AmInvestment Bank

Company Report

HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL) **24 May 2024**

Slight positive rental reversion in 1QFY24

HOLD

(Maintained)

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Rationale for report: Company Results

Price	**RM0.72**
Fair Value	**RM0.64**
52-week High/Low	RM0.73/RM0.59

Key Changes

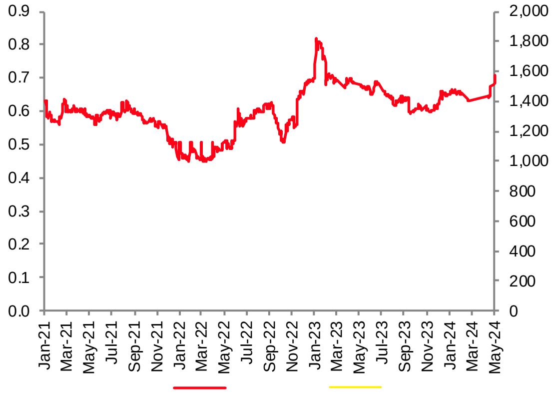
Fair value	⬇
EPS	⬇

YE to Dec	**FY23**	**FY24F**	**FY25F**	**FY26F**
Gross Revenue (RM mil)	111.5	126.4	135.1	139.9
Adj. Distributable Income (RM mil)	28.9	28.4	33.3	35.9
EPU (sen)	5.9	4.4	5.0	5.3
Consensus Net Income (RM mil)	–	31.7	33.7	37.0
DPU (sen)	5.0	3.9	4.5	4.8
DPU Growth (%)	(37.5)	(21.5)	15.7	5.2
Distribution yield (%)	6.9	5.4	6.3	6.6
PE (x)	12.1	16.5	14.3	13.6
EV/EBITDA (x)	18.9	14.8	20.0	17.9
ROE (%)	5.4	4.3	4.7	5.1
Debt-to-asset ratio (%)	44.5	43.7	43.6	43.5

Stock and Financial Data

Shares Outstanding (million)	706.8
Market Cap (RMmil)	508.9
Book Value (RM/Share)	1.27
P/BV (x)	0.6
ROE (%)	7.7
Debt-to-asset ratio (%)	44.5
Major Shareholders	Hektar Black (17.5%) Hektar Real Estate Investment Trust (14.3%) Choo Meng Ong (6.1%)
Free Float	62.1
Avg Daily Value (RMmil)	0.6

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	11.1	14.8	5.3
Relative (%)	5.9	3.0	(7.9)



Investment Highlights

- **We maintain HOLD on Hektar with a lower fair value (FV) of RM0.64/unit (from RM0.67/unit previously) based on our revised dividend discount model (DDM), which incorporates a 3% premium from an unchanged 4-star ESG rating (Exhibits 6 & 7)**
- **The FV implies a FY25F distribution yield of 7%, 1 standard deviation below its 5-year median of 8%.**
- **The lower FV stems from the lowering of FY24F/FY25F/FY26F distributable income by 11%/3%/3% to account for slower-than-expected completion of the KYS College acquisition, which will occur at the end of 2QFY24, rather than our initial assumption of early-2QFY24. This could result in a shortfall of 2 months' rental income.**
- **Hektar's 1QFY24 distributable income of RM5mil came in below expectations. It accounted for 16% of both our earlier full-year forecast and street's.**
- **In 1QFY24, Hektar's revenue dropped 2% YoY while net property income (NPI) fell 6% YoY. These were mainly due to higher utilities cost. Meanwhile, its adjusted distributable income decreased 45% YoY, exacerbated by lower reversal of doubtful debt provisions and increased finance cost.**
- **QoQ, Hektar's 1QFY24 revenue and NPI both rose 3%, mainly driven by higher rental income aligned with a slight increase in occupancy rate and positive rental reversion of 3.5%.**
- **No income distribution has been declared in 1QFY24 due to its semi-annual distribution policy.**
- **QoQ, 1QFY24 average occupancy rate remained steady at 88% (Exhibit 2).**
- **Hektar has registered a positive reversion of 3.5% in 1QFY24, mainly due to positive reversions at all its malls (Exhibit 4).**
- **For FY24F, we expect a slight positive rental reversion as Hektar needs to offer more competitive rental rates in its underperforming malls, particularly Subang Parade, to retain existing tenants and attract new retail businesses.**
- **Hektar's FY25F distribution yield stands at 6%, which appears unattractive when compared to its 2-year pre-pandemic (FY18-19) average of 8%. Hence, we see limited upside potential in this stock.**

