



AmInvestment Bank

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

26 May 2023

First positive rental reversion since 2QFY20

Company report

BUY

(Maintained)

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Rationale for Report: Company Results

| | |
|------------------|---------------|
| Price | RM0.67 |
| Fair Value | RM0.81 |
| 52-week High/Low | RM0.84/RM0.50 |

Key Changes

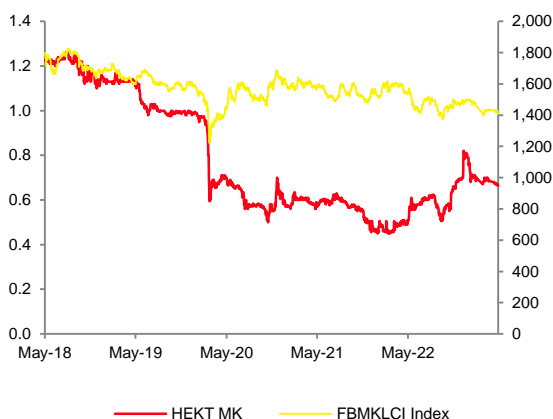
| | |
|------------|---|
| Fair value | ↔ |
| EPS | ↔ |

| YE to Dec | FY22 | FY23F | FY24F | FY25F |
|------------------------------------|-------|--------|-------|-------|
| Gross Revenue (RM mil) | 117.4 | 121.1 | 125.5 | 130.1 |
| Adj. Distributable Income (RM mil) | 34.0 | 34.8 | 35.8 | 37.2 |
| EPU (sen) | 7.2 | 7.2 | 7.1 | 7.2 |
| Consensus Net Income (RM mil) | — | — | — | — |
| DPU (sen) | 8.0 | 6.2 | 6.2 | 6.2 |
| DPU Growth (%) | 216.2 | (18.1) | (0.4) | (0.2) |
| Distribution yield (%) | 11.9 | 8.9 | 9.3 | 9.3 |
| PE (x) | 9.3 | 9.8 | 9.4 | 9.7 |
| EV/EBITDA (x) | 22.8 | 15.9 | 14.8 | 14.7 |
| ROE (%) | 13.0 | 5.4 | 5.8 | 6.2 |
| Debt-to-asset ratio (%) | 47.0 | 44.5 | 46.2 | 46.1 |

Stock and Financial Data

| | |
|------------------------------|---|
| Shares Outstanding (million) | 471.3 |
| Market Cap (RMmil) | 313.4 |
| Book Value (RM/share) | 1.2 |
| P/BV (x) | 0.5 |
| ROE (%) | 13.0 |
| Debt-to-asset ratio (%) | 47.0 |
| Major Shareholders | Frasers Centrepoint Trust (28.9%) Hektar Black (26.9%) Kong Goon Khing (1.0%) |
| Free Float | 38.5 |
| Avg Daily Value (RMmil) | 0.3 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|------|-------|
| Absolute (%) | (3.6) | 0.8 | 30.4 |
| Relative (%) | (0.4) | 7.4 | 41.6 |



