Al-`Aqar Healthcare REIT

(5116 | AQAR MK) REIT| REIT

On acquisition trail

***Maintain* BUY**

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

KEY INVESTMENT HIGHLIGHTS

- **Private placement to bring down gearing**
- **Successful renewal of master lease**
- **On acquisition trail**
- **Earnings forecast maintained**
- **Maintain BUY with an unchanged TP of RM1.38**

We attended Al-`Aqar Healthcare REIT (Al-`Aqar) 4QFY22 results briefing and came away feeling remain upbeat on the long-term outlook for Al-`Aqar. Key highlights from the briefing as below:

Private placement to bring down gearing. Gearing of Al-`Aqar increased to 0.46x in FY22 from 0.41x in FY21 due to acquisition of three healthcare assets from KPJ Healthcare Berhad for total consideration of RM192m. Nevertheless, Al-`Aqar plans to utilize proceeds from the soon-to-be completed private placement exercise to pare down its Islamic financing. Gearing is expected to decline to 0.41x post private placement which is within management comfortable gearing level of 0.4x.

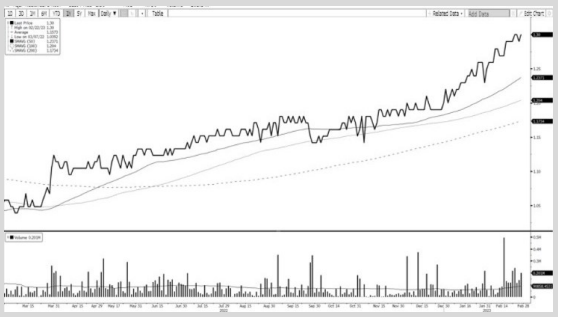
Successful renewal of master lease. There are five and seven healthcare assets due for master lease renewal in FY23 and FY24 respectively. We expect successful renewal of master lease for all the assets due to strong relationship of Al-`Aqar with its tenants namely KPJ Healthcare. Note that master lease is for 15 years with options to extend for another 15 years. Management expects that rental yield for properties undergoing master lease renewal to be above 5.75% in view of the rising interest rate environment. Hence, we expect that to underpin stable earnings prospect for Al-`Aqar.

On acquisition trail. Al-`Aqar targets to expand its portfolio size to RM3b by end FY27 from asset portfolio size of RM1.7b as of FY22 through acquisition of quality healthcare assets from KPJ Healthcare. Besides, Al-`Aqar plans to diversity asset class under its portfolio by acquiring non-hospital assets such as pharmaceutical facility, specialty hospital, ambulatory care center and confinement center. On the other hand, Al-`Aqar also plans to divest underperformed asset as part of its portfolio rebalancing strategy.

Maintain BUY with unchanged TP of RM1.38. Post briefing, we make no changes to our earnings forecast. We maintain our **TP** for Al-`Aqar at **RM1.38**, based on Dividend Discount Model. We remain upbeat on long term prospect for Al-`Aqar due to stable rental income from healthcare assets. Meanwhile, net distribution yield is estimated at 5.5%.

RETURN STATISTICS	
Price @ 27 Feb 2023 (RM)	1.30
Expected share price return (%)	6.2
Expected dividend yield (%)	5.5
Expected total return (%)	**11.7**

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	1,455.50
Syariah compliant	Yes
F4BGM Index	N/A
ESG Grading Band (Star rating)	N/A
Issue shares (m)	756
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	8.31
Pusat Pakar Tawakal	7.22

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INVESTMENT STATISTICS

FYE Dec	FY21A	FY22A	FY23F	FY24F	FY25F
Revenue	114.1	110.2	122.8	120.2	119.5
Net Rental Income	108.2	104.2	115.4	112.6	111.6
Profit Before Tax	72.8	60.0	78.8	75.5	75.2
Net Income	73.5	60.1	76.8	75.5	75.2
Core Net Income	68.1	71.5	76.8	75.5	75.2
Basic EPS (sen)	9.99	7.95	8.77	8.62	8.59
Core EPS (sen)	9.25	9.45	8.77	8.62	8.59
Gross Dividend (sen)	7.80	8.10	7.90	7.76	7.73
Net Dividend (sen)	7.02	7.29	7.11	6.99	6.96
Net Distribution Yield	5.4%	5.6%	5.5%	5.4%	5.4%
Core PER	14.05	13.75	14.82	15.07	15.13
NAV per unit	1.28	1.28	1.12	1.13	1.14
P/NAV (x)	1.01	1.01	1.16	1.15	1.14
Core ROE	7.2%	7.4%	7.8%	7.6%	7.5%
Core ROA	4.1%	3.8%	4.1%	4.3%	4.3%

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