

Al-`Aqar Healthcare REIT

(5116 | AQAR MK) Main | REIT

Stable Outlook Intact

KEY INVESTMENT HIGHLIGHTS


- **Al-`Aqar Healthcare REIT results briefing**
- **Organic growth from lease renewal**
- **Islamic financing cost stabilised**
- **Double portfolio size to RM3b by 2028**
- **Maintain NEUTRAL with an unchanged TP of RM1.25**

We attended Al-`Aqar Healthcare REIT (Al-`Aqar) results briefing and came away feeling reaffirmed on the stable outlook for Al-`Aqar. Key highlights from the briefing as below:

Organic growth from lease renewal. Al-`Aqar recorded lower core net income of RM65.8m (-8.2%yoy) in FY23 as earnings were dragged by higher trust expenditure which led by higher administrative expenses, higher Islamic financing costs and higher professional fees. Looking ahead, we see marginally better earnings outlook for FY24 onwards driven by organic growth of lease renewal. Note that there are 5 healthcare assets due for master lease renewal in FY24 and 1 healthcare asset due for lease renewal in FY25. Meanwhile, management is targeting to sustain or increase distribution to unitholders from FY24 onwards. Note that Al-`Aqar declared distribution per unit (DPU) of 7.90sen in FY23.

Islamic financing cost stabilised. Al-`Aqar incurred higher Islamic financing cost (+41.8%yoy) in FY23 due to hike in OPR by Bank Negara Malaysia which brought weighted average finance cost of Al-`Aqar higher to 4.9% in FY23 from 4.1% in FY22. Note that 100% of Al-`Aqar debt is on a floating rate. Looking ahead, we expect Islamic financing cost of Al-`Aqar to stabilize in FY24 as OPR is maintained at 3%.

Double portfolio size to RM3b by 2028. Al-`Aqar targets to increase its portfolio size from RM1.6b in FY23 to RM3b by FY28. The increase in portfolio size will be through asset acquisition. Note that Al-`Aqar has acquisition targets of RM310m and RM400m for FY24 and FY25. Meanwhile, assets that Al-`Aqar are looking to acquire are hospitals, specialist centers, ambulatory care centers, factories in the upstream healthcare segment and nursing homes.

Maintain NEUTRAL with an unchanged TP of RM1.25. Post results briefing, we make no changes to our earnings forecast for FY24F/25F and also introduce our earnings forecast for FY26F. We also maintain our **TP** for Al-`Aqar at **RM1.25**, based on Dividend Discount Model. We continue to see stable outlook for Al-`Aqar, 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 5.7%. 

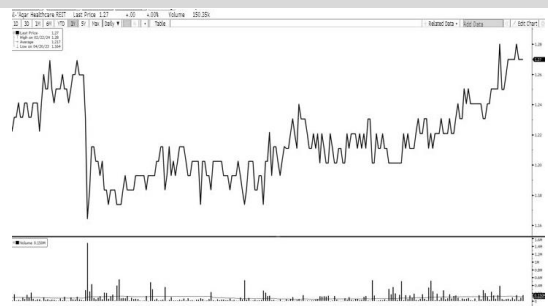
Maintain NEUTRAL

Unchanged Target Price: RM1.25

RETURN STATISTICS

Price @ 27 Feb 2024 (RM)	1.27
Expected share price return (%)	-1.6
Expected dividend yield (%)	+5.7
Expected total return (%)	+4.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.8	-2.6
3 months	2.4	-4.9
12 months	-3.1	-9.6

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	120	119	120
Net Rental Income	112	111	112
Profit Before Tax	72	74	74
Core Net Income	72	74	75
Core EPU (sen)	8.21	8.41	8.50
Net DPU (sen)	8.00	8.10	8.20
Dividend Yield	5.7%	5.7%	5.8%

KEY STATISTICS

FBM KLCI	1,558.80
Issue shares (m)	756.49
Estimated free float (%)	38.37
Market Capitalisation (RM'm)	1,066
52-wk price range	RM1.21-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	7.49
Pusat Pakar Tawakal	6.51

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FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Gross Revenue	110	121	120	119	120
Net Rental Income	114	112	111	112	102
Profit Before Tax	60	61	72	74	74
Net Income	60	61	72	74	75
Core Net Income	72	66	72	74	75
Core EPU (sen)	9.5	7.8	8.2	8.4	8.5
Core PER (x)	13.4	16.2	15.5	15.1	14.9
NAV/unit (RM)	1.28	1.28	1.24	1.24	1.25
P/NAV (x)	0.99	0.99	1.03	1.02	1.02
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Investment properties	1,721	1,643	1,709	1,726	1,735
Total non-current assets	1,721	1,643	1,709	1,726	1,735
Islamic fixed deposits with licensed banks	55	31	32	32	33
Cash and cash equivalents	41	53	55	73	106
Other assets	50	128	137	140	138
Total Assets	1,867	1,856	1,932	1,971	2,011
Islamic financing	856	678	684	670	657
ST Borrowings	-	-	-	-	-
Other Liabilities	40	106	167	212	258
Total Liability	896	784	851	882	915
Unitholders' capital	756	855	855	855	855
Other Equity	215	218	227	234	242
Total unitholders' fund	971	1,072	1,082	1,089	1,096
Equity + Liability	1,867	1,856	1,932	1,971	2,011
Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Cash flows from operating activities					
Net income before taxation	60	61	72	74	74
Net cash from operating activities	89	101	102	106	109
Cash flows from investing activities					
Acquisition of investment properties	-167	0	0	0	0
Net cash used in investing activities	-170	1	1	1	1
Cash flows from financing activities					
Net cash from/(used in) financing activities	87	-117	-101	-88	-77
Net increase/(decrease) in cash and cash equivalents	7	-14	2	19	33
Cash and cash equivalent at 1 January	90	96	84	87	105
Cash and cash equivalent at 1 December	96	84	87	105	139
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Net rental income margin	103.8%	92.8%	92.6%	93.8%	85.1%
Core net income margin	64.9%	54.4%	59.9%	61.9%	62.2%
ROE	7.4%	6.1%	6.6%	6.8%	6.8%
ROA	3.8%	3.5%	3.7%	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