Al-`Aqar Healthcare REIT

(5116 | AQAR MK) Main | REIT

Maintain BUY

Earnings Driven by Newly Acquired Assets

Unchanged Target Price: RM1.38

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings within expectation**
- **Earnings driven by contribution of newly acquired assets**
- **Earnings forecast maintained**
- **Stable earnings outlook**
- **Maintain BUY with an unchanged TP of RM1.38**

1QFY23 earnings within expectation. Al-`Aqar Healthcare REIT (Al-`Aqar) 1QFY23 core net earnings of RM17.3m came in within our expectation, making up 23% of our FY23 full year forecast. Meanwhile, first interim distribution per unit (DPU) of 2sen was announced on 3rd April 2023 and paid on 12th May 2023.

Earnings driven by contribution of newly acquired assets. Sequentially, 1QFY23 core net income was higher at RM17.3m (+4.7%qoq), in line with higher rental income (+6.9%qoq). The earnings growth was mainly underpinned by rental contribution from newly acquired assets. Note that Al-`Aqar completed acquisition of three healthcare assets from KPJ Healthcare Berhad in December 2022. On yearly basis, 1QFY23 core net income was lower at RM17.3m (-7.5%yoy) despite higher topline (+10.9%yoy). The higher topline was driven by contribution from newly acquired assets as well as higher rental income from existing assets. Nevertheless, earnings were dragged by higher Islamic financing cost (+62.6%yoy) as a result of higher financing rate following OPR hikes in 2022.

Earnings forecast maintained. We make no changes to our earnings forecast for FY23F/24F/25F. We continue to see stable earnings prospect for Al-`Aqar due to defensive earnings from healthcare assets. Besides, earnings outlook should also underpin by acquisition of healthcare assets. Meanwhile, gearing of Al-`Aqar was unchanged at 0.48x in 1QFY23. However, gearing is expected to go down to 0.41x in 2QFY23 as Al-`Aqar completed private placement in April 2023 while proceeds from private placement is used for repayment of its Islamic financing.

Maintain BUY with an unchanged TP of RM1.38. We maintain our **TP** for Al-`Aqar at **RM1.38**, based on Dividend Discount Model. We see stable earnings outlook for Al-`Aqar in the long-term due to income from its healthcare assets. Meanwhile, net distribution yield is estimated at 5.5%. Hence, we maintain our **BUY** call on Al-`Aqar.

RETURN STATISTICS	
Price @ 26th May 2023 (RM)	1.24
Expected share price return (%)	11.3
Expected dividend yield (%)	5.8
Expected total return (%)	**17.1**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.4	-1.6
3 months	-6.8	-0.2
12 months	4.2	14.5

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	123	120	119
Operating Profit	115	113	112
Profit Before Tax	79	76	75
Core PATAMI	77	76	75
Core EPS	8.77	8.63	8.59
DPS	7.2	7.2	7.2
Dividend Yield	5.8%	5.8%	5.8%

KEY STATISTICS	
FBM KLCI	1402.98
Issue shares (m)	756.49
Estimated free float (%)	38.38
Market Capitalisation (RM'm)	1041
52-wk price range	RM1.17-RM1.35
3-mth average daily volume (m)	0.12
3-mth average daily value (RM'm)	0.15
Top Shareholders (%)	
Lembaga Tabung Haji	14.72
Employees Provident Fund Board	13.49
KWAP	7.79
Amanah Saham Nasional Bhd	8.31
Pusat Pakar Tawakal	7.22

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Al-`Aqar Healthcare REIT: 1QFY23 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY23	%YoY	%QoQ	FY23	%YoY
Gross rental income	30.2	10.9%	6.9%	30.2	10.9%
Net rental income	28.6	11.3%	6.9%	28.6	11.3%
Profit before tax	17.3	-8.9%	237.1%	17.3	-8.9%
Profit after tax	17.3	-8.9%	230.4%	17.3	-8.91%
Core net income	17.3	-7.5%	4.7%	17.3	-7.46%
Realised EPU (sen)	2.3	-11.4%	230.4%	2.3	-11.4%
Core EPU (sen)	2.3	-10.0%	4.7%	2.3	-10.0%
Gross DPU (sen)	2.0	0.0%	-4.8%	2.0	0.0%

Source: Company, MIDF Research

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Gross Revenue	114	110	123	120	119
Net Rental Income	104	115	113	112	0
Profit Before Tax	73	60	79	76	75
Net Income	74	60	77	76	75
Core Net Income	68	72	77	76	75
Core EPU (sen)	9.2	9.5	8.8	8.6	8.6
Core PER (x)	13.3	13.0	14.0	14.3	14.3
NAV/unit (RM)	1.28	1.28	1.12	1.13	1.14
P/NAV (x)	0.96	0.96	1.10	1.09	1.08

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment properties	1538	1721	1799	1871	1889
Total non-current assets	1538	1721	1799	1871	1889
Islamic fixed deposits with licensed banks	41	55	57	58	59
Cash and cash equivalents	49	41	47	51	60
Other assets	37	50	34	50	62
Total Assets	**1665**	**1867**	**1937**	**2030**	**2071**
Islamic financing	684	856	749	755	740
ST Borrowings	0	0	0	0	0
Other Liabilities	36	40	209	286	334
Total Liability	720	896	958	1042	1075
Unitholders' capital	731	756	756	756	756
Other Equity	214	215	222	232	240
Total unitholders' fund	945	971	979	989	996
Equity + Liability	**1665**	**1867**	**1937**	**2030**	**2071**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	73	60	79	76	75
Net cash from operating activities	89	89	91	92	95
Cash flows from investing activities					
Acquisition of investment properties	0	-167	0	0	0
Net cash used in investing activities	1	-170	1	1	0
Cash flows from financing activities					

Net cash from/(used in) financing activities	-81	87	-84	-87	-85
Net increase/(decrease) in cash and cash equivalents	8	7	8	5	10
Cash and cash equivalent at 1 January	83	90	96	104	109
Cash and cash equivalent at 1 December	90	96	104	109	119

Profitability Margins	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Net rental income margin	91.3%	104.7%	91.7%	92.8%	0.0%
Core net income margin	59.7%	64.9%	62.5%	62.8%	63.0%
ROE	7.2%	7.4%	7.8%	7.6%	7.6%
ROA	4.1%	3.8%	4.0%	3.7%	3.6%

Source: Bloomberg, MIDFR

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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