

Al-`Aqar Healthcare REIT

(5116 | AQAR MK) Main | REIT

Subdued Earnings in FY23

KEY INVESTMENT HIGHLIGHTS

- **FY23 earnings within expectation**
- **Subdued earnings in FY23**
- **Earnings forecast maintained**
- **Maintain NEUTRAL with an unchanged TP of RM1.25**

FY23 earnings within expectation. Al-`Aqar Healthcare REIT (Al-`Aqar) FY23 core net income of RM65.8m came within expectation, making up 97% of our forecast. Note that we have excluded loss on fair value adjustment in our core net income calculations. Meanwhile, Al-`Aqar announced distribution per unit (DPU) of 2sen for 4QFY23, bringing total DPU to 7.9sen in FY23 which translates into gross yield of 6.2%.

Subdued earnings in FY23. Sequentially, 4QFY23 core net income was lower at RM15.6m (-11.2%qoq) while topline was flattish (-0.5%qoq), owing to higher trust expenditure (+18.2%qoq). On yearly basis, 4QFY23 core net income was lower (-5.2%yoy), bringing FY23 core net income lower at RM65.8m (-8.2%yoy). On a positive note, FY23 topline was higher at RM121m (+9.8%yoy) due to rental contribution from newly acquired assets namely TMC Health, KPJ Seremban Specialist Hospital and KPJ Pasir Gudang Specialist Hospital. Meanwhile, the weaker earnings in FY23 were mainly dragged by higher administrative expenses (+43%yoy) and higher Islamic financing costs (+41.8%yoy). Besides, the lower earnings were also due to higher professional fees. That led to 46.7%yoy increase in total trust expenditure in FY23.

Earnings forecast maintained. We maintained our earnings forecast for FY24F/25F. We expect trust expenditure to normalise in FY24 while Islamic financing cost is expected to remain stable going forward as Bank Negara Malaysia maintained OPR at 3%. Meanwhile, we see that rental income from its healthcare assets to remain stable going forward.

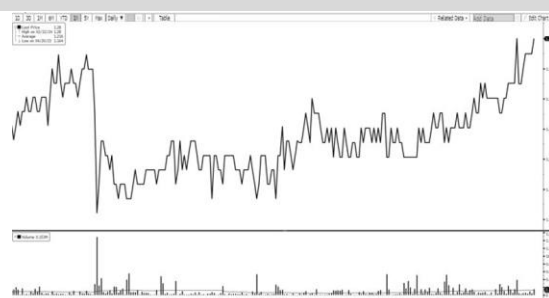
Maintain NEUTRAL with an unchanged TP of RM1.25. We maintain our **TP** for Al-`Aqar at **RM1.25**. Our TP is based on Dividend Discount Model. Overall, we see that earnings outlook for Al-`Aqar should improve marginally going forward, backed up its defensive healthcare assets portfolio. Nevertheless, upside is limited at this juncture and hence we maintain our **NEUTRAL** call on Al-`Aqar. Meanwhile, net distribution yield is estimated at 5.6%.

Maintain NEUTRAL
Unchanged Target Price: RM1.25

RETURN STATISTICS

Price @ 22 Feb 2024 (RM)	1.28
Expected share price return (%)	-2.3
Expected dividend yield (%)	+5.6
Expected total return (%)	+3.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.6	-2.0
3 months	3.2	-2.8
12 months	-1.5	-6.7

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	121	120	119
Net Rental Income	114	112	111
Profit Before Tax	61	72	74
Core Net Income	66	72	74
Core EPU (sen)	7.84	8.21	8.41
Net DPU (sen)	7.90	7.90	7.90
Dividend Yield	5.6%	5.6%	5.6%

KEY STATISTICS

FBM KLCI	1,545.49
Issue shares (m)	756.49
Estimated free float (%)	38.37
Market Capitalisation (RM'm)	1,074
52-wk price range	RM1.21-RM1.35
3-mth average daily volume (m)	0.13
3-mth average daily value (RM'm)	0.16
Top Shareholders (%)	
Lembaga Tabung Haji	14.72
Employees Provident Fund Board	13.49
KWAP	7.79
Amanah Saham Nasional Bhd	7.49
Pusat Pakar Tawakal	6.51

Analyst

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AI-`Aqar Healthcare REIT: 4QFY23 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY23	%YoY	%QoQ	FY23	%YoY
Gross rental income	30.6	8.4%	-0.5%	121.0	9.8%
Net rental income	28.9	8.1%	-0.5%	114.5	9.9%
Profit before tax	10.4	102.6%	-41.0%	60.6	0.9%
Profit after tax	10.5	101.3%	-40.2%	60.7	0.92%
Core net income	15.6	-5.2%	-11.2%	65.8	-8.21%
Realised EPU (sen)	1.3	81.4%	-40.2%	7.5	-8.6%
Core EPU (sen)	1.9	-14.6%	-11.2%	8.1	-16.7%
Gross DPU (sen)	2.0	-4.8%	0.0%	7.9	-2.5%

Source: Company, MIDF Research

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Gross Revenue	114	110	121	120	119
Net Rental Income	104	114	112	111	0
Profit Before Tax	73	60	61	72	74
Net Income	74	60	61	72	74
Core Net Income	68	72	66	72	74
Core EPU (sen)	9.2	9.5	7.8	8.2	8.4
Core PER (x)	13.8	13.5	16.3	15.6	15.2
NAV/unit (RM)	1.28	1.28	1.28	1.24	1.24
P/NAV (x)	1.00	1.00	1.00	1.04	1.03

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Investment properties	1,538	1,721	1,643	1,709	1,726
Total non-current assets	1,538	1,721	1,643	1,709	1,726
Islamic fixed deposits with licensed banks	41	55	31	32	32
Cash and cash equivalents	49	41	53	55	73
Other assets	37	50	128	137	140
Total Assets	1,665	1,867	1,856	1,932	1,971
Islamic financing	684	856	678	684	670
ST Borrowings	-	-	-	-	-
Other Liabilities	36	40	106	167	212
Total Liability	720	896	784	851	882
Unitholders' capital	731	756	855	855	855
Other Equity	214	215	218	227	234
Total unitholders' fund	945	971	1,072	1,082	1,089
Equity + Liability	1,538	1,721	1,643	1,709	1,726

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
Cash flows from operating activities					
Net income before taxation	73	60	61	72	74
Net cash from operating activities	89	89	101	102	106
Cash flows from investing activities					
Acquisition of investment properties	0	-167	0	0	0
Net cash used in investing activities	1	-170	1	1	1
Cash flows from financing activities					

Net cash from/(used in) financing activities	-81	87	-117	-101	-88
Net increase/(decrease) in cash and cash equivalents	8	7	-14	2	19
Cash and cash equivalent at 1 January	83	90	96	84	87
Cash and cash equivalent at 1 December	90	96	84	87	105

Profitability Margins	2021A	2022A	2023A	2024F	2025F
Net rental income margin	91.3%	103.8%	92.8%	92.6%	0.0%
Core net income margin	59.7%	64.9%	54.4%	59.9%	61.9%
ROE	7.2%	7.4%	6.1%	6.6%	6.8%
ROA	4.1%	3.8%	3.5%	3.7%	3.7%

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 <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