Al-`Aqar Healthcare REIT

(5116 | AQAR MK) REIT| REIT

Stable earnings

Maintain BUY

Unchanged Target Price: RM1.42

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 core net earnings within expectation**
- **Stable earnings**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.42**

1HFY22 core net earnings within expectation. Al-'Aqar Healthcare REIT (Al-'Aqar) 1HFY22 core net income of RM37.3m came in within our expectation, making up 52.5% of our full year forecast. Note that we have excluded forex loss in our core net income calculations. Meanwhile, Al-'Aqar announced second interim income distribution of 2sen per unit (ex-date: 19 September 2022).

Stable earnings. Sequentially, 2QFY22 core net earnings were little-changed at RM18.6m (-0.3%qoq) as rental income was flattish at RM27.3m (+0.2%qoq). That brought 1HFY22 cumulative core net income higher at RM37.3m (+6.22%yoy) despite lower topline (-6.6%yoy). The lower topline was mainly owing to renewal of 15-year lease of 6 properties at lower rate. Nevertheless, the lower financing cost and lower property expenses have more than enough to offset the decline in rental income. Islamic financing cost was lower (-21.2%yoy) due to lower sukuk rate. Meanwhile, the lower property maintenance cost has also helped in earnings growth.

Earnings forecast maintained. We make no changes to our earnings forecast for FY22/23F. Earnings are expected to improve in FY22 due to absence of rental rebate. Besides, we see stable earnings outlook for Al-'Aqar in near-term due to the defensive earnings from its healthcare assets.

Maintain BUY with an unchanged TP of RM1.42. We maintain our TP for Al-'Aqar at RM1.40, based on Dividend Discount Model. We maintain our BUY call on Al-'Aqar as we like their defensive asset portfolio of healthcare assets which provides stable rental income. Meanwhile, distribution yield is attractive at 6.6%.

RETURN STATISTICS	
Price @ 26 Aug 2022 (RM)	1.22
Expected share price return (%)	14.8
Expected dividend yield (%)	6.6
Expected total return (%)	**21.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	0.3
3 months	2.5	6.6
12 months	-2.4	3.4

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	735.99
Estimated free float (%)	39.01
Market Capitalisation (RM'm)	898
52-wk price range (RM)	RM1.09- RM1.3
Beta vs FBM KLCI (x)	0.40
Monthly velocity (%)	12.97
Monthly volatility (%)	7.25
3-mth average daily volume (m)	0.07
3-mth average daily value (RM'm)	0.09
Top Shareholders (%)	
Lembaga Tabung Haji	14.34
Employees Provident Fund Board	11.31
KWAP	8.88
Amanah Saham Nasional Bhd	8.54
Pusat Pakar Tawakal	7.43

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INVESTMENT STATISTICS

FYE Dec	FY19A	FY20A	FY21A	FY22F	FY23F
Revenue	106.1	108.7	114.1	113.1	111.3
Net Rental Income	100.9	102.6	108.2	106.0	104.0
Profit Before Tax	76.1	13.6	72.8	72.5	69.6
Net Income	76.2	12.6	73.5	71.0	68.1
Core Net Income	63.1	56.8	68.1	71.0	68.1
Basic EPS (sen)	10.35	1.71	9.99	9.64	9.26
Core EPS (sen)	8.57	7.71	9.25	9.64	9.26
Gross Dividend (sen)	7.50	6.81	7.80	8.19	8.33
Net Dividend (sen)	6.75	6.13	7.02	7.37	7.50
Net Distribution Yield	5.5%	5.0%	5.8%	6.0%	6.1%
Core PER	14.23	15.82	13.19	12.66	13.18
NAV per unit	1.30	1.28	1.28	1.31	1.32
P/NAV (x)	0.94	0.95	0.95	0.93	0.92
Core ROE	6.6%	6.0%	7.2%	7.4%	7.0%
Core ROA	3.8%	3.4%	4.1%	4.2%	4.1%

Source: MIDF Research

AL AQAR HEALTHCARE REIT: 1QFY22 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY22	%YoY	%QoQ	FY22	%YoY
Gross rental income	27.3	-6.7%	0.2%	54.6	-6.6%
Net rental income	25.8	-7.1%	0.4%	51.5	-7.2%
Profit before tax	18.3	2.3%	-3.2%	37.3	5.4%
Profit after tax	18.3	2.3%	-3.2%	37.3	5.41%
Core net income	18.6	4.1%	-0.3%	37.3	6.22%
Realised EPU (sen)	2.5	2.7%	-3.2%	5.1	5.8%
Core EPU (sen)	2.5	4.6%	-0.3%	5.1	6.6%
Gross DPU (sen)	2.0	0.0%	0.0%	4.0	0.0%

Source: Company, MIDF Research

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology