



Company Report

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HEKTAR REAL ESTATE INVESTMENT TRUST

(HEKT MK EQUITY, HEKR.KL)

24 Jun 2025

Reduced operating expenses and stronger gross revenue in 2Q25

BUY

(Maintained)

Rationale for report: Company Update

Price RM0.43
Fair Value RM0.55
52-week High/Low RM0.61/RM0.42

Key Changes

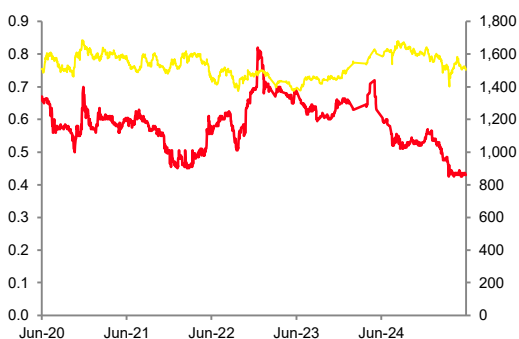
Fair value
EPS

YE to Dec	FY24	FY25F	FY26F	FY27F
Gross Revenue (RM mil)	124.8	126.5	131.1	134.8
Adj. Distributable Income (RM mil)	24.6	20.8	25.4	28.0
EPU (sen)	3.6	2.4	3.0	3.3
Consensus Net Income (RM mil)		32.2	33.6	37.4
DPU (sen)	3.2	2.2	2.7	3.0
DPU Growth (%)	(37.0)	(30.0)	21.7	10.3
Distribution yield (%)	7.3	5.1	6.2	6.9
PE (x)	12.0	17.6	14.4	13.1
EV/EBITDA (x)	14.8	18.0	18.2	16.3
ROE (%)	3.6	2.7	3.2	3.5
Debt-to-asset ratio (%)	41.7	41.4	40.2	40.2

Stock and Financial Data

Shares Outstanding (million)	709.3
Market Cap (RMmil)	301.5
Book Value (RM/Share)	1.1
P/BV (x)	0.4
ROE (%)	3.6
Net Gearing (%)	41.7
Major Shareholders	Hektar Black (16.7%) Ong Choo Meng (10.1%) Hektar Real Estate Investment Trust (6.3%)
Free Float	61.7
Avg Daily Value (RMmil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	(10.4)	(18.9)	(28.3)
Relative (%)	(9.4)	(13.5)	(23.6)



Investment Highlights

Hektar REIT remains a BUY, with a revised target price of RM0.55/unit (from RM0.75) based on DDM. Earnings are set to improve in 2Q25, supported by reduced operating costs and stronger rental from Segamat Central. Retail occupancy is projected to climb to 89.2% by FY26F from 84.0% in FY24, driven by new tenants at Subang Parade and Segamat Central, plus a tenant remixing strategy at Kulim Central. Gearing is expected to ease to 40.2% in FY26F, aided by a RM19.2mil planned debt repayment from the proceeds of a private placement. The Penang industrial asset acquisition (7.5% NPI yield) set to complete in 3Q25 will boost income from FY26, while the projected 6.2% distribution yield provides a solid 261bps spread over 10-year MGS.