Investment Highlights

- We maintain BUY on Hektar with an unchanged fair value (FV) of RM0.81/unit based on our dividend discount model (DDM), which incorporates a 4-star ESG rating (Exhibits 6, 7).
- The FV implies a FY24F distribution yield of 8%, at parity to its 5-year median.
- We made no changes to our earnings forecasts as Hektar's 1QFY23 distributable income of RM9mil came in within our expectation. It accounted for 26% of our FY23F earnings.
- In 1QFY23, Hektar's gross revenue slid 1% YoY while net property income (NPI) fell 9% YoY, exacerbated by higher operating expenses driven by higher utilities cost as a result of a recent electricity tariff hike.
- QoQ, Hektar's 1QFY23 revenue rose 10% while NPI surged 52%. The stronger NPI was mainly attributed to the lower mall upkeep as well as repair and maintenance expenses incurred in 1QFY23.
- There was no income distribution declared in 1QFY23 due to its semi-annual distribution policy.
- QoQ, average occupancy rate inched up 1%-point to 84% (Exhibit 2), mainly contributed by higher occupancy rates in Subang Parade, Mahkota Parade, Wetex Parade and Central Square. As at 31 March 2023, the committed occupancy rate of Hektar stood at 85%.
- Hektar has registered a positive reversion of 0.2% in 1QFY23, mainly due to positive reversions at Mahkota Parade and Kulim Central (Exhibit 4). Nevertheless, we still expect a slight negative rental reversion of <-5% in FY23F as we believe Hektar needs to offer more competitive rental rates in its underperforming malls, particularly Subang Parade, to retain existing tenants and attract new clients.
- Given weaker economic data and softening inflation in United States (US), we anticipate the US Fed Funds rate to peak at current level of 5%-5.25% after the recent 0.25% hike in May 2023. If the US inflation rate continues to decline over the subsequent months, we may see a pause in the US monetary tightening cycle.

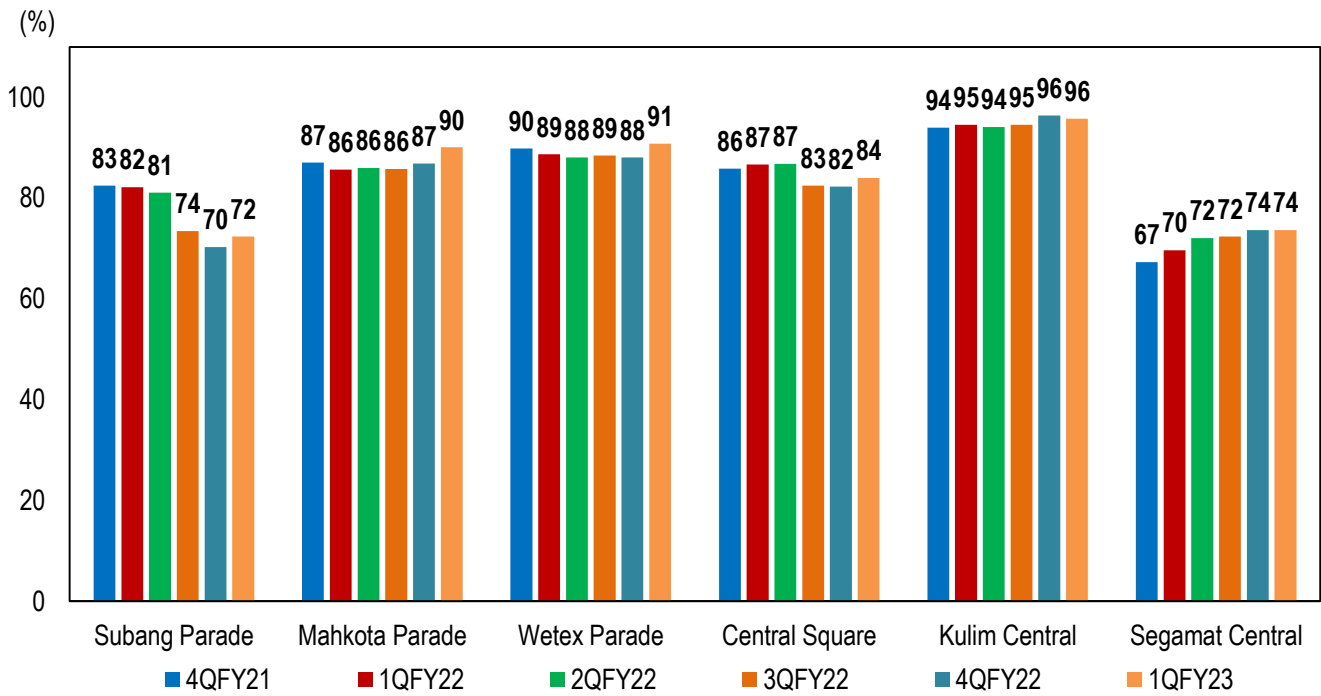
- As such, we do not rule out the possibility that the 10-year MGS yield could ease further from our 2023F yield of 3.8%-4% if there are signals affirming a less hawkish tone by the US Federal Reserve, resulting in a pause in Fed Funds rate hikes, as well as the tapering of inflation rates globally which will reduce pressures on central banks, including BNM, to continue raising interest rates.
- From FY23F onwards, we anticipate Hektar's distribution yield spread against 10-year MGS to widen to 5% vs. 5-year median of 4%. Hence, we expect Hektar to appeal to yield-seeking investors with its higher dividend spread against 10-year MGS (Exhibit 5).
- Hektar's FY24F 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;
 - (ii) most of its retail malls (Kulim Central, Central Square and Wetex Parade) have a more consistent customer base as 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, work on joint venture prospects, obtain financial assistance and leverage on synergies in skills, experience, and retail connections.

EXHIBIT 1: RESULT SUMMARY

| (RM 'mil) | 1QFY22 | 4QFY22 | 1QFY23 | QoQ (%) | YoY (%) |
|-------------------------------|-------------|-------------|-------------|----------------|---------------|
| Revenue | 29.1 | 27.9 | 28.9 | 3.8 | (0.6) |
| Property operating costs | (12.5) | (17.8) | (13.7) | (23.1) | 9.9 |
| Net property income | 16.6 | 10.0 | 15.2 | 51.5 | (8.5) |
| Other income | 1.6 | (0.6) | 0.6 | >100 | (59.3) |
| Net Investment Income | 18.2 | 9.5 | 15.8 | 67.4 | (12.8) |
| Other trust expenses | (0.1) | (2.4) | (0.4) | (81.9) | >100 |
| EBIT | 18.0 | 7.1 | 15.4 | >100 | (14.5) |
| Net interest income/expenses | (4.3) | (4.5) | (6.2) | 37.1 | 44.7 |
| Profit before EI | 13.7 | 2.6 | 9.2 | >100 | (33.0) |
| EI | 0.0 | 41.6 | 0.0 | - | - |
| Profit Before Taxation | 13.7 | 44.2 | 9.2 | (79.2) | (33.0) |
| Net Profit | 13.7 | 40.8 | 9.2 | (77.4) | (33.0) |
| Distributable Adjustment | 0.0 | (38.3) | 0.0 | - | -) |
| Distributable Income | 13.7 | 2.6 | 9.2 | >100 | (33.0) |
| <u>Distribution:</u> | | | | | |
| EPU - Diluted (Sen) | 2.9 | 0.5 | 1.9 | 259.3 | (33.6) |
| Proposed DPU (Sen) - Interim | 0.0 | 5.3 | 0.0 | (>100) | n.m. |
| NAV/unit | 1.2 | 1.2 | 1.2 | (1.1) | 3.1 |
| Weighted average unit ('000) | 471.3 | 471.3 | 498.8 | 5.8 | 5.8 |
| <u>Margin:</u> | | | | | |
| NPI margin (%) | 57.1 | 36.0 | 52.6 | 16.6 | (4.5) |
| EBIT margin (%) | 61.9 | 25.5 | 53.3 | 27.8 | (8.7) |
| Net Interest coverage (x) | 4.2 | 1.6 | 2.5 | 0.9 | (1.7) |
| Net gearing ratio (x) | 96.0 | 88.3 | 88.2 | (0.1) | (7.8) |
| Debt-to-Asset Ratio (%) | 47.3 | 44.6 | 44.3 | (0.3) | (3.0) |

