

**HLIB Research**

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**HOLD** (from Sell)

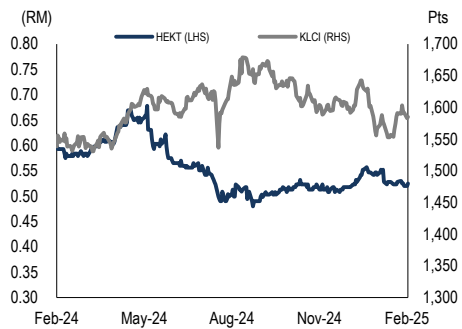
**Target Price:** **RM0.48**  
**Previously:** **RM0.41**  
**Current Price:** **RM0.525**

Capital upside -8.4%  
Dividend yield 7.5%  
Expected total return -0.9%

**Sector coverage:** REIT

**Company description:** Hektar REIT is a retail-focused REIT invest in real estate in Malaysia, which is primarily used for retail purposes. The Trust's portfolio currently consists of seven properties

**Share price**



Historical return (%)	1M	3M	12M
Absolute	-5.4	0.0	-16.7
Relative	-6.5	1.1	-19.1

**Stock information**

Bloomberg ticker	HEKT MK
Bursa code	5121
Issued shares (m)	709
Market capitalisation (RM m)	372
3-mth average volume ('000)	1,123
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★

**Earnings summary**

FYE (Dec)	FY23	FY24f	FY25f
PAT – core	25.1	28.0	29.0
EPU – core (sen)	4.3	4.0	3.9
P/E (x)	12.2	13.2	13.3

# Hektar REIT

## Diversifying into industrial assets

Hektar REIT has proposed to acquire a light industrial asset in Bayan Lepas for RM30m, funded through a mix of debt and cash. We are positive on this acquisition, given Hektar's strategy to diversify its portfolio. The acquisition is expected to result in a 2.2%/4.3% uplift in distribution income for FY25/26, prompting us to raise our profit forecasts accordingly. We upgrade the stock to HOLD with a higher target price of RM0.48 (from RM0.41), based on FY25 DPU and targeted yield of 8.2%.

**NEWSBREAK**

Hektar REIT is acquiring a light industrial asset in Bayan Lepas for RM30m. This marks its maiden expansion into the industrial sector to reduce reliance on its retail business. The property, bought at a 9.1% discount, will be leased back to MPT for 15 years under a triple net master lease with a 5% rental escalation every three years, ensuring stable passive income. This follows its RM148.5m purchase of an educational asset last year, bringing its portfolio to eight properties upon completion. The deal, signed by MTrustee Bhd on behalf of Hektar REIT, is expected to be completed in 2H25. (The Edge)

**HLIB's VIEW**

**Positive.** The acquisition of the industrial property is yield accretive, as it fetches yield of 7.5% vs Hektar REIT's FY25-26 NPI yield of 5.5-6.0%.

We also find the transaction to be fair and strategically sound. With a gross floor area of 58,348sqft, the purchase of this light industrial asset equates to RM514.2/sqft. In comparison, similar assets in Taman Perindustrian Bayan Lepas, 11900, Penang, are valued at RM529.4/sqft. This suggests that the acquisition price is reasonable

Besides, the property, being priced at RM30m, represents 2.2% of Hektar REIT's total asset value and will be funded with 70% debt and 30% cash. Assuming Hektar REIT raises RM21m at a 5% borrowing cost, we estimate a 2.2%/4.3% uplift in distribution income for FY25/26.

As for the gearing ratio, it will see a slight increase to 42.8% (from 42.2%) following the acquisition.

**Forecast.** We raise our FY25/FY26 forecast by 2.2%/4.3%.

**Upgrade to HOLD, TP: RM0.48.** We upgrade the stock to HOLD with a higher TP of RM0.48 (from RM0.41), based on FY25 DPU on targeted yield of 8.2% (from 9.0%), which is derived from -0.25 SD to 5-year historical average yield spread between Hektar REIT and 10 year MGS, along with higher earnings revision. We deem the premium to be fair as we appreciate Hektar's initiative to diversify their portfolio away from retail into segments such as education and industrial assets. However, we remain concerned about the high tenancy expiry profile in the retail segment, with a significant portion of NLA set to expire in the coming years.

