


AmResearch

AL-'AQAR HEALTHCARE REIT

(AQAR MK EQUITY, ALQA.KL)

29 May 2015

Company report

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Steady start to the year
HOLD

Price: RM1.33

Fair Value: RM1.50

Rationale for report: Company result

| YE to Dec | FY14 | FY15F | FY16F | FY17F |
|--------------------|------|-------|-------|-------|
| DPU (sen) | 7.7 | 7.8 | 8.3 | 8.8 |
| Dividend yield (%) | 5.8 | 5.8 | 6.2 | 6.6 |

Source: AmResearch

Quick Take

- We reaffirm our **HOLD** recommendation on Al-'Aqar Healthcare REIT with an unchanged fair value of RM1.50/unit, based on a DCF valuation.
- Its 1QFY15 results (RM15mil), was in line with our expectations, forming 25% of our and consensus forecasts.
- Al-'Aqar's 1Q revenue and core net profit increased by 2% and 3% YoY, respectively.
- This was mainly driven by yearly increment on rental income.
- Occupancy rate remains healthy at 100%, backed by KPJ Healthcare.
- The disposal of PT Permata Hijau and PT Bumi Serpong Damai, both in Indonesia are expected to be completed in 3Q. This would result in a small gain of RM0.43mil. Proceeds will be used to pare down borrowings and hence, there will be no significant DPU enhancement.
- Near-term earnings will continue to be organic, boosted by positive rental reversion, with stable rental escalation of about 2% per annum. We make no changes to our FY15F-FY17F EPS estimates.
- Acquisition pipeline remains bright given KPJ's plans of opening new hospitals. However, we only expect more acquisitions in the medium term when its newer hospitals mature (i.e. surpassing gestation period).
- The stock is presently trading at a distribution yield of 5.8%, implying a yield spread of 196bps against the 10-year Malaysia Government Securities of 3.9%. Maintain **HOLD**.

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For AmResearchSdnBhd

Benny Chew
Managing Director

EXHIBIT 1: RESULTS SUMMARY

| YE 31 Dec (RMmil) | 1QFY14 | 4QFY14 | 1QFY15 | % QoQ | % YoY |
|----------------------------------|-------------|-------------|-------------|---------------|------------|
| Gross rental income | 27.1 | 27.1 | 27.6 | 1.5 | 1.6 |
| Property operating cost | (1.5) | (1.4) | (1.6) | | |
| Net property income (NPI) | 25.6 | 25.7 | 26.0 | 1.0 | 1.6 |
| Interest & other income | 0.3 | 3.6 | 0.5 | | |
| Other expenses | (10.9) | (12.4) | (11.0) | | |
| Fair value adj. | - | 11.4 | - | | |
| Net Income before tax | 15.0 | 28.3 | 15.5 | (45.1) | 3.3 |
| Taxation | (0.2) | (1.3) | (0.2) | | |
| Net Income | 14.8 | 27.0 | 15.3 | (43.2) | 3.3 |
| Less: Fair value adj. | - | (11.4) | - | | |
| Realised income | 14.8 | 15.6 | 15.3 | (1.9) | 3.3 |
| EPU (sen) | 2.1 | 3.9 | 2.2 | | |
| DPU (sen) | | 3.8 | - | | |
| NAV/unit (RM) | 1.2 | 1.2 | 1.2 | | |
| NPI margin (%) | 94.3 | 94.8 | 94.3 | | |
| Pretax margin (%) | 55.3 | 104.1 | 56.3 | | |
| Realised income margin (%) | 54.6 | 57.5 | 55.6 | | |

Source: Company, AmResearch

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) | 7.7 | 8.6 | 8.7 | 8.9 | 9.4 |
| EPU growth (%) | 2.8 | 11.6 | 0.7 | 2.3 | 6.4 |
| Consensus EPU (sen) | 0.0 | 0.0 | 62.5 | 64.0 | 66.5 |
| DPU (Sen) | 7.9 | 7.7 | 7.8 | 8.3 | 8.8 |
| PE (x) | 17.3 | 15.5 | 15.4 | 15.0 | 14.1 |
| EV/EBITDA (x) | 1.1 | 1.2 | 1.7 | 1.7 | 1.6 |
| Div yield (%) | 5.9 | 5.8 | 5.86 | 6.2 | 6.6 |
| 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