EXHIBIT 1: RESULT SUMMARY

(RM 'mil)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	**28.9**	**27.5**	**28.4**	**3.2**	**(1.9)**
Property operating costs	(13.7)	(13.6)	(14.0)	3.3	2.1
Net property income	**15.2**	**14.0**	**14.4**	**3.1**	**(5.5)**
Other income	0.6	(0.5)	0.9	>100	40.2
Net Investment Income	**15.8**	**13.4**	**15.3**	**13.9**	**(3.6)**
Other trust expenses	(0.4)	(5.3)	(2.9)	(45.1)	>100
EBIT	**15.4**	**8.1**	**12.3**	**52.8**	**(20.0)**
Net interest income/expenses	(6.2)	(6.0)	(7.3)	21.7	16.8
Profit before EI	**9.2**	**2.1**	**5.1**	**>100**	**(44.8)**
EI	0.0	26.6	0.0	n.m.	n.m.
Profit Before Taxation	**9.2**	**28.7**	**5.1**	**(82.3)**	**(44.8)**
Net Profit	**9.2**	**26.1**	**5.1**	**(80.5)**	**(44.8)**
Distributable Adjustment	0.0	(20.2)	0.0	n.m.	n.m.
Distributable Income	**9.2**	**5.9**	**5.1**	**(14.2)**	**(44.8)**
One-off item	0.0	0.0	0.0	n.m.	n.m.
Adjusted Distributable Income	**9.2**	**5.9**	**5.1**	**(14.2)**	**(44.8)**
Distribution:					
EPU - Diluted (Sen)	1.9	0.7	0.9	19.7	(55.7)
Proposed DPU (Sen) - Interim	0.0	2.3	0.0	n.m.	n.m.
NAV/unit	1.2	1.1	1.0	(8.3)	(13.6)
Weighted average unit ('000)	498.8	581.4	706.8	21.6	41.7
Margin:					
NPI margin (%)	52.6	50.7	50.6	(0.0)	(1.9)
EBIT margin (%)	53.3	29.3	43.4	14.1	(9.8)
Net Interest coverage (x)	2.5	1.4	1.7	0.3	(0.8)
Net gearing ratio (x)	88.2	74.2	75.4	1.2	(12.8)
Debt-to-Asset Ratio (%)	44.3	42.8	42.3	(0.4)	(2.0)

Source: Company, AmInvestment Bank Berhad

EXHIBIT 2: OCCUPANCY RATE

Occupancy	FY20	FY21	FY22	FY23	1Q24
Subang Parade	83.7%	82.5%	70.3%	74.3%	75.0%
Mahkota Parade	92.5%	87.1%	86.9%	93.8%	94.8%
Wetex Parade	94.5%	89.9%	88.1%	97.6%	97.1%
Central Square	87.9%	85.9%	82.3%	87.1%	87.1%
Kulim Central	93.9%	94.0%	96.4%	96.9%	97.2%
Segamat Central	77.9%	67.3%	73.7%	76.6%	76.0%
Portfolio Average	**88.4%**	**84.9%**	**82.0%**	**86.7%**	**87.2%**

