Corporate Update| Sunday, 04 September 2022

Al-`Aqar Healthcare REIT

(5116 | AQAR MK) REIT| REIT

Maintain BUY

Healthcare assets acquisitions

***Revised* Target Price: RM1.38**
(from RM1.42)

KEY INVESTMENT HIGHLIGHTS

- **Healthcare assets acquisitions**
- **Assets acquisitions to increase stable rental income**
- **Private placement for repayment of Islamic financing**
- **Maintain BUY with a revised TP of RM1.38**

Healthcare assets acquisitions. Al-`Aqar Healthcare REIT (Al-`Aqar) announced that it has entered into three conditional sale and purchase agreements (SPA) for the acquisition of three healthcare assets from KPJ Healthcare Berhad for total consideration of RM192m. Al-`Aqar has also entered into lease agreement for the three assets with KPJ Healthcare Berhad. Besides, Al-`Aqar proposed private placement of up to 16.16% of total number of issued units.

Details of assets acquisitions. The first SPA is on proposed acquisition on TMC Health Centre in Taiping for a total cash consideration of RM14.3m. The second SPA is on proposed acquisition of a building forming part of KPJ Seremban Specialist Hospital in Seremban for a total cash consideration of RM84.7m. Lastly, the third SPA is on proposed acquisition of KPJ Pasir Gudang Specialist Hospital in Johor for a total consideration of RM93m which will be satisfied by a combination of cash payment of RM68m and issuance of 20.5m new Al-`Aqar shares at issue price of RM1.22. The assets acquisitions are expected to complete by 4QFY22.

Assets acquisitions to increase stable rental income. We view the acquisitions positively as it is in line with its strategy of expanding healthcare assets portfolio and increase stable rental income from healthcare assets. Leases agreement of TMC Health Centre and building of KPJ Seremban Specialist Hospital are up to 30 April 2024 with option to renew for another 15 years. Meanwhile, lease agreement of KPJ Pasir Gudang Specialist Hospital is long term with 15 years lease. Meanwhile, rental formula of the three assets are in line with its existing healthcare assets.

Private placement for repayment of Islamic financing. The proposed private placement involves issuance of up to 118.97m new units of Al-`Aqar, representing 16.16% of total issued units. Issue price of placement shares will be determined later on price-fixing date while the proposed private placement is expected to complete in first half of FY23. Proceeds from private placement will be mainly used for repayment of its Islamic financing.

RETURN STATISTICS	
Price @ 2 Sept 2022 (RM)	1.23
Expected share price return (%)	12.2
Expected dividend yield (%)	6.0
Expected total return (%)	**18.2**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.7	2.4
3 months	3.4	4.8
12 months	-3.1	3.2

KEY STATISTICS	
FBM KLCI	1,491.18
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)	905.26
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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Earnings impact. We revise our FY23 core net earnings forecast by +12.7% as we estimate earnings contribution from the assets acquisiton to lift earnings of FY23. Nevertheless, earnings per unit (EPU) for FY23 is expected to be diluted by 5.3% due to higher share base from private placement and share issuance for acquistion of KPJ Pasir Gudang Specialist Hospital. Meanwhile, net gearing of Al-'Aqar is expected to decline to 0.38x post asset acquisition and private placement from 0.41x in FY21.

Maintain BUY with a revised TP of RM1.38. We revise our **TP** for Al-'Aqar to **RM1.38** from RM1.42 due to lower EPU forecast as a result of dilutive impact of private placement. We maintain our **BUY** call on Al-'Aqar as we like their asset portfolio of defensive healthcare assets which provide stable rental income. Distribution yield is expected to remain attractive at ~6%.

INVESTMENT STATISTICS

FYE Dec	FY19A	FY20A	FY21A	FY22F	FY23F
Revenue	106.1	108.7	114.1	113.1	122.3
Net Rental Income	100.9	102.6	108.2	106.0	114.9
Profit Before Tax	76.1	13.6	72.8	72.5	78.3
Net Income	76.2	12.6	73.5	71.0	76.8
Core Net Income	63.1	56.8	68.1	71.0	76.8
Basic EPS (sen)	10.35	1.71	9.99	9.64	8.77
Core EPS (sen)	8.57	7.71	9.25	9.64	8.77
Gross Dividend (sen)	7.50	6.81	7.80	8.19	7.90
Net Dividend (sen)	6.75	6.13	7.02	7.37	7.11
Net Distribution Yield	5.5%	5.0%	5.7%	6.0%	5.8%
Core PER	14.35	15.95	13.30	12.76	14.02
NAV per unit	1.30	1.28	1.28	1.31	1.11
P/NAV (x)	0.94	0.96	0.96	0.94	1.11
Core ROE	6.6%	6.0%	7.2%	7.4%	7.9%
Core ROA	3.8%	3.4%	4.1%	4.2%	4.6%

Source: 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