Source: Company, AmlInvestment Bank Berhad

EXHIBIT 2: OCCUPANCY RATE

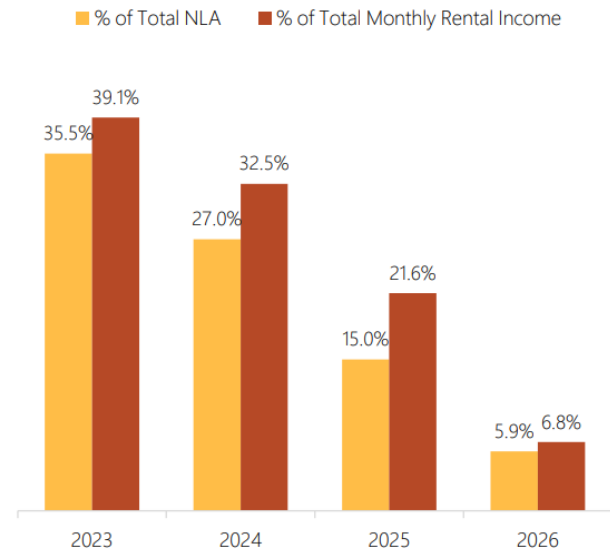


Source: Hektar, AmlInvestment Bank Bhd

EXHIBIT 3: PORTFOLIO TENANCY EXPIRY PROFILE

PORTFOLIO TENANCY EXPIRY PROFILE 2023-2026

| Period End March | Number of Tenancies Expiring | Expiring NLA (Sq. Ft.) |
|------------------|------------------------------|------------------------|
| 2023 | 158 | 726,639 |
| 2024 | 111 | 552,416 |
| 2025 | 92 | 307,803 |
| 2026 | 11 | 120,999 |
| Total | 372 | 1,707,856 |



Note:

- Based on the total Net Lettable Area (NLA) of 2,047,490 sq. ft. as at 31 March 2023.
- Based on monthly rental income for March 2023. Figures may not round to 100% due to misc. items.

Source: Hektar

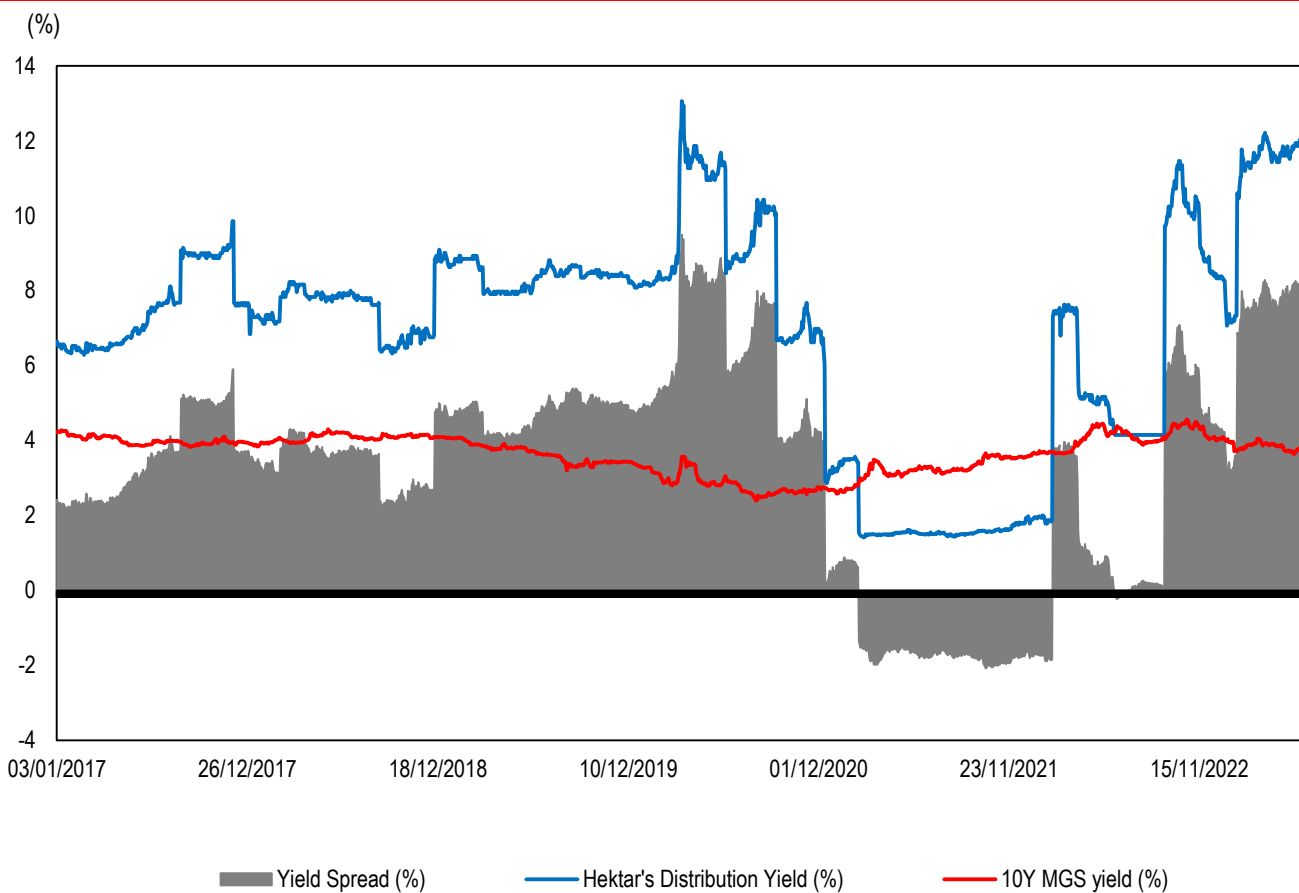
EXHIBIT 4: PORTFOLIO RENTAL REVERSION IN 3QFY22

