

03 December 2018 | 3QFY18 Results Review

Al-`Aqar Healthcare REIT

Stable earnings

Maintain BUY

Unchanged Target Price: RM1.45


INVESTMENT HIGHLIGHTS

- **9MFY18 earnings within expectation**
- **Flattish earnings on sequential basis**
- **Stable earnings on yearly basis**
- **Maintain BUY with unchanged TP of RM1.45**

9MFY18 earnings within expectation. Al-`Aqar Healthcare REIT (Al-`Aqar) 9MFY18 core net income of RM47.3m came in within our expectation, making up 78% of our full year forecast. Al-`Aqar announced third interim income distribution of 1.93 sen per unit.

Flattish earnings on sequential basis. Al-`Aqar recorded flattish topline of RM25.6m, largely unchanged from the previous quarter. Meanwhile, core net income was marginally lower at RM15.1m (-2%qoq). The marginally lower earnings on sequential basis were mainly due to higher trust expenditure (+8%qoq). Note that the increase in trust expenditure was mainly led by higher expenses for maintenance of properties. Meanwhile, gearing of Al-`Aqar remains unchanged at 0.37x in 3QFY18.

Stable earnings on yearly basis. Al-`Aqar recorded core net income of RM25.6m in 3QFY18, bringing cumulative earnings in 9MFY18 to RM47.3m (+2.0%yoy). The year-on-year positive earnings growth in 9MFY18 was in line with topline growth of +2.5%yoy. Topline was supported by renewal of leases and rental contribution from car park block at KPJ Selangor Specialist Hospital (acquired in December 2017). Meanwhile, lower sukuk financing cost (-9.4%yoy) has also helped in earnings growth. Recall that Al-`Aqar redeemed sukuk amounting RM80m on 20 July 2017.

Maintain BUY with unchanged TP of RM1.45. We make no changes to our earnings forecasts for FY18/19. We also maintain our target price of RM1.45, based on DDM valuation. Moreover, we maintain our BUY recommendation on Al-`Aqar as we like Al-`Aqar for: i) its unique positioning as a defensive healthcare REIT in Malaysia, and ii) stable earnings growth and low earnings downside risk. 

RETURN STATS	
Price (30 Nov 2018)	RM1.25
Target Price	RM1.45
Expected Share Price Return	16.0%
Expected Dividend Yield	5.6%
Expected Total Return	21.6%

STOCK INFO	
KLCI	1,679.86
Bursa / Bloomberg	5116/AQAR MK
Board / Sector	Main/REITs
Syariah Compliant	Yes
Issued shares (mil)	728.23
Par Value (RM)	1.00
Market cap. (RM'm)	895.72
Price over NA	0.98
52-wk price Range	RM1.08-RM1.44
Beta (against KLCI)	0.64
3-mth Avg Daily Vol	0.05m
3-mth Avg Daily Value	RM0.06m
Major Shareholders	
Johor Corp	41.06%
Lembaga Tabung Haji	14.04%
KWAP	8.93%
EPF	8.38%
Skim Amanah Saham Bumiputera	6.25%
Amanah Saham Bumiputera	5.19%

INVESTMENT STATISTICS

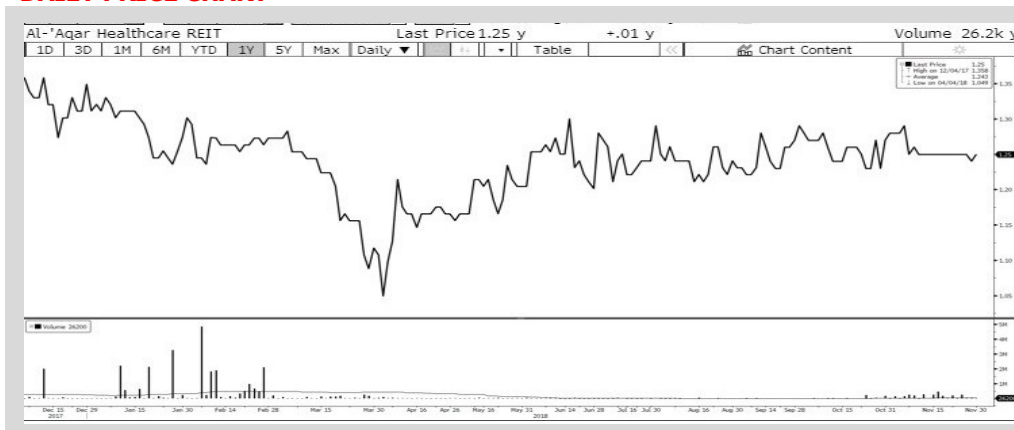
FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	110.9	103.8	99.6	102.0	102.4
Net Rental Income	104.6	97.6	93.2	95.4	95.7
Profit Before Tax	67.9	64.0	86.2	62.2	62.4
Net Income	67.4	63.4	84.6	60.7	60.9
Core Net Income	55.8	61.9	59.9	60.7	60.9
Basic EPS (sen)	9.26	8.71	11.62	8.34	8.37
Core EPS (sen)	7.67	8.50	8.22	8.34	8.37
Gross Dividend (sen)	7.70	7.70	7.70	7.75	7.82
Net Dividend (sen)	6.93	6.93	6.93	6.98	7.04
Net Distribution Yield	5.5%	5.5%	5.5%	5.6%	5.6%
Core PER	16.31	14.71	15.21	15.00	14.94
NAV per unit	1.21	1.23	1.26	1.28	1.31
P/NAV (x)	1.04	1.02	1.00	0.98	0.96
Core ROE	6.3%	6.9%	6.5%	6.5%	6.4%
Core ROA	3.5%	3.8%	3.8%	3.9%	3.9%

Source: Company, MIDF Research Forecast

Figure 1: 3QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	9MFY18	%YoY
Gross rental income	25.6	2.4%	0.1%	76.8	2.5%
Net rental income	24.1	3.1%	0.1%	72.2	2.9%
Profit before tax	15.1	-12.2%	-2.0%	47.3	0.1%
Profit after tax	15.1	-12.2%	-2.0%	47.3	1.4%
Core net income	15.1	-12.2%	-2.0%	47.3	2.0%
Realised EPU (sen)	2.1	-12.2%	-2.0%	6.5	1.4%
Core EPU (sen)	2.1	-12.2%	-2.0%	6.5	2.0%
Gross DPU (sen)	2.0	-48.0%	11.4%	7.7	1.3%

DAILY PRICE CHART



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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 <i>rise</i> 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 <i>fall</i> 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.