


**AmResearch**

# AL-'AQAR HEALTHCARE REIT

(AQAR MK EQUITY, ALQA.KL)

20 Mar 2015

## Acquiring KPJ's adjacent land to existing Seremban Specialist Hospital

### Company report

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**HOLD**

Price: RM1.42

Fair Value: RM1.50

### Rationale for report: Company update

YE to Dec	FY14	FY15F	FY16F	FY17F
DPU (sen)	7.7	7.8	8.3	8.8
Dividend yield (%)	5.4	5.49	5.8	6.2

Source: AmResearch

- We reaffirm our **HOLD** recommendation on Al-'Aqar REIT with an unchanged fair value of RM1.50/unit, based on a DCF valuation.
- Al-Aqar had entered into a sale and purchase agreement with KPJ Healthcare's wholly-owned subsidiary, Seremban Specialist Hospital Sdn Bhd (SSHSB), to acquire a 5,644sqm land in Seremban, Negeri Sembilan for RM4.25mil (RM70psf). The acquisition is expected to complete by 3QFY15.
- The land is located adjacent to the existing KPJ Seremban Specialist Hospital, which is earmarked for hospital expansion. At present, this land is being used as an open space parking with a medical gas storage building and a refuse storage.
- Upon completion of the acquisition, KPJ will lease the land in a supplementary lease agreement. On 13 Oct 2015 (when the lease for the existing Seremban Specialist Hospital land expires), KPJ will then enter into a new lease agreement encompassing the existing land, existing properties and the land currently being acquired.
- We are neutral on this development as rental arising from land is minimal (RM0.3mil). We make no changes to our estimates for now given the minimal earnings accretion.
- Gearing is expected to remain unchanged at about 45% given that the acquisition will be funded by cash via internally generated funds.
- Nonetheless, we do not expect any hospital injection from KPJ as its new hospitals are still in the infancy stage. We expect organic growth for Al-'Aqar to be underpinned by stable rental escalation. Maintain **HOLD**.
- The stock is currently trading at trading at a distribution yield of 5.5%, which is at a yield spread of 160bps against the 10-year Malaysia Government Securities.

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For AmResearch Sdn Bhd

Benny Chew  
Managing Director

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY13	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	107.4	108.6	113.4	120.6	123.1
Realised net profit (RM mil)	53.6	59.9	61.9	65.0	69.1
EPU (sen)	10.5	10.2	10.3	10.5	11.1
EPU growth (%)	16.5	(2.9)	1.0	1.5	5.4
Consensus EPU (sen)	0.0	0.0	67.6	70.5	81.1
DPS (Sen)	7.9	7.7	7.8	8.3	8.8
PE (x)	13.5	13.9	13.7	13.5	12.8
EV/EBITDA (x)	1.7	1.7	2.3	2.3	2.2
Div yield (%)	5.5	5.4	5.49	5.8	6.2
ROE (%)	9.0	8.6	8.8	9.2	9.7
Gearing (%)	46.7	46.0	39.9	40.1	39.4

Source: Company, AmResearch estimates