

## Al-`Aqar Healthcare REIT

(5116 | AQAR MK) Main | REIT

### Earnings Dragged by Higher Trust Expenditure


#### KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings below expectation**
- **Earnings dragged by higher trust expenditure**
- **Earnings forecast revised downwards**
- **Downgrade to NEUTRAL with a revised TP of RM1.28**

**1HFY23 earnings below expectation.** Al-`Aqar Healthcare REIT (Al-`Aqar) 1HFY23 core net income of RM32.6m came in below expectation, making up 42% of our full year forecast. The negative deviation could be due to weaker than expected rental income and higher than expected expenses in 2QFY23. Meanwhile, second interim distribution per unit (DPU) of 1.9sen was announced, bringing total DPU to 3.9sen in 1HFY23.

**Earnings dragged by higher trust expenditure.** Sequentially, 2QFY23 core net income was lower at RM15.3m (-11.6%qoq), in line with lower gross rental income (-2.7%qoq). The lower rental income was due to lease renewed at a lower rate. Besides, earnings were dragged by higher managers' fees and professional fees. The higher managers' fees were due to revision in management fee while the higher professional fees were due to renewal exercise. On yearly basis, 2QFY23 core net income was lower (-17.9%yoy) despite higher topline. That brought 1HFY23 core net income to RM32.6m (-12.7%yoy). 1HFY23 topline was higher (+9.2%yoy) mainly due to contribution from newly acquired assets. Nevertheless, earnings were dragged by higher trust expenditure particularly higher Islamic financing cost (+61.6%yoy) as a result of higher financing rate.

**Earnings forecast revised downwards.** We revise our FY23F/24F/25F earnings forecast by -7.5/-6.6%/-2/8%% to factor in the higher trust expenditure. Nevertheless, earnings are expected to improve in 2HFY23 as professional fees are expected to normalise. Meanwhile, gearing of Al-`Aqar declined to 0.42x in 2QFY23 from 0.48x in 1QFY23 as Al-`Aqar utilised proceeds from private placement for repayment of Islamic financing.

**Downgrade to NEUTRAL with a revised TP of RM1.28.** Corresponding to the downward revision in earnings and DPU, our **TP** for Al-`Aqar is revised to **RM1.28** from RM1.38. Our TP is based on Dividend Discount Model. We see long term earnings outlook for Al-`Aqar to remain stable due to defensive earnings from healthcare assets. Nevertheless, we downgrade our call to **NEUTRAL** from BUY due to limited upside. Meanwhile, net distribution yield is estimated at 5.7%. 

## Downgrade to NEUTRAL

(Previously BUY)

### Revised Target Price: RM1.28

(Previously RM1.38)

#### RETURN STATISTICS

Price @ 25 <sup>th</sup> Aug 2023 (RM)	1.23
Expected share price return (%)	4.0
Expected dividend yield (%)	5.7
<b>Expected total return (%)</b>	<b>9.7</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.4	-2.9
3 months	-3.1	-3.7
12 months	0.8	4.4

#### INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	122	120	119
Operating Profit	115	112	111
Profit Before Tax	73	71	73
Core PATAMI	71	71	73
Core EPS	8.12	8.06	8.35
DPS	7.09	6.96	7.03
Dividend Yield	5.7%	5.6%	5.7%

#### KEY STATISTICS

FBM KLCI	1444.41
Issue shares (m)	756.49
Estimated free float (%)	38.38
Market Capitalisation (RM'm)	1032
52-wk price range	RM1.18-RM1.35
3-mth average daily volume (m)	0.06
3-mth average daily value (RM'm)	0.08
Top Shareholders (%)	
Lembaga Tabung Haji	14.72
Employees Provident Fund Board	13.48
KWAP	7.79
Amanah Saham Nasional Bhd	8.31
Pusat Pakar Tawakal	7.22

#### Analyst

 Jessica Low Jze Tieng  
 jessica.low@midf.com.my

**AI-`Aqar Healthcare REIT: 2QFY23 RESULTS SUMMARY**

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY23	%YoY	%QoQ	FY23	%YoY
Gross rental income	29.4	7.6%	-2.7%	59.6	9.2%
Net rental income	27.8	7.8%	-2.7%	56.4	9.5%
Profit before tax	15.3	-16.5%	-11.3%	32.6	-12.6%
Profit after tax	15.3	-16.5%	-11.3%	32.6	-12.62%
Core net income	15.3	-17.9%	-11.6%	32.6	-12.68%
Realised EPU (sen)	1.8	-26.8%	-20.0%	4.1	-18.9%
Core EPU (sen)	1.8	-28.1%	-20.4%	4.1	-19.0%
Gross DPU (sen)	1.9	-5.0%	-5.0%	3.9	-2.5%

Source: Company, MIDF Research

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Gross Revenue	114	110	122	120	119
Net Rental Income	104	115	112	111	0
Profit Before Tax	73	60	73	71	73
Net Income	74	60	71	71	73
Core Net Income	68	72	71	71	73
Core EPU (sen)	9.2	9.5	8.1	8.1	8.4
Core PER (x)	13.3	13.0	15.2	15.3	14.7
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
<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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
<b>Total Assets</b>	<b>1665</b>	<b>1867</b>	<b>1937</b>	<b>2030</b>	<b>2071</b>
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
<b>Equity + Liability</b>	<b>1665</b>	<b>1867</b>	<b>1937</b>	<b>2030</b>	<b>2071</b>
<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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
<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Net rental income margin	91.3%	104.3%	91.8%	92.6%	0.0%
Core net income margin	59.7%	64.9%	58.1%	58.8%	61.4%
ROE	7.2%	7.4%	7.3%	7.1%	7.3%
ROA	4.1%	3.8%	3.7%	3.5%	3.5%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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.

#### 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