Al-`Aqar Healthcare REIT

(5116 | AQAR MK) REIT| REIT

Maintain BUY

Positive long-term outlook

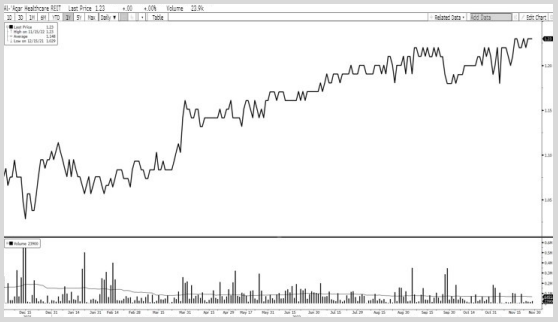
***Unchanged* Target Price: RM1.38**

KEY INVESTMENT HIGHLIGHTS

- **Al-`Aqar Healthcare REIT (Al-`Aqar) management briefing**
- **Stable earnings outlook**
- **Asset acquisition to drive earnings growth**
- **Private placement to lower gearing**
- **Maintain BUY with an unchanged TP of RM1.38**

RETURN STATISTICS	
Price @ 29 Nov 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	1,476.96
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
52-wk price range (RM)	RM1.09- RM1.27
Beta vs FBM KLCI (x)	0.40
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

We attended Al-`Aqar Healthcare REIT (Al-`Aqar) management briefing and came away feeling reaffirmed on its positive outlook in the long term. Key takeaways from the briefing as below:

Stable earnings outlook. Al-`Aqar reported higher 9MFY22 core net income of RM55.2m (+9.03%yoy) mainly due to lower rental support to tenants and lower sukuk financing cost. Recall that Al-`Aqar provided rental support to tenants as healthcare industry was hit by Covid-19 pandemic. Meanwhile, five properties will be due to lease renewal in 2023 while eight properties will be due for lease renewal in 2024. We believe that rental income may ease slightly due to revised rental formula at lower rate. Nevertheless, we expect rental income from healthcare assets to remain stable in the near to long term due to defensive nature of healthcare assets.

Asset acquisition to drive earnings growth. Al-`Aqar remains on acquisition trail to expand its asset portfolio. Recall that Al-`Aqar entered into three conditional sale and purchase agreements (SPA) in September 2022 for the acquisition of three healthcare assets from KPJ Healthcare Berhad for total consideration of RM192m. The acquisition is on track for completion in December 2022. We expect the acquisition to provide stable rental income from healthcare assets to Al-`Aqar in the long term.

Private placement to lower gearing. Al-`Aqar announced private placement in September to fund the asset acquisition from KPJ Healthcare Berhad. The private placement will lower gearing of Al-`Aqar from 0.41x to 0.38x as proceeds from private placement will be mainly used for repayment of its Islamic financing. While bulk of Al-`Aqar financing rate is based on floating rate, we see the lower gearing to partially mitigate the impact of rising cost of borrowings.

Maintain BUY with an unchanged TP of RM1.38. Post meeting, we make no changes to our earnings forecast for FY22/23F. We maintain our **TP** for Al-`Aqar at **RM1.38**, based on Dividend Discount Model. We remain our **BUY** call on Al-`Aqar as we see stable rental income in the long term from its healthcare assets. Meanwhile, distribution yield is estimated at 6.0%.

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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

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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