

Al-`Aqar Healthcare REIT

(5116 | AQAR MK) Main | REIT

Defensive Earnings from Healthcare Assets in Malaysia

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 earnings within expectation**
- **Defensive earnings from healthcare assets in Malaysia**
- **Earnings forecast maintained**
- **Maintain NEUTRAL with an unchanged TP of RM1.25**

1QFY24 earnings within expectation. Al-`Aqar Healthcare REIT (Al-`Aqar) 1QFY24 core net income of RM16.4m came in within our expectation, making up 23% of our full year forecast. Meanwhile, Al-`Aqar announced the first interim distribution per unit (DPU) of 1.9sen (ex-date: 10 June 2024).

Defensive earnings from healthcare assets in Malaysia. Sequentially, 1QFY24 core net income was higher at RM16.4m (+4.9%qoq) despite marginally lower topline (-2.6%qoq) as earnings growth was helped by lower trust expenditure (-13%yoy) which led by decline in professional fee. On yearly basis, 1QFY24 core net income was lower (-5%yoy), in tandem with lower topline (-1.2%yoy). The lower topline was mainly due to lower rental income from Australia division which partially cushioned by the marginally higher rental income contribution from healthcare assets in Malaysia. Besides, the lower earnings in 1QFY24 were also partly owing to higher trust expenditure (+4.2%yoy) which led by increase in managers' fees. Meanwhile, Islamic financing cost of Al-`Aqar was flattish (-2.8%yoy) in 1QFY24, in line with management expectation of stabilizing Islamic financing cost going forward.

Earnings forecast maintained. We make no changes to our earnings forecast for FY24F/25F/26F. We expect stable earnings outlook for Al-`Aqar due to defensive earnings from its healthcare assets. Earnings growth of Al-`Aqar will be driven mainly by organic growth of lease renewal whereby five healthcare assets due for master lease renewal in FY24 and one healthcare asset due for lease renewal in FY25.

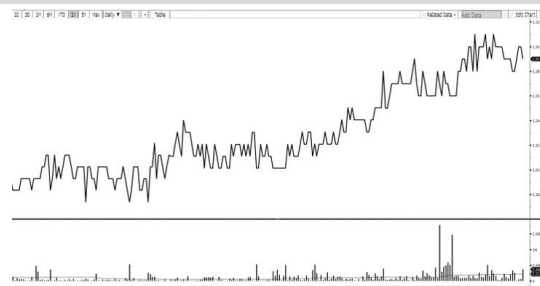
Maintain NEUTRAL with an unchanged TP of RM1.25. We maintain our **TP** for Al-`Aqar at **RM1.25**. Our TP is based on Dividend Discount Model. We remain positive on long-term earnings outlook for Al-`Aqar which is expected to be driven by the resilient outlook for healthcare assets in Malaysia. Nevertheless, we maintain our **NEUTRAL** call on Al-`Aqar due to limited upside. Meanwhile, net distribution yield is estimated at 5.8%.

Maintain NEUTRAL
Unchanged Target Price: RM1.25

RETURN STATISTICS

Price @ 24 May 2024 (RM)	1.25
Expected share price return (%)	+0.0
Expected dividend yield (%)	+5.8
Expected total return (%)	+5.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.8	-5.3
3 months	2.4	-2.9
12 months	4.0	-8.4

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	5.8%	5.9%	5.9%

KEY STATISTICS

FBM KLCI	1,619.40
Issue shares (m)	839.60
Estimated free float (%)	37.67
Market Capitalisation (RM'm)	1,049
52-wk price range	RM1.22-RM1.31
3-mth average daily volume (m)	0.22
3-mth average daily value (RM'm)	0.28
Top Shareholders (%)	
Lembaga Tabung Haji	14.72
Employees Provident Fund Board	13.19
KWAP	7.79
Amanah Saham Nasional Bhd	7.49
Pusat Pakar Tawakal	6.51

Analyst

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

AI-` Aqar Healthcare REIT: 1QFY24 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY24	%YoY	%QoQ	FY24	%YoY
Gross rental income	29.8	-1.2%	-2.6%	29.8	-1.2%
Net rental income	28.2	-1.4%	-2.5%	28.2	-1.4%
Profit before tax	16.4	-5.0%	58.1%	16.4	-5.0%
Profit after tax	16.4	-5.0%	56.0%	16.4	-4.97%
Core net income	16.4	-5.0%	4.9%	16.4	-5.03%
Realised EPU (sen)	2.0	-14.4%	56.0%	2.0	-14.4%
Core EPU (sen)	2.0	-14.4%	4.9%	2.0	-14.4%
Gross DPU (sen)	1.9	-5.0%	-5.0%	1.9	-5.0%

Source: Company, MIDF Research

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)	13.2	16.0	15.2	14.9	14.7
NAV/unit (RM)	1.28	1.28	1.24	1.24	1.25
P/NAV (x)	0.97	0.98	1.01	1.00	1.00
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%

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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