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Al-Aqar acquiring two parcels of freehold land in Nilai

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Written by AmResearch

Wednesday