## Financial Forecast

All items in (RM m) unless otherwise stated

### Balance Sheet

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Cash	23.2	63.3	101.3	101.5	101.6
Receivables	6.2	18.4	21.0	21.6	22.2
Investment Properties	1,206.1	1,232.7	1,232.7	1,232.7	1,232.7
PPE	0.0	0.4	0.3	0.3	0.2
Others	-	-	-	-	-
<b>Assets</b>	<b>1,235.5</b>	<b>1,314.8</b>	<b>1,355.4</b>	<b>1,356.0</b>	<b>1,356.7</b>
Payables	-	23.2	32.3	54.0	62.1
Debt	551.4	562.2	593.6	593.6	593.6
Others	86.1	56.7	56.7	35.7	28.3
<b>Liabilities</b>	<b>637.5</b>	<b>642.1</b>	<b>682.6</b>	<b>683.3</b>	<b>684.0</b>
Unitholders' capital	496.7	560.9	560.9	560.9	560.9
Undistributed profit	101.2	111.8	111.8	111.8	111.8
Perpetual note holders' funds	-	-	-	-	-
<b>Equity</b>	<b>598.0</b>	<b>672.7</b>	<b>672.7</b>	<b>672.7</b>	<b>672.7</b>

### Income Statement

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
<b>Total Revenue</b>	<b>117.4</b>	<b>111.5</b>	<b>128.1</b>	<b>131.4</b>	<b>134.9</b>
Operating Expenses	(58.8)	(51.5)	(59.7)	(60.9)	(62.1)
<b>Net property income</b>	<b>58.7</b>	<b>60.0</b>	<b>68.4</b>	<b>70.5</b>	<b>72.8</b>
Other income	45.0	28.9	2.3	2.3	2.3
<b>Net Investment Income</b>	<b>103.7</b>	<b>88.9</b>	<b>70.6</b>	<b>72.8</b>	<b>75.1</b>
Non opex and trust exp	(25.7)	(37.2)	(42.6)	(44.9)	(46.1)
<b>PBT</b>	<b>78.0</b>	<b>51.7</b>	<b>28.0</b>	<b>27.9</b>	<b>29.0</b>
Taxation	(3.3)	(2.6)	-	-	-
<b>PAT</b>	<b>74.6</b>	<b>49.1</b>	<b>28.0</b>	<b>27.9</b>	<b>29.0</b>
<b>Core PAT</b>	<b>36.4</b>	<b>25.1</b>	<b>28.0</b>	<b>27.9</b>	<b>29.0</b>

### Cash Flow Statement

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Profit before taxation	78.0	51.7	28.0	27.9	29.0
D&A	0.0	0.1	0.1	0.1	0.1
Taxation	(3.3)	(2.6)	-	-	-
Others	(39.3)	(20.3)	33.7	28.5	29.1
<b>CFO</b>	<b>35.4</b>	<b>28.8</b>	<b>61.8</b>	<b>56.5</b>	<b>58.1</b>
Capex	-	(0.4)	-	-	-
Others	(7.6)	10.9	1.5	1.5	1.5
<b>CFI</b>	<b>(7.6)</b>	<b>10.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
Debt raised/ (repaid)	(29.6)	10.8	31.4	-	-
Distribution to Unitholders	(24.6)	(38.4)	(28.0)	(27.9)	(29.0)
Others	(20.2)	38.0	(28.6)	(29.9)	(30.4)
<b>CFF</b>	<b>(74.5)</b>	<b>10.3</b>	<b>(25.3)</b>	<b>(57.8)</b>	<b>(59.4)</b>
<b>Net cash flow</b>	<b>(46.7)</b>	<b>49.6</b>	<b>38.0</b>	<b>0.2</b>	<b>0.1</b>
Beginning cash	59.1	12.4	63.3	101.3	101.5
Subtotal Cash	12.4	62.0	101.3	101.5	101.6
Others	10.8	1.3	-	-	-
Ending Cash	23.2	63.3	101.3	101.5	101.6

### Valuation & Ratios

FYE Dec	FY22	FY23	FY24f	FY25f	FY26f
Core EPU (sen)	7.7	4.3	4.0	3.9	4.1
P/E (x)	6.8	12.2	13.2	13.3	12.8
EBITDA	58.7	60.1	68.5	70.6	72.9
EBIT	58.7	60.0	68.4	70.5	72.8
EV	775.7	804.2	863.4	863.2	863.0
EV/EBITDA (x)	13.2	13.4	12.6	12.2	11.8
DPU (sen)	5.2	6.6	4.0	3.9	4.1
Dividend yield	9.96%	12.59%	7.55%	7.51%	7.81%
NTA/unit (sen)	126.9	115.7	95.2	95.2	95.2
P/ NTA	0.4	0.5	0.6	0.6	0.6
BVPU (RM)	1.27	1.16	0.95	0.95	0.95
P/B (x)	0.4	0.5	0.6	0.6	0.6
EBITDA margin	50.0%	53.9%	53.5%	53.7%	54.0%
EBIT margin	49.9%	53.9%	53.4%	53.7%	54.0%
PBT margin	66.4%	46.4%	21.9%	21.2%	21.5%
Net margin	63.5%	44.0%	21.9%	21.2%	21.5%
ROE	12.5%	7.3%	4.2%	4.1%	4.3%
ROA	6.0%	3.7%	2.1%	2.1%	2.1%
Net gearing	42.8%	37.9%	36.3%	36.3%	36.3%

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<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
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