



AmInvestment Bank

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

27 Nov 2024

Positive rental reversion of 7.2% in 3QFY24

Company Report

BUY

(Maintained)

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Rationale for report: Company Result

Price RM0.53
Fair Value RM0.86
52-week High/Low RM0.73/RM0.50

Key Changes

Fair value ⇄
EPS ⇄

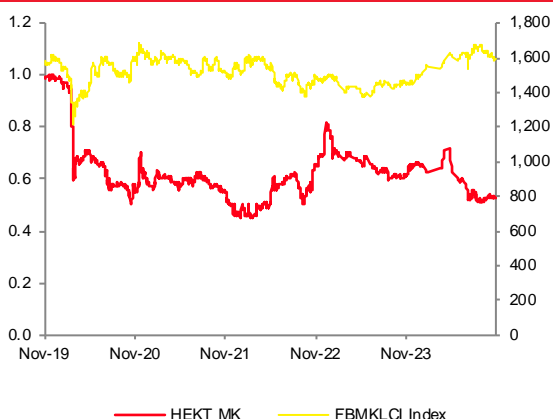
YE to Dec	FY23	FY24F	FY25F	FY26F
Gross Revenue (RM mil)	111.5	125.0	140.0	144.0
Adj. Distributable Income (RM mil)	28.9	27.2	37.7	39.4
EPU (sen)	5.9	3.8	5.2	5.5
Consensus Net Income (RM mil)	-	27.2	37.3	39.4
DPU (sen)	5.0	3.4	4.7	4.9
DPU Growth (%)	(37.5)	(31.4)	37.5	4.5
Distribution yield (%)	9.4	6.5	8.9	9.3
PE (x)	8.9	13.9	10.1	9.7
EV/EBITDA (x)	16.5	14.8	18.1	14.7
ROE (%)	5.4	4.1	5.4	5.6
Debt-to-asset ratio (%)	44.5	43.7	43.6	43.5

Stock and Financial Data

Shares Outstanding (million) 713.0
Market Cap (RMmil) 377.9
Book Value (RM/Share) 1.00
P/BV (x) 0.5
ROE (%) 5.4
Net Gearing (%) 44.5

Major Shareholders
Hektar Black (17.4%)
Hektar Real Estate Investment Trust (14.3%)
Choo Meng Ong (3.5%)
Free Float 64.9
Avg Daily Value (RMmil) 0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(5.4)	(21.6)	(13.9)
Relative (%)	(2.7)	(20.2)	(21.3)



Investment Highlights

We project higher distributable income in FY25F with new tenants secured for existing shopping malls, coupled with the rent contribution of Kolej Yayasan Saad after completing the acquisition of the asset in July 2024. We maintain BUY on Hektar REIT with an unchanged TP of RM0.86/unit based on DDM with a WACC assumption of 7.4%. Current unit price of RM0.53 represents a discount of 47% from our FY25F NAV per unit of RM1.00. Our revised TP has taken into consideration a 3% premium from an unchanged 4-star ESG rating (Exhibit 4).

- Results within expectation accounting for 70.9% of our estimate.** 9MFY24 distributable income of RM19.3mil fell by 16% YoY attributed to higher finance cost, one-off acquisition fees for Kolej Yayasan Saad, Melaka and professional fees incurred for the acquisition. QoQ, 3QFY24 distributional income was lower by 56.8% to RM4.3mil. This was due to a normalized rental revenue from Kolej Yayasan Saad compared to a lumpy 1-year rent recognised in 2QFY24 after the acquisition was completed in July 2024.
- Average occupancy rate of malls dipped slightly to 85.6% in 3QFY24 but is expected to improve in 4QFY24 with new tenants secured.** The drop-in average occupancy rate for malls to 85.6% in 3Q24 from 87.2% was largely due to the decline in occupancy of Central Square and Segamat Central. If based on committed tenancies, the average occupancy rate for the malls will be higher at 88.8% in 3QFY24. New tenants have been secured for Subang Parade, Mahkota Parade, Central Square and Segamat Central. These new tenants are expected to increase the overall average occupancy rate of its malls to 92% by end of FY24 (Exhibit 2).
- Majority of tenancies expiring in FY24F have been renewed with a 7.2% positive rental reversion in 3QFY24.** From a total of NLA of 592,757 sq. ft due to renewal in FY24F, 73.3% have been renewed with the remaining anchor tenants under the final stage of negotiation.
- FY25F distribution yield projected to rise to 8.9% from 6.5% in FY24F.** This has considered the expected improvement in the average occupancy rate of its malls and the rental from the completed acquisition of Kolej Yayasan Saad, an asset secured under a 30-year quadruple net lease agreement with a 2.5% escalation in rent per annum. FY25F distribution yield of 8.9% offers an attractive spread of 5.1% from the present 10-year MGS yield of 3.8%.