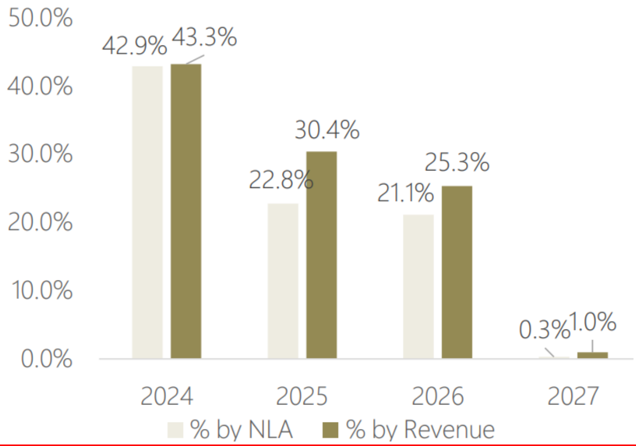
Source: Hektar

EXHIBIT 3: PORTFOLIO TENANCY EXPIRY PROFILE

PORTFOLIO TENANCY EXPIRY PROFILE 2024-2027

Period End Mar 2024	Number of Tenancies Expiring	Expiring NLA (Sq. Ft.)
2024	171	874,250
2025	125	463,798
2026	89	430,149
2027	5	6,221
Total	390	1,774,418

Portfolio Lease Expiry Profile.



