

Land acquisition in Melaka is yield-accretive for Hektar-REIT

PETALING JAYA: The proposed acquisition of a RM40mil land in Melaka by Hektar Real Estate Investment Trust (Hektar-REIT) as part of a 30-year lease-back deal is yield-accretive in nature and comes with an attractive valuation.

Hong Leong Investment Bank (HLIB) Research is positive on the deal, adding that the triple net lease arrangement significantly de-risks the investment by transferring property expenses directly to the tenant.

Last Friday, Hektar-REIT announced a related-party transaction to purchase 41.8 acres of leasehold land from KYS College.

The acquisition is expected to be completed by the fourth quarter of financial year 2025 (4Q25).

The land in Mukim Durian Tunggal, District of Alor Gajah will be leased to KYSA Education Sdn Bhd, the operator of Kolej Yayasan Saad Melaka (KYSM), via a 30-year triple net lease.

It featured a 10% rental escalation every three years and an option for a further 30-year extension, potentially continuing until the leasehold expiry.

To recap, in July 2024, Hektar-REIT completed the acquisition of KYSM for RM148.5mil, making it the first educational asset in Hektar-REIT's portfolio.

The RM40mil acquisition announced last Friday would be financed via a mix of 60% debt (RM24mil) and 40% internal funds (RM16mil), which is set to raise gearing to 42.7% from 41.8%.

"Baking in an estimated 1% manager's fee for FY26, and assuming a 4.93% borrowing cost, this acquisition is poised to lift net profit by 2% and 3.4% in FY26 and FY27 respectively," according to HLIB Research.

On the valuation, HLIB Research said the land purchase accounted for 2.8% of Hektar-REIT's total asset value as of 1Q25.

"It has an initial net property income (NPI) yield of 5.3%, which is higher than the REIT's forecast FY26 portfolio NPI yield of 4.9%.

"Furthermore, the acquisition's implied valuation of RM22 per sq ft is notably below this year's median land transaction price of RM28 per sq ft, indicating a 21% discount," stated the research house.

HLIB Research has maintained its "hold"

call on Hektar-REIT, but raised its target price to 46 sen per unit.

The higher target price was on the back of a rolled-over FY26 distribution per unit at a 7.7% yield.

This stemmed from a lower 10-year Malaysian Government Securities (MGS) assumption of 3.7% (from 4%), following a 25-basis-point overnight policy rate cut, and is derived from 0.25 standard deviation above the five-year historical average yield spread between Hektar-REIT and the 10-year MGS yield.

"Beyond the financial metrics, this acquisition is strategically beneficial as it diversifies Hektar-REIT's portfolio away from its traditional retail focus and into the education segment," added HLIB Research.