Company profile

Hektar REIT is Malaysia's first retail-focused REIT with a portfolio 7 assets (6 shopping malls, Subang Parade, Mahkota Parade, Wetex Parade, Central Square, Kulim and Segamat Central and 1 education asset, Kolej Yayasan Saad). It has recently completed the acquisition Kolej Yayasan Saad in July 2024, and this has raised asset under management to RM1.38bil from RM1.23bil. The REIT derives rental income largely from the 6 malls with a stable occupancy rate of 85.6% as of end 3Q24.

Investment thesis and catalysts

We have a BUY recommendation on the stock with a unit price of 0.86. Current unit price of 0.525 represents a sizeable discount of 48% from our projected FY25F NAV of 1.10 after factoring the potential increase in number of units in circulation from unit holders exercising their options under DRP to convert fully/a portion of income distributed into additional units. We expect an improvement in the unit price from rise in occupancy rates of existing shopping malls with new tenants secured. Also, the new education asset (Kolej Yayasan Saad) acquired will start to contribute to gross revenue with a steady yearly rental reversion rate of 2.5% throughout the lease period of 30-years.

Valuation methodology

We are valuing the stock based on DDM with a WACC of 7.4% (beta: 0.9, market risk premium: 7.1%, pre-tax cos of debt: 4.95%, long term growth rate: 2%)

Risk factors

Risk to our call includes higher than expected 10-year MGS yield following the elevated interest rates in US post elections which could lower distribution yield spread and attraction for the REIT. Also, any slowdown in consumption spending from a slower economic growth and subsidy rationalizations could impact the malls' rental reversion rates and occupancy rates.

EXHIBIT 1: RESULTS SUMMARY

(RM 'mil)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	27.8	36.6	29.8	(18.5)	7.1	84.0	94.8	12.9
Property operating costs	(12.4)	(15.8)	(14.9)	(6.3)	19.6	(37.9)	(44.7)	18.1
Net property income	15.4	20.7	14.9	(27.8)	(2.9)	46.1	50.0	8.6
Other income	0.1	0.2	0.3	36.4	158.3	1.3	1.4	3.5
Net Investment Income	15.5	20.9	15.2	(27.2)	(1.7)	47.4	51.4	8.4
Other trust expenses	(2.0)	(5.2)	(3.6)	(30.8)	80.1	(5.7)	(11.7)	106.3
EBIT	13.5	15.7	11.7	(26.0)	(13.8)	41.8	39.7	(4.9)
Net interest income/expenses	(6.7)	(7.3)	(7.4)	0.7	10.1	(18.8)	(21.9)	16.8
Profit before EI	6.8	8.4	4.3	(49.2)	(37.2)	23.0	17.8	(22.6)
EI	0.0	1.5	0.0	(100.0)	n.m.	0.0	1.5	n.m.
Profit Before Taxation	6.8	9.9	4.3	(56.8)	(37.2)	23.0	19.3	(16.0)
Net Profit	6.8	9.9	4.3	(56.8)	(37.2)	23.0	19.3	(16.0)
Distributable Adjustment	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Distributable Income	6.8	9.9	4.3	(56.8)	(37.2)	23.0	19.3	(16.0)
One-off item	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Adjusted Distributable Income	6.8	9.9	4.3	(56.8)	(37.2)	23.0	19.3	(16.0)
<u>Distribution:</u>								
EPU - Diluted (Sen)	1.4	1.4	0.6	(56.7)	(55.5)	4.7	3.0	(37.0)
Proposed DPU (Sen) - Interim	0.0	1.9	0.0	(100.0)	n.m.	2.7	1.9	(29.6)
NAV/unit	1.2	1.0	1.0	0.6	(13.6)	1.2	1.0	(13.6)
Weighted average unit ('000)	498.8	706.8	706.8	0.0	41.7	498.8	706.8	41.7
<u>Margin:</u>								
NPI margin (%)	55.3	56.7	50.2	(6.5)	(5.2)	54.9	52.8	(2.1)
EBIT margin (%)	48.6	43.1	39.1	(4.0)	(9.5)	49.7	41.9	(7.8)
Net Interest coverage (x)	2.0	2.2	1.6	(0.6)	(0.4)	2.2	1.8	(0.4)
Net gearing ratio (x)	86.4	74.0	75.9	1.9	(10.5)	86.4	75.9	(10.5)
Debt-to-Asset Ratio (%)	44.3	41.2	42.1	0.9	(2.1)	44.3	42.1	(2.1)