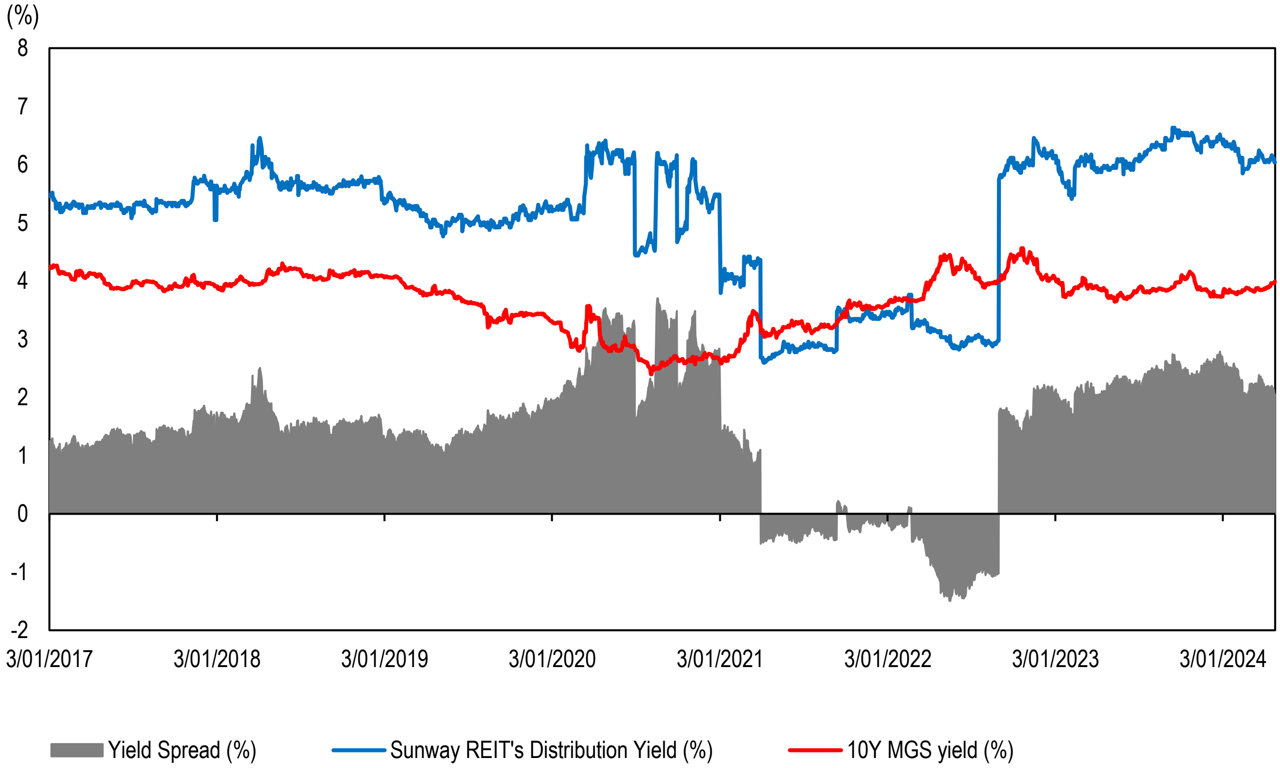
Source: Hektar

EXHIBIT 4: PORTFOLIO RENTAL REVERSION IN FY23

Quarter Ended 31 December 2023	No. of New Tenancies / Renewals	NLA (sq ft)	% of Total NLA	% Increase / (Decrease) Over Previous Rent Rates
Subang Parade	6	6,464	1.2%	0.9%
Mahkota Parade	8	24,810	4.8%	5.5%
Wetex Parade	6	92,702	54.4%	1.5%
Central Square	2	1,008	0.3%	8.2%
Kulim Central	9	65,943	22.0%	6.7%
Segamat Central	3	2,799	1.3%	3.9%
TOTAL / AVERAGE	34	193,726	9.5%	3.5%

Source: Hektar

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	3.9%					
Beta	0.90					
Market Return	12.7%					
Cost of Equity (Ke)	**11.8%**					
Average Cost of Debt	**4.8%**					
-						
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):	**Weight**	**Cost**	**W X C**			
Cost of Equity (Ke)	46.7%	11.8%	5.5%			
Average Cost of Debt	53.3%	4.8%	2.5%			
WACC			**8.1%**			
Multi-Stage DDM	**2024**	**2025**	**2026**	**2027**	**2028**	**Terminal Value**
Period	**1**	**2**	**3**	**4**	**5**	
Dividends (RM/share)	0.039	0.045	0.048	0.050	0.053	0.669
Present Value (RM/share)	0.04	0.04	0.03	0.03	0.03	0.45
Valuation	0.63					
(+) 3% premium for 4-star ESG rating	0.02					
Fair Value/unit (RM/share)+ESG	**0.64**					
Rate of Return (%)	8.1%					
Growth Rate (%)	0.2%					

Source: Company, AmInvestment Bank Berhad

EXHIBIT 7: 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: AmInvestment Bank Bhd

