

27 August 2019 | Corporate Update

Al-`Aqar Healthcare REIT

Buys KPJ Batu Pahat for RM78m


INVESTMENT HIGHLIGHTS

- Purchase KPJ Batu Pahat for RM78m
- Gearing expected to increase to 41%
- Neutral on acquisition due to minimal immediate earnings accretion
- Maintain Neutral with an unchanged TP of RM1.49

Purchase KPJ Batu Pahat for RM78m. Al-`Aqar Healthcare REIT (Al-`Aqar) has bought KPJ Batu Pahat Specialist Hospital from Johor Land Bhd for RM78m. Following which, the property will be leased back to KPJ Healthcare Bhd for RM4.8m per year for the first three years and is subjected to a 10% increase every 3 years. The lease period is for 6 years, with an extended lease for a period of eight successive three terms that shall be automatically renewed. The deal is expected to be completed by the end of 2019. The 7-storey hospital has a gross floor area of 16,132.05 sq m and sits on a land measuring 20,235.5 sq m. It can house 60 beds with an additional 30 beds for future expansion.

Gearing expected to increase to 41%. Al-`Aqar intends to fund the acquisition through a new Islamic financing facility. Following the purchase, its gearing is expected to increase to 41.1% from 38.2%. We think that the gearing level is still manageable as it is still way below the 50% gearing level set by SC.

Neutral on acquisition due to minimal immediate earnings accretion. Although the acquisition is yield accretive, we are neutral at this juncture due to the minimal earnings impact in the near-term. This is mainly due to the rise in finance cost that is likely to offset the additional income from the new asset for FY20F. Based on our estimates, FY20F core net income is expected to grow by 0.6% to 1.2% depending on the interest cost for the new facility while revenue is expected to climb 4.57% to RM109.9m.

Maintain Neutral with an unchanged TP of RM1.49 pending completion of the deal. Our DDM valuation (required rate of return of 7.2%, terminal growth rate of 2.2%) is unchanged. While we continue to like Al-`Aqar as a defensive healthcare REIT in Malaysia with stable earnings, we think that positives have been largely priced in following the increase in unit price. Hence, we maintain our NEUTRAL recommendation at the moment. Distribution yield of Al-`Aqar is estimated at 4.6%. 

Maintain NEUTRAL
Unchanged Target Price: RM1.49

RETURN STATS

Price (26 August 2019)	RM1.52
Target Price	RM1.49
Expected Share Price Return	-2.0%
Expected Dividend Yield	4.6%
Expected Total Return	2.6%

STOCK INFO

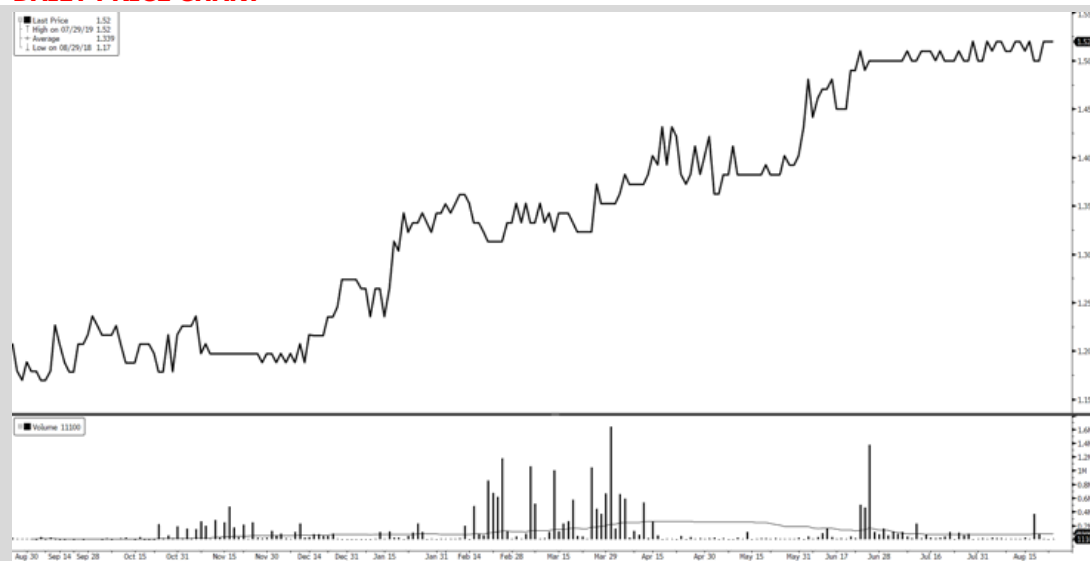
KLCI	1,600.53
Bursa / Bloomberg	5116/AQAR MK
Board / Sector	Main/REITs
Syariah Compliant	Yes
Issued shares (mil)	735.99
Par Value (RM)	1.00
Market cap. (RM'm)	1,118.7
Price over NA	1.18
52-wk price Range	RM1.21-RM1.55
Beta (against KLCI)	0.49
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM0.12m
Major Shareholders	
Johor Corp	41.09%
Lembaga Tabung Haji	14.28%
EPF	9.53%

INVESTMENT STATISTICS

FYE Dec	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	103.8	99.6	102.6	103.3	105.1
Net Rental Income	97.6	93.2	96.6	96.6	98.4
Profit Before Tax	64.0	86.2	92.3	62.8	64.6
Net Income	63.4	84.6	91.4	61.3	63.1
Core Net Income	61.9	59.9	61.0	61.3	63.1
Basic EPS (sen)	8.71	11.62	12.48	8.32	8.58
Core EPS (sen)	8.50	8.22	8.36	8.32	8.58
Gross Dividend (sen)	7.70	7.70	7.83	7.79	8.02
Net Dividend (sen)	6.93	6.93	7.05	7.01	7.22
Net Distribution Yield	4.6%	4.6%	4.6%	4.6%	4.7%
Core PER	17.88	18.49	18.18	18.26	17.73
NAV per unit	1.23	1.26	1.30	1.31	1.34
P/NAV (x)	1.24	1.21	1.17	1.16	1.13
Core ROE	6.9%	6.5%	6.4%	6.3%	6.4%
Core ROA	3.8%	3.8%	3.9%	3.9%	4.0%

Source: Company, MIDF Research Forecast

DAILY PRICE CHART



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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.