- Recommendation and valuation.** Reaffirming our BUY call on Hektar REIT, with a lowered target price to RM0.55/unit (from RM0.75) following trimmed distribution income forecasts and updated DDM inputs: 7% WACC, 5% debt cost, 1 beta, and 2% long-term growth. FY25F–27F distribution income has been cut by 35.4%–25.3%, reflecting slower progress of tenant remixing at Kulim Central, lower rental growth as tenants absorb the 8% SST, and higher utility expenses. Despite this, the stock still trades at a steep 50% discount to FY26 P/NAV of 0.5x.
- 2Q25 net profit is likely to rise QoQ, lifted by the absence of 1Q25 maintenance costs and stronger rental from Segamat Central.** Hektar's 2Q25 results, due end-August, are expected to exceed 1Q25's RM4.2mil, driven by the absence of Subang Parade's RM1mil one-off maintenance cost and full-quarter rental from The Store at Segamat Central. The Store has occupied 25,000 sq ft (11.8% of total NLA) of Segamat Central in February 2025.
- Segamat Central mall's occupancy rate to rise in 3Q25.** Occupancy at the mall is projected to increase from 58.4% at the end of 1Q25 to 66.4% in 3Q25, driven by the anticipated leasing of 17,000 square feet of basement space to new tenants. Additionally, 6,000 sq ft of Segamat Central's rooftop is set to be leased to a pickleball operator starting in 3Q25, boosting the mall's revenue.
- Private placement exercise could be delayed to FY26 while the 8% SST on rental and leasing will be passed on to the tenants.** The proposed private placement of up to RM142mil new units may be delayed to next year due to ongoing market volatility. The 8% SST on rental is expected to be passed to tenants, with minimal impact on industrial and education assets due to the longer-term contracts with rental escalation clauses. For retail assets with shorter 3-year leases, the 8% SST and rising utility costs may constrain rental revisions for contracts up for renewal this year. Malls with higher occupancy are better positioned to negotiate rent increases than those with lower rates. All six of Hektar's malls are classified as neighborhood malls.

Company profile

Hektar REIT, Malaysia's first retail-focused REIT, owns 7 assets—6 shopping malls and an education property, Kolej Yayasan Saad. It recently announced plans to acquire a leasehold industrial property (7,657 sq m land, 58,348 sq ft built-up) for RM30 million from Microlead Precision Technology. The acquisition is expected to be fully completed in 3Q25.

Investment thesis and catalysts

BUY reiterated on Hektar REIT with a trimmed TP of RM0.55/unit. Occupancy is set to reach 89.2% by FY26F, gearing to ease to 40.2% with a RM19.2mil planned debt repayment, and the Penang asset acquisition will lift FY26 income. A 6.2% yield offers a 261bps spread over 10-year MGS.

Valuation methodology

We're valuing the stock using a Dividend Discount Model (DDM), applying a 7% weighted average cost of capital (WACC). This is based on a beta of 1, a market risk premium of 7.4%, a cost of debt of 5%, and a projected long-term growth rate of 2%.

Risk factors

Key risks include a spike in 10-year MGS yields due to high US interest rates post-election, potentially narrowing yield spreads and reducing REIT appeal. Weaker consumer spending from slower growth and subsidy cuts may hurt rental reversions and occupancy rates of retail assets. The 8% SST passed on to tenants could further limit rent revisions, especially in malls with lower occupancy.

EXHIBIT 1: CHANGE IN EARNINGS

	FY25F			FY26F			FY27F		
	Old	New	%	Old	New	%	Old	New	%
Revenue (RMm)	136.9	126.5	-7.6%	142.2	131.1	-7.8%	146.5	134.8	-8.0%
Distributional income (RMm)	32.2	20.8	-35.4%	33.6	25.4	-25.3%	37.4	28.0	-25.3%
Average occupancy rate of assets (%)	88.6%	88.1%	-0.5%	89.7%	89.2%	-0.5%	90.6%	90.1%	-0.5%
Average rental (RM/psf)	4.7	4.4	-5.5%	5.0	4.7	-5.7%	5.1	4.8	-6.0%