EXHIBIT 8: PB BAND CHART

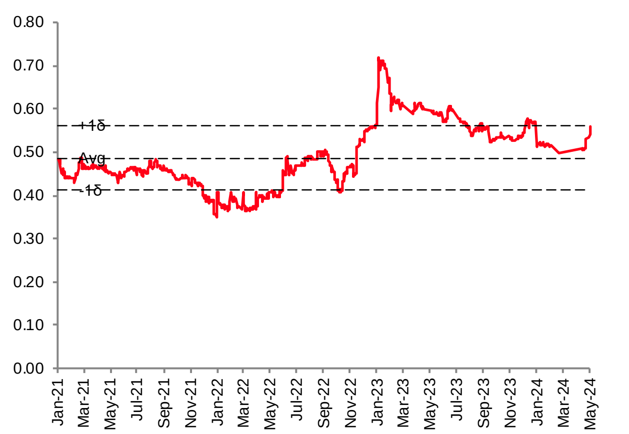


EXHIBIT 9: PE BAND CHART

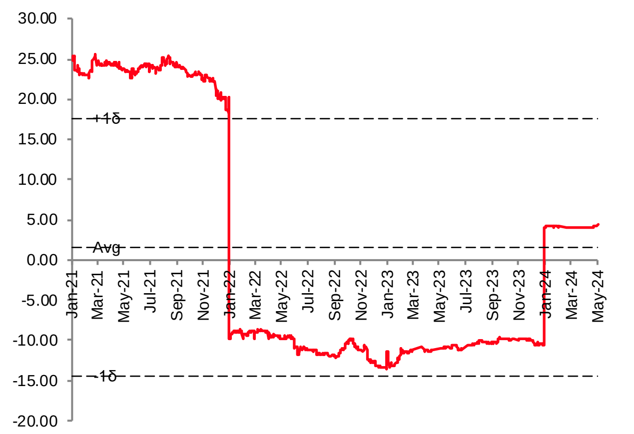


EXHIBIT 10: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY22	FY23	FY24F	FY25F	FY26F
Gross Revenue	**117.4**	**111.5**	**126.4**	**135.1**	**139.9**
Net Property Income	58.7	60.0	67.8	74.5	77.6
Net Investment income	60.4	60.8	68.0	74.7	77.8
EBITDA	**55.0**	**49.8**	**55.4**	**61.8**	**65.9**
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**	**28.4**	**33.3**	**35.9**
Taxation	(3.3)	(2.6)	0.0	0.0	0.0
Minorities	-	-	-	-	-
Net income	**74.6**	**49.1**	**28.4**	**33.3**	**35.9**
Adjusted Distributable income	**34.0**	**28.9**	**28.4**	**33.3**	**35.9**

Balance Sheet (RMmil, YE 31 Dec)	FY22F	FY23F	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	26.3	28.2	29.4
Other receivables	1.7	14.9	10.0	10.7	11.0
Trade receivables	4.5	3.5	15.1	16.2	16.7
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	**29.4**	**81.7**	**51.4**	**55.1**	**57.2**
Trade payables	5.7	7.3	10.9	11.3	11.6
Short-term borrowings	9.0	3.0	3.0	3.0	3.0
Other payables and accruals	26.6	16.2	46.5	48.2	49.5
Total current liabilities	**41.3**	**26.5**	**60.4**	**62.4**	**64.1**
Long-term borrowings	542.4	559.2	624.2	624.2	624.2
Other long-term liabilities	53.8	56.4	46.1	48.8	50.4
Total long-term liabilities	**596.3**	**615.6**	**670.3**	**673.0**	**674.6**
Total Unitholders' funds	**598.0**	**672.8**	**703.8**	**702.7**	**701.5**
Minority interests	-	-	-	-	-
NAV per unit (RM)	1.3	1.3	1.1	1.1	1.0

Cash Flow (RMmil, YE 31 Dec)	FY22F	FY23F	FY24F	FY25F	FY26F
Pretax profit	78.0	51.7	28.4	33.3	35.9
Net change in working capital	(10.9)	(19.2)	15.2	0.8	1.1
Others	(31.8)	(3.7)	56.5	24.4	25.3
Cash flow from operations	**35.4**	**28.8**	**100.1**	**58.5**	**62.3**
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	-	(0.4)	(150.0)	-	-
Others	(7.6)	10.9	(35.1)	3.9	3.2
Cash flow from investing	**(7.6)**	**10.5**	**(185.1)**	**3.9**	**3.2**
Debt raised/(repaid)	(29.6)	10.8	65.0	-	-
Equity raised/(repaid)	-	64.2	38.8	-	-
Distribution paid to unitholders	(24.6)	(38.4)	(25.6)	(30.0)	(32.3)
Others	(20.2)	(26.2)	(28.9)	(30.4)	(32.0)
Cash flow from financing	**(74.5)**	**10.3**	**49.3**	**(60.4)**	**(64.3)**
Net cash flow	**(46.7)**	**49.6**	**(35.7)**	**1.9**	**1.2**
Net cash/(debt) b/f	**59.1**	**12.4**	**62.0**	**26.3**	**28.2**
Net cash/(debt) c/f	**12.4**	**62.0**	**26.3**	**28.2**	**29.4**

Key Ratios (YE31 Dec)	FY22F	FY23F	FY24F	FY25F	FY26F
Revenue growth (%)	21.6	4.8	13.4	6.9	3.6
Net Property Income growth (%)	24.8	9.0	13.0	9.8	4.2
Pretax margin (%)	66.4	28.8	22.5	24.7	25.7
Net income margin (%)	63.6	27.8	22.5	24.7	25.7
Net Interest cover (x)	3.0	2.6	2.1	2.2	2.2
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, AmInvestment Bank Bhd estimates

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