| First Quarter Ended 31 March 2023 | Number of New Tenancies/Renewals | NLA (Sq. Ft.) | Percentage of Total NLA | Percentage Change Over Previous Rent Rates |
|-----------------------------------|----------------------------------|----------------|-------------------------|--|
| Subang Parade | 20 | 48,284 | 9.2% | (4.2%) |
| Mahkota Parade | 16 | 171,427 | 32.9% | 4.7% |
| Wetex Parade | 10 | 11,467 | 6.6% | (9.1%) |
| Central Square | 6 | 20,218 | 6.5% | (8.8%) |
| Kulim Central | 24 | 33,834 | 11.3% | 2.4% |
| Segamat Central | 2 | 2,068 | 1.0% | 11.9% |
| Total/Average | 78 | 287,298 | 14.0% | 0.2% |

Note: Portfolio Average weighted by NLA.

Source: Hektar, AmlInvestment Bank Bhd

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



Source: AmlInvestment Bank Bhd, Bloomberg

EXHIBIT 6: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)

| | |
|----------------|-------|
| Risk Free Rate | 3.9% |
| Beta | 0.96 |
| Market Return | 14.3% |

Cost of Equity (Ke) 13.9%

Average Cost of Debt 4.8%

Capital Structure: (RM Mil)

| | | |
|-----------------|-------|--------|
| Market Cap | 322.8 | 35.7% |
| Total Borrowing | 581.1 | 64.3% |
| Total | 903.9 | 100.0% |

Weighted Average Cost of Capital (WACC):

| | Weight | Cost | W X C |
|----------------------|--------|-------|-------------|
| Cost of Equity (Ke) | 35.7% | 13.9% | 5.0% |
| Average Cost of Debt | 64.3% | 4.8% | 3.1% |
| WACC | | | 8.0% |

| Multi-Stage DDM (RM/share) | 2023 | 2024 | 2025 | 2026 | 2027 | Terminal Value |
|--------------------------------------|-------------|----------|----------|----------|----------|----------------|
| Period | 1 | 2 | 3 | 4 | 5 | |
| Dividends (RM) | 0.062 | 0.062 | 0.062 | 0.063 | 0.063 | 0.796 |
| Present Value (RM) | 0.06 | 0.05 | 0.05 | 0.05 | 0.04 | 0.54 |
| Valuation | 0.79 | | | | | |
| (+) 3% premium for 4-star ESG rating | 0.02 | | | | | |
| Fair Value/unit (RM)+ESG | 0.81 | | | | | |
| Rate of Return (%) | 8.0% | | | | | |
| 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