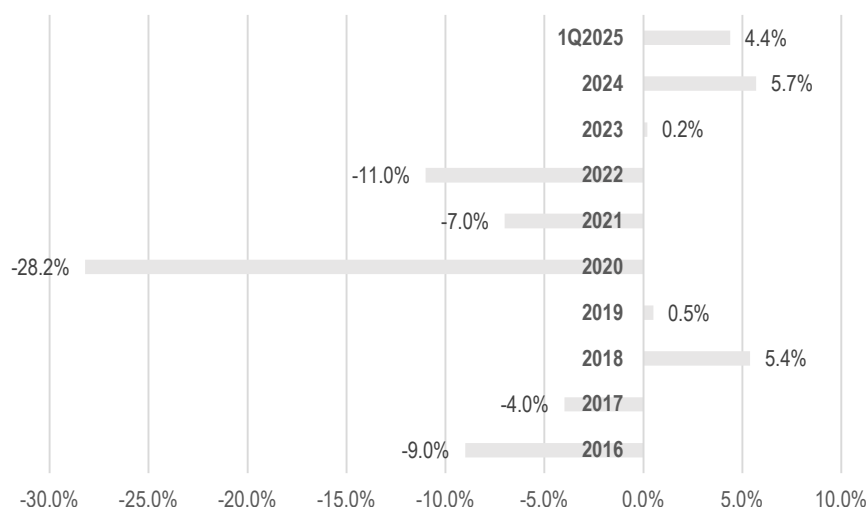
Source: Company, AmlInvestment Bank

EXHIBIT 2: VALUATION: HEKTAR REIT

WACC	7.0% (from 7.1%)
Weighted Cost of Equity	3.6% (from 3.8%)
Weighted Average Cost of Debt	3.4% (from 3.3%)
Market risk premium	7.4% (from 7.1%)
Beta	1
Long term growth rate	2%
ESG Premium	0% (from 3%, ESG score lowered to 3 from 4)
12-month target price	RM0.55 (from RM0.75)

Source: AmlInvestment Bank

EXHIBIT 3: RENTAL REVERSION TREND FOR RETAIL ASSETS



Source: Company, AmlInvestment Bank

EXHIBIT 4: DIVIDEND DISCOUNT MODEL (DDM)**Assumption for Weighted Average Cost of Capital (WACC)**

Risk Free Rate	3.6%
Beta	1.0
Market Return	11.0%

Cost of Equity (Ke)	11.0%
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Average Cost of Debt	5.0%
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Capital Structure: (RM Mil)

Market Cap	301.4	32.4%
Total Borrowing	629.2	67.6%
Total	930.6	100.0%

Weighted Average Cost of Capital (WACC):

	Weight	Cost	W X C
Cost of Equity (Ke)	32.4%	11.0%	3.6%
Average Cost of Debt	67.6%	5.0%	3.4%
WACC			7.0%

	2025	2026	2027	2028	2029	Terminal Value
Multi-Stage DDM						
Period	1	2	3	4	5	
Dividends (RM)	0.022	0.027	0.030	0.032	0.034	0.627
Present Value (RM)	0.02	0.02	0.02	0.02	0.02	0.45
Valuation	0.55					
(+) 3% premium for 4-star ESG rating	0.00					
Fair Value/unit (RM)+ESG	0.55					
Rate of Return (%)	7.0%					
Growth Rate (%)	2.0%					

