

## Al-`Aqar Healthcare REIT

(5116 | AQAR MK) Main | REIT

### Weaker Earnings

#### KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings slightly below expectation**
- **Lower earnings in 9MFY23 due to increase in trust expenditure**
- **Earnings forecast revised downwards**
- **Maintain NEUTRAL with a revised TP of RM1.25**

**9MFY23 earnings slightly below expectation.** Al-`Aqar Healthcare REIT (Al-`Aqar) 9MFY23 core net income of RM50.2m came in slightly below expectation, making up 71% of our full year forecast. The slight negative deviation could be attributed to the higher than expected trust expenditure. Meanwhile, third interim distribution per unit (DPU) of 2sen was announced for 3QFY23, bringing cumulative DPU to 5.9sen in 9MFY23.

**Lower earnings in 9MFY23 due to increase in trust expenditure.** Sequentially, 3QFY23 core net income was higher at RM17.6m (+15.3%qoq) on the back of higher rental income and decline in trust expenditure which mainly led by lower Islamic financing cost and lower professional fees. On yearly basis, 3QFY23 core net income was lower (-1.6%yoy) despite higher topline (+12.3%yoy). That brought 9MFY23 cumulative core net income to RM50.2m (-9.1%yoy). The weaker earnings in 9MFY23 were mainly owing to increase in trust expenditure. Total trust expenditure was higher (+56.6%yoy), led by increase in Islamic financing costs, manager's fees, and higher professional fees. The higher managers' fees were due to revision in management fee while the higher professional fees were due to renewal exercise. Meanwhile, the higher Islamic financing costs were due to higher financing rate. On a positive note, 9MFY23 topline was higher (+10.3%yoy) due to contribution from newly acquired assets.

**Earnings forecast revised downwards.** We revise our FY23F/24F/25F earnings forecast by -4.2%/-2.8%/-3.4% to factor in the higher trust expenditure. We see flattish earnings outlook for Al-`Aqar as higher rental income from its properties is anticipated to offset by higher expenditure. Nevertheless, we see long-term earnings outlook to remain stable as rental income from healthcare assets is defensive.

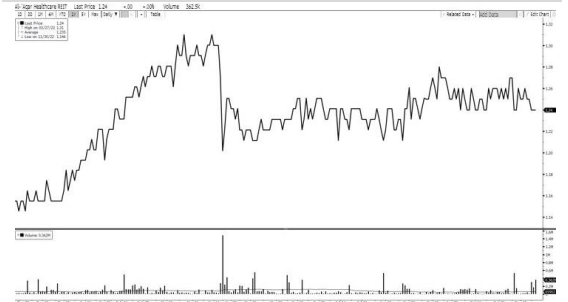
**Maintain NEUTRAL with a revised TP of RM1.25.** Corresponding to the downward revision in earnings, our **TP** for Al-`Aqar is revised to **RM1.25** from RM1.28. Our TP is based on Dividend Discount Model. We maintain our **NEUTRAL** call on Al-`Aqar as we see limited catalyst at this juncture while earnings outlook is unexciting. Meanwhile, net distribution yield is estimated at 5.7%.

**Maintain NEUTRAL**
**Revised Target Price: RM1.25**  
 (Previously RM1.28)

#### RETURN STATISTICS

|  |            |
|--|------------|
| Price @ 24 <sup>th</sup> Nov 2023 (RM) | 1.24       |
| Expected share price return (%)        | 0.8        |
| Expected dividend yield (%)            | 5.7        |
| <b>Expected total return (%)</b>       | <b>6.5</b> |

#### SHARE PRICE CHART



| Price performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1 month               | 1.7      | 2.4      |
| 3 months              | 3.4      | 4.8      |
| 12 months             | -3.1     | 3.2      |

#### INVESTMENT STATISTICS

| FYE Dec           | 2023E | 2024F | 2025F |
|-------------------|-------|-------|-------|
| Revenue           | 122   | 120   | 119   |
| Net Rental Income | 115   | 112   | 111   |
| Profit Before Tax | 70    | 69    | 71    |
| Core Net Income   | 68    | 69    | 71    |
| Core EPU (sen)    | 7.77  | 7.83  | 8.07  |
| Net DPU (sen)     | 7.80  | 7.80  | 7.90  |
| Dividend Yield    | 5.66% | 5.66% | 5.73% |