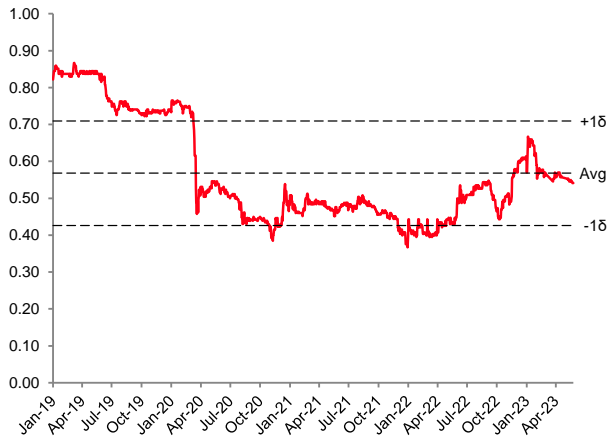


EXHIBIT 9: PE BAND CHART

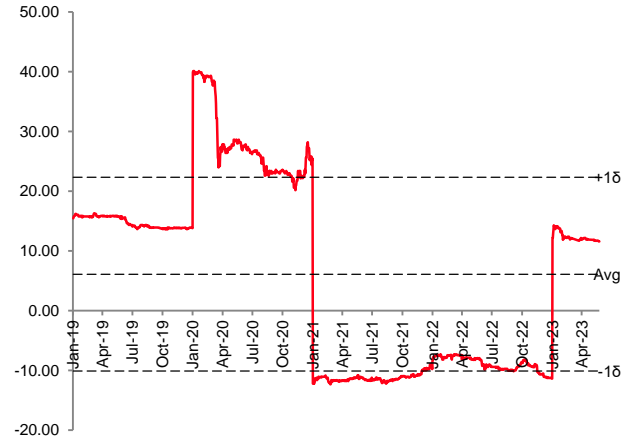


EXHIBIT 10: FINANCIAL DATA

| Income Statement(RM mil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
|--|----------------|----------------|----------------|----------------|----------------|
| Gross Revenue | 96.6 | 117.4 | 121.1 | 125.5 | 130.1 |
| Net Property Income | 47.0 | 58.7 | 67.2 | 70.2 | 73.2 |
| Net Investment income | 47.0 | 60.4 | 67.4 | 70.3 | 73.4 |
| EBITDA | 36.8 | 55.0 | 56.6 | 59.2 | 61.9 |
| Net interest | (17.9) | (18.6) | (21.7) | (23.4) | (24.8) |
| Exceptional items (EI) | (50.3) | 41.6 | 0.0 | 0.0 | 0.0 |
| Pretax profit | (31.5) | 78.0 | 34.8 | 35.8 | 37.2 |
| Taxation | 3.0 | (3.3) | (1.1) | (1.1) | (1.4) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income | (28.5) | 74.6 | 33.7 | 34.7 | 35.7 |
| Adjusted Distributable income | 12.7 | 34.0 | 34.8 | 35.8 | 37.2 |
| Balance Sheet (RM mil, YE 31 Dec) | FY21 | FY22F | FY23F | FY24F | FY25F |
| Other investments | 1.7 | 0.1 | 1.6 | 1.6 | 1.6 |
| Investment properties | 1,164.6 | 1,206.1 | 1,206.1 | 1,206.1 | 1,206.1 |
| Total non-current assets | 1,166.2 | 1,206.2 | 1,207.7 | 1,207.7 | 1,207.6 |
| Cash & equivalent | 59.1 | 23.2 | 24.0 | 26.1 | 27.2 |
| Other receivables | 2.7 | 1.7 | 9.6 | 9.9 | 10.3 |
| Trade receivables | 2.7 | 4.5 | 14.5 | 15.0 | 15.5 |
| Other current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total current assets | 64.5 | 29.4 | 48.1 | 51.0 | 53.0 |
| Trade payables | 16.6 | 5.7 | 10.0 | 10.3 | 10.6 |
| Short-term borrowings | 15.0 | 9.0 | 15.0 | 15.0 | 15.0 |
| Other payables and accruals | 51.0 | 26.6 | 42.9 | 44.0 | 45.2 |
| Total current liabilities | 82.6 | 41.3 | 70.7 | 69.2 | 70.7 |
| Long-term borrowings | 566.1 | 542.4 | 566.1 | 566.1 | 566.1 |
| Other long-term liabilities | 34.1 | 53.8 | 43.7 | 45.1 | 46.6 |
| Total long-term liabilities | 600.2 | 596.3 | 609.8 | 611.2 | 612.7 |