Source: Company, AmInvestment Bank

EXHIBIT 5: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Scope 1 GHG Emissions	Revenue/Co2e	20%	*	*				168% YoY increase in FY24
2	Scope 2 GHG Emissions	Revenue/Co2e	20%	*	*	*			Marginal 0.5% YoY decrease in FY24
3	Scope 3 GHG Emissions	Revenue/Co2e	20%	*	*	*			2.6% YoY decrease in FY24
4	Water usage	Revenue/water consumption	20%	*	*	*			4% decreased compared to FY22
5	Energy usage	Revenue/energy consumption	10%	*	*	*			0.5% YoY increase in FY24
6	Waste management	Amount of waste diverted away from disposal	10%	*	*	*			1,471 mt in FY24
	Weighted score for environmental assessment		100%	*	*	*			
	Social assessment								
1	Health, safety & well-being	Recorded injuries	25%	*	*	*	*		0 fatalities
2	Women in workforce	% of total workforce in management	25%	*	*	*			44% in FY24 compared to 46% in FY23
3	Investment in employee training	Average number of hours of training per year per employee trained	25%	*	*	*	*		Increased to 39 hours in FY24 from 26 hours in FY23
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%	*	*	*	*		80%
2	Board women representation	% of total board directors	20%	*	*				20% representation in FY24 lower than 40% in FY23
3	Directors with tenure below 6 years	% below 6 years category	20%	*	*	*			100%
4	Independent board directors	% of total board directors	20%	*	*	*	*		80% independent
5	Remuneration to directors	% of total staff costs	20%	*	*	*			
	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 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Gross Revenue	111.5	124.8	126.5	131.1	134.8
Net Property Income	60.0	62.9	65.9	70.9	73.0
Net Investment income	60.8	63.7	66.0	71.0	73.2
EBITDA	49.8	49.1	50.4	55.1	57.3
Net interest	(24.7)	(29.1)	(29.5)	(29.7)	(29.3)
Exceptional items (EI)	26.6	5.3	0.0	0.0	0.0
Pretax profit	51.7	25.3	20.8	25.4	28.0
Taxation	(2.6)	(0.7)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	49.1	24.6	20.8	25.4	28.0
Adjusted Distributable income	28.9	24.6	20.8	25.4	28.0
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Other investments	0.4	0.5	0.4	0.4	0.4
Investment properties	1,232.7	1,391.6	1,421.6	1,421.6	1,421.6
Total non-current assets	1,233.1	1,392.1	1,422.1	1,422.1	1,422.0
Cash & equivalent	63.3	18.6	73.1	69.1	70.1
Other receivables	14.9	18.5	10.0	10.4	10.6
Trade receivables	3.5	4.8	15.1	15.7	16.1
Other current assets	0.0	0.0	0.0	0.0	0.0
Total current assets	81.7	41.9	98.2	95.2	96.8
Trade payables	7.3	9.0	11.3	11.2	11.5
Short-term borrowings	3.0	19.2	19.2	19.2	19.2
Other payables and accruals	16.2	26.4	48.2	47.8	49.1
Total current liabilities	26.5	54.6	78.6	78.2	79.8
Long-term borrowings	559.2	579.1	610.0	590.8	590.8
Other long-term liabilities	56.4	58.5	46.6	47.7	49.0
Total long-term liabilities	615.6	637.6	656.6	638.5	639.8
Total Unitholders' funds	672.8	742.1	785.0	800.5	799.3
Minority interests	—	—	—	—	—
NAV per unit (RM)	1.3	1.1	0.9	0.9	0.9
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	51.7	25.3	20.8	25.4	28.0
Net change in working capital	(19.2)	8.5	9.2	(1.4)	1.2
Others	(3.7)	70.2	(43.4)	47.8	25.4
Cash flow from operations	28.8	104.0	(13.3)	71.7	54.5
Capital expenditure	0.0	0.0	0.0	0.0	0.0
Net investments & sale of fixed assets	(0.4)	(158.9)	(30.0)	0.0	0.0
Others	10.9	(43.7)	56.4	(1.9)	3.0
Cash flow from investing	10.5	(202.6)	26.4	(1.9)	3.0
Debt raised/(repaid)	10.8	36.0	30.9	(19.2)	0.0
Equity raised/(repaid)	64.2	71.6	60.6	0.0	0.0
Distribution paid to unitholders	(38.4)	(22.3)	(18.8)	(22.8)	(25.2)
Others	(26.2)	(30.1)	(31.5)	(31.7)	(31.4)
Cash flow from financing	10.3	55.2	41.4	(73.7)	(56.6)
Net cash flow	49.6	(43.4)	54.4	(3.9)	0.9
Net cash/(debt) b/f	12.4	62.0	18.6	73.1	69.1
Net cash/(debt) c/f	62.0	18.6	73.1	69.1	70.1
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	4.8	11.9	1.4	3.6	2.8
Net Property Income growth (%)	9.0	4.7	4.7	7.6	3.0
Pretax margin (%)	28.8	20.3	16.5	19.4	20.8
Net income margin (%)	27.8	19.7	16.5	19.4	20.8
Net Interest cover (x)	2.6	1.7	1.7	1.9	2.0
Effective tax rate (%)	3.9	3.9	3.9	3.9	3.9
DPU payout (%)	21.6	90.6	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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