Source: Company, AmlInvestment Bank

EXHIBIT 2: OCCUPANCY RATE OF MALLS

Occupancy Rate	FY21	FY23	1Q24	2Q24	3Q24	FY24F
Subang Parade	82.5%	74.3%	75.0%	75.5%	77.5%	88.9%
Mahkota Parade	87.1%	93.8%	94.8%	95.0%	95.5%	97.4%
Wetex Parade	89.9%	97.6%	97.1%	96.7%	96.5%	97.2%
Central Square	85.9%	87.1%	87.1%	87.6%	75.4%	90.4%*
Kulim Central	94.0%	96.9%	97.2%	96.2%	96.5%	91.6%
Segamat Central	67.3%	76.6%	76.0%	75.9%	72.4%	88.6%**
Average	84.9%	86.7%	87.2%	87.2%	85.6%	92.4%

*Subject to timing of key tenant commencing business operations

**Subject to occupancy commitment of an anchor tenant

Source: Company, AmlInvestment Bank

EXHIBIT 3: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)						
Risk Free Rate		3.9%				
Beta		0.90				
Market Return		11.0%				
Cost of Equity (Ke)		10.3%				
Average Cost of Debt		5.0%				
Capital Structure: (RM Mil)						
Market Cap	508.9	46.7%				
Total Borrowing	581.1	53.3%				
Total	1,090.0	100.0%				
Weighted Average Cost of Capital (WACC):						
Cost of Equity (Ke)	46.7%	10.3%	4.8%			
Average Cost of Debt	53.3%	5.0%	2.6%			
WACC			7.4%			
Multi-Stage DDM						
Period	2024	2025	2026	2027	2028	Terminal Value
Dividends (RM)	1	2	3	4	5	
Dividends (RM)	0.034	0.047	0.049	0.052	0.056	0.948
Present Value (RM)	0.03	0.04	0.03	0.04	0.03	0.66
Valuation	0.83					
(+) 3% premium for 4-star ESG rating	0.02					
Fair Value/unit (RM)+ESG	0.86					
Rate of Return (%)	7.4%					
Growth Rate (%)	1.5%					

Source: Company, AmlInvestment Bank

EXHIBIT 4: ESG MATRIX

Environmental assessment		Parameters	Weightage	Rating				Rationale
1	Scope 1 GHG Emissions	Revenue/Co2e	20%	*	*	*	*	60% YoY decrease in FY23
2	Scope 2 GHG Emissions	Revenue/Co2e	20%	*	*	*		26% YoY decrease in FY23
3	Scope 3 GHG Emissions	tCo2e reduction	20%	*	*			10% YoY increased in FY23
4	Water usage	Revenue/water consumption	20%	*	*	*		4% decreased compared to FY22
5	Energy usage	Revenue/energy consumption	10%	*	*	*		51% YoY decrease in FY23
6	Waste management	Amount of waste diverted away from the landfill	10%	*				No disclosure
Weighted score for environmental assessment			100%	*	*	*		
Social assessment								
1	Health, safety & well-being	Recorded injuries	25%	*	*	*	*	0 work injuries
2	Women in workforce	% of total workforce	25%	*	*	*	*	46%
3	Investment in employee training	Average number of hours of training per year per employee trained	25%	*	*	*	*	Increased to 22 hours in FY23 from 10 hours in FY22
4	Procurement sourcing from local vendors	% of total procurement	25%	*	*	*	*	100%
Weighted score for social assessment			100%	*	*	*	*	
Governance assessment								
1	Board age diversity	% under 60 years old	20%	*	*	*	*	67%
2	Board women representation	% of total board directors	20%	*	*	*		33% representation
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*	*	100%
4	Independent board directors	% of total board directors	20%	*	*	*	*	67% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*		RM1.6mil
Weighted score for governance assessment			100%	*	*	*	*	
Environmental score			40%	*	*	*		
Social score			30%	*	*	*	*	
Governance score			30%	*	*	*	*	
Overall ESG Score			100%	*	*	*	*	

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: Company, AmlInvestment Bank