#### KEY STATISTICS

|                                  |               |
|----------------------------------|---------------|
| FBM KLCI                         | 1,453.92      |
| Issue shares (m)                 | 756.49        |
| Estimated free float (%)         | 39.01         |
| Market Capitalisation (RM'm)     | 905.26        |
| 52-wk price range                | RM1.09-RM1.27 |
| 3-mth average daily volume (m)   | 0.07          |
| 3-mth average daily value (RM'm) | 0.09          |
| Top Shareholders (%)             |               |
| Lembaga Tabung Haji              | 14.72         |
| Employees Provident Fund Board   | 13.48         |
| KWAP                             | 7.79          |
| Amanah Saham Nasional Bhd        | 7.49          |
| Pusat Pakar Tawakal              | 6.51          |

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

| FYE Dec (RM'm, unless otherwise stated) | Quarterly Results |        |       | Cumulative |        |
|---|-------------------|--------|-------|------------|--------|
|   | 3QFY23            | %YoY   | %QoQ  | FY23       | %YoY   |
| Gross rental income                     | 30.8              | 12.3%  | 4.7%  | 90.4       | 10.3%  |
| Net rental income                       | 29.1              | 12.2%  | 4.6%  | 85.5       | 10.5%  |
| Profit before tax                       | 17.6              | -0.2%  | 14.8% | 50.2       | -8.6%  |
| Profit after tax                        | 17.6              | -0.2%  | 14.8% | 50.2       | -8.63% |
| Core net income                         | 17.6              | -1.6%  | 15.3% | 50.2       | -9.10% |
| Realised EPU (sen)                      | 2.1               | -12.5% | 14.8% | 6.2        | -16.9% |
| Core EPU (sen)                          | 2.1               | -13.8% | 15.3% | 6.2        | -17.3% |
| Gross DPU (sen)                         | 2.0               | 0.0%   | 5.3%  | 5.9        | -1.7%  |

Source: Company, MIDF Research

## FINANCIAL SUMMARY

| Income Statement (RM'm) | 2021A | 2022A | 2023E | 2024F | 2025F |
|-------------------------|-------|-------|-------|-------|-------|
| Gross Revenue           | 114   | 110   | 122   | 120   | 119   |
| Net Rental Income       | 104   | 115   | 112   | 111   | 0     |
| Profit Before Tax       | 73    | 60    | 70    | 69    | 71    |
| Net Income              | 74    | 60    | 68    | 69    | 71    |
| Core Net Income         | 68    | 72    | 68    | 69    | 71    |
| Core EPU (sen)          | 9.2   | 9.5   | 7.8   | 7.8   | 8.1   |
| Core PER (x)            | 13.4  | 13.1  | 16.0  | 15.8  | 15.4  |
| NAV/unit (RM)           | 1.28  | 1.28  | 1.12  | 1.13  | 1.14  |
| P/NAV (x)               | 0.97  | 0.97  | 1.11  | 1.10  | 1.09  |

| 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          | 50          | 59          |
| Other assets                               | 37          | 50          | 34          | 50          | 62          |
| <b>Total Assets</b>                        | <b>1665</b> | <b>1867</b> | <b>1936</b> | <b>2030</b> | <b>2070</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         | 231         | 239         |
| Total unitholders' fund                    | 945         | 971         | 978         | 988         | 995         |
| <b>Equity + Liability</b>                  | <b>1665</b> | <b>1867</b> | <b>1936</b> | <b>2030</b> | <b>2070</b> |

| Cash Flow (RM'm)                      | 2021A | 2022A | 2023E | 2024F | 2025F |
|---------------------------------------|-------|-------|-------|-------|-------|
| Cash flows from operating activities  |       |       |       |       |       |
| Net income before taxation            | 73    | 60    | 70    | 69    | 71    |
| Net cash from operating activities    | 89    | 89    | 90    | 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  | 7   | 5   | 10  |
| Cash and cash equivalent at 1 January                | 83  | 90 | 96  | 104 | 108 |
| Cash and cash equivalent at 1 December               | 90  | 96 | 104 | 108 | 118 |

| <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%        | 55.6%        | 57.1%        | 59.3%        |
| ROE                          | 7.2%         | 7.4%         | 7.0%         | 6.9%         | 7.1%         |
| ROA                          | 4.1%         | 3.8%         | 3.5%         | 3.4%         | 3.4%         |

Source: Bloomberg, MIDFR

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Source: Bloomberg, MIDFR

### 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