| Total Unitholders' funds | 548.0 | 598.0 | 575.3 | 578.2 | 577.2 |
| Minority interests | - | - | - | - | - |
| NAV per unit (RM) | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 |
| Cash Flow (RM mil, YE 31 Dec) | FY21 | FY22F | FY23F | FY24F | FY25F |
| Pretax profit | (31.5) | 78.0 | 34.8 | 35.8 | 37.2 |
| Net change in working capital | 13.2 | (10.9) | (10.3) | 0.8 | 0.9 |
| Others | 68.3 | (31.8) | 8.8 | 18.0 | 18.9 |
| Cash flow from operations | 50.0 | 35.4 | 33.3 | 54.6 | 56.9 |
| Capital expenditure | (0.4) | 0.0 | 0.0 | 0.0 | 0.0 |
| Net investments & sale of fixed assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.7 | (7.6) | 2.3 | 4.0 | 3.0 |
| Cash flow from investing | 0.3 | (7.6) | 2.3 | 4.0 | 3.0 |
| Debt raised/(repaid) | 0.0 | (29.6) | 29.6 | 0.0 | 0.0 |
| Equity raised/(repaid) | 4.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Distribution paid to unitholders | (4.2) | (24.6) | (30.4) | (31.2) | (32.1) |
| Others | (18.7) | (20.2) | (23.2) | (25.3) | (26.7) |
| Cash flow from financing | (18.6) | (74.5) | (24.0) | (56.5) | (58.9) |
| Net cash flow | 31.7 | (46.7) | 11.6 | 2.1 | 1.1 |
| Net cash/(debt) b/f | 27.3 | 59.1 | 12.4 | 24.0 | 26.1 |
| Net cash/(debt) c/f | 59.1 | 12.4 | 24.0 | 26.1 | 27.2 |
| Key Ratios (YE31 Dec) | FY21 | FY22F | FY23F | FY24F | FY25F |
| Revenue growth (%) | (13.1) | 21.6 | 4.8 | 3.6 | 3.6 |
| Net Property Income growth (%) | (11.2) | 24.8 | 9.0 | 4.4 | 4.3 |
| Pretax margin (%) | (32.6) | 66.4 | 28.8 | 28.5 | 28.6 |
| Net income margin (%) | (29.5) | 63.6 | 27.8 | 27.6 | 27.5 |
| Net Interest cover (x) | 2.1 | 3.0 | 2.6 | 2.5 | 2.5 |
| Effective tax rate (%) | 9.6 | 3.9 | 3.9 | 3.9 | 3.9 |
| DPU payout (%) | 141.9 | 90.0 | 90.0 | 90.0 | 90.0 |
| Receivable turnover (days) | 13.1 | 43.6 | 43.6 | 43.6 | 43.6 |
| Payable turnover (days) | 121.4 | 67.8 | 67.8 | 67.8 | 67.8 |

Source: Company, AmlInvestment Bank Bhd estimates

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