EXHIBIT 5: PB BAND CHART

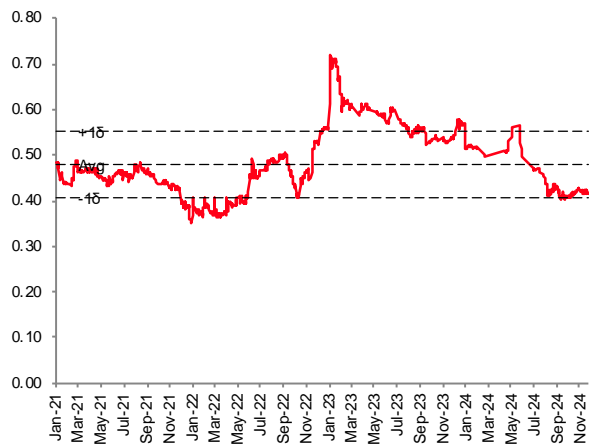


EXHIBIT 6: PE BAND CHART

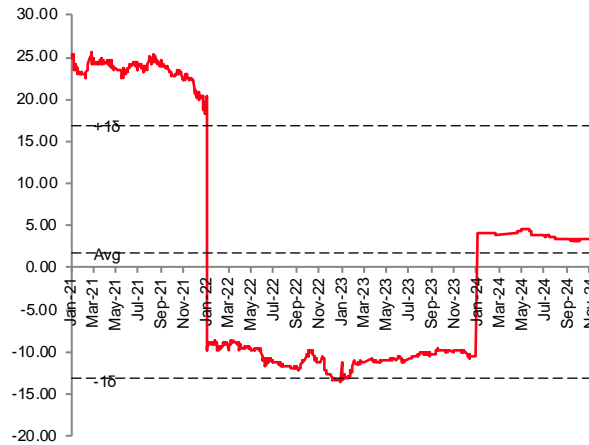


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Gross Revenue	117.4	111.5	125.0	140.0	144.0
Net Property Income	58.7	60.0	66.6	78.9	81.4
Net Investment income	60.4	60.8	66.8	79.0	81.6
EBITDA	55.0	49.8	54.2	66.2	69.4
Net interest	(18.6)	(24.7)	(27.0)	(28.5)	(30.0)
Exceptional items (EI)	41.6	26.6	0.0	0.0	0.0
Pretax profit	78.0	51.7	27.2	37.7	39.4
Taxation	(3.3)	(2.6)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	74.6	49.1	27.2	37.7	39.4
Adjusted Distributable income	34.0	28.9	27.2	37.7	39.4
Balance Sheet (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Other investments	0.1	0.4	0.4	0.4	0.4
Investment properties	1,206.1	1,232.7	1,382.7	1,382.7	1,382.7
Total non-current assets	1,206.2	1,233.1	1,383.1	1,383.1	1,383.1
Cash & equivalent	23.2	63.3	26.0	29.3	30.3
Other receivables	1.7	14.9	9.9	11.1	11.4
Trade receivables	4.5	3.5	14.9	16.7	17.2
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	29.4	81.7	50.8	57.1	58.8
Trade payables	5.7	7.3	10.8	11.4	11.6
Short-term borrowings	9.0	3.0	3.0	3.0	3.0
Other payables and accruals	26.6	16.2	46.4	48.6	49.8
Total current liabilities	41.3	26.5	60.2	63.0	64.4
Long-term borrowings	542.4	559.2	624.2	624.2	624.2
Other long-term liabilities	53.8	56.4	45.7	50.2	51.6
Total long-term liabilities	596.3	615.6	669.9	674.4	675.8
Total Unitholders' funds	598.0	672.8	703.8	702.8	701.8
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.3	1.3	1.0	1.0	1.0
Cash Flow (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Pretax profit	78.0	51.7	27.2	37.7	39.4
Net change in working capital	(10.9)	(19.2)	15.3	0.4	0.9
Others	(31.8)	(3.7)	56.5	24.3	25.1
Cash flow from operations	35.4	28.8	99.0	62.4	65.5
Capital expenditure	0.0	0.0	0.0	0.0	0.0
Net investments & sale of fixed assets	0.0	(0.4)	(150.0)	0.0	0.0
Others	(7.6)	10.9	(35.4)	5.2	3.0
Cash flow from investing	(7.6)	10.5	(185.4)	5.2	3.0
Debt raised/(repaid)	(29.6)	10.8	65.0	0.0	0.0
Equity raised/(repaid)	0.0	64.2	38.8	0.0	0.0
Distribution paid to unitholders	(24.6)	(38.4)	(24.5)	(33.9)	(35.5)
Others	(20.2)	(26.2)	(28.9)	(30.4)	(32.0)
Cash flow from financing	(74.5)	10.3	50.4	(64.4)	(67.5)
Net cash flow	(46.7)	49.6	(36.0)	3.3	1.0
Net cash/(debt) b/f	59.1	12.4	62.0	26.0	29.3
Net cash/(debt) c/f	12.4	62.0	26.0	29.3	30.3
Key Ratios (YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Revenue growth (%)	21.6	4.8	12.1	12.1	2.8
Net Property Income growth (%)	24.8	9.0	10.9	18.4	3.2
Pretax margin (%)	66.4	28.8	21.7	26.9	27.4
Net income margin (%)	63.6	27.8	21.7	26.9	27.4
Net Interest cover (x)	3.0	2.6	2.0	2.3	2.3
Effective tax rate (%)	3.9	3.9	3.9	3.9	3.9
DPU payout (%)	67.0	21.6	90.0	90.0	90.0
Receivable turnover (days)	43.6	43.6	43.6	43.6	43.6
Payable turnover (days)	67.8	67.8	67.8	67.8	67.8

Source: Company, AmlInvestment Bank estimates

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