b>			<b>7.9%</b>

Multi-Stage DDM	2022	2023	2024	2025	2026	Terminal Value
<b>Period</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	
Dividends (RM)	0.05	0.05	0.05	0.05	0.06	0.72
Present Value (RM)	0.05	0.05	0.04	0.04	0.04	0.49
<b>Valuation</b>	0.71					
(+) 3% premium for 4-star ESG rating	0.02					
<b>Fair Value/unit (RM)+ESG</b>	<b>0.73</b>					

Rate of Return (%) 7.9%

Growth Rate (%) 0.2%



Source: Company, AmInvestment Bank Berhad

**EXHIBIT 4: ESG RATING**

<b>Overall</b>	★	★	★	★	
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	★	★	★	★	

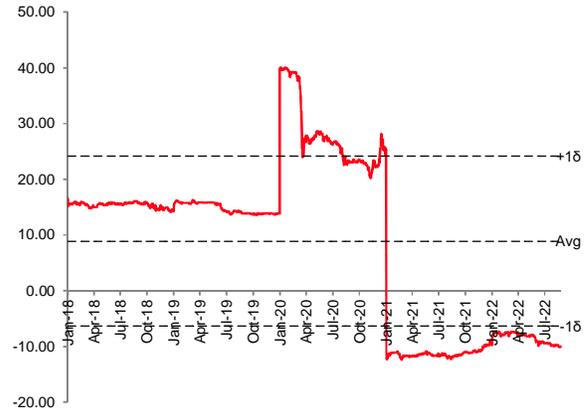
We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank Bhd

**EXHIBIT 5: PB BAND CHART**



**EXHIBIT 6: PE BAND CHART**



## EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
<b>Gross Revenue</b>	<b>111.1</b>	<b>96.6</b>	<b>110.0</b>	<b>113.9</b>	<b>118.0</b>
Net Property Income	52.9	47.0	56.8	59.4	62.1
Net Investment income	53.0	47.0	57.0	59.5	62.2
EBITDA	42.3	36.8	46.2	49.4	51.7
Net interest	(20.4)	(17.9)	(19.1)	(21.8)	(23.5)
Exceptional items (EI)	(46.1)	(50.3)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>(24.1)</b>	<b>(31.5)</b>	<b>27.1</b>	<b>27.6</b>	<b>28.2</b>
Taxation	0.2	3.0	(1.0)	(1.1)	(1.1)
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>(23.9)</b>	<b>(28.5)</b>	<b>26.1</b>	<b>26.5</b>	<b>27.1</b>
<b>Distributable income</b>	<b>14.2</b>	<b>12.7</b>	<b>27.1</b>	<b>27.6</b>	<b>28.2</b>
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
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
<b>Total non-current assets</b>	<b>1,210.0</b>	<b>1,166.2</b>	<b>1,166.2</b>	<b>1,166.2</b>	<b>1,166.1</b>
Cash & equivalent	27.3	59.1	67.6	70.4	73.3
Other receivables	17.4	2.7	8.7	9.0	9.3
Trade receivables	4.3	2.7	13.2	13.6	14.1
Other current assets	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>49.0</b>	<b>64.5</b>	<b>89.5</b>	<b>93.0</b>	<b>96.7</b>
Trade payables	16.4	16.6	9.9	10.1	10.4
Short-term borrowings	45.0	15.0	15.0	15.0	15.0
Other payables and accruals	48.2	51.0	45.0	46.2	47.3
<b>Total current liabilities</b>	<b>109.5</b>	<b>82.6</b>	<b>69.9</b>	<b>71.3</b>	<b>72.7</b>
Long-term borrowings	536.1	566.1	566.1	566.1	566.1
Other long-term liabilities	37.0	34.1	40.6	41.9	43.3
<b>Total long-term liabilities</b>	<b>573.1</b>	<b>600.2</b>	<b>606.7</b>	<b>608.0</b>	<b>609.4</b>
<b>Total Unitholders' funds</b>	<b>576.4</b>	<b>548.0</b>	<b>579.0</b>	<b>579.8</b>	<b>580.7</b>
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.4	1.3	1.2	1.2	1.2
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Pretax profit	(24.1)	(31.5)	27.1	27.6	28.2
Net change in working capital	(4.8)	13.2	(26.0)	0.9	0.9
Others	66.5	68.3	51.0	18.2	19.7
<b>Cash flow from operations</b>	<b>37.5</b>	<b>50.0</b>	<b>52.0</b>	<b>46.6</b>	<b>48.9</b>
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	1.0	4.2	4.6
<b>Cash flow from investing</b>	<b>(8.5)</b>	<b>0.3</b>	<b>1.0</b>	<b>4.2</b>	<b>4.6</b>
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)	(24.3)	(24.8)	(25.4)
Others	(20.9)	(18.7)	(20.1)	(23.2)	(25.3)
<b>Cash flow from financing</b>	<b>(12.1)</b>	<b>(18.6)</b>	<b>(44.5)</b>	<b>(48.1)</b>	<b>(50.7)</b>
<b>Net cash flow</b>	<b>16.8</b>	<b>31.7</b>	<b>8.6</b>	<b>2.8</b>	<b>2.9</b>
<b>Net cash/(debt) b/f</b>	<b>10.5</b>	<b>27.3</b>	<b>59.1</b>	<b>67.6</b>	<b>70.4</b>
<b>Net cash/(debt) c/f</b>	<b>27.3</b>	<b>59.1</b>	<b>67.6</b>	<b>70.4</b>	<b>73.3</b>
<b>Key Ratios (YE31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue growth (%)	(19.0)	(13.1)	13.9	3.6	3.6
Net Property Income growth (%)	(29.8)	(11.2)	20.8	4.5	4.5
Pretax margin (%)	(21.7)	(32.6)	24.6	24.2	23.9
Net income margin (%)	(21.5)	(29.5)	24.6	24.2	23.9
Net Interest cover (x)	2.1	2.1	2.4	2.3	2.2
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, AmInvestment Bank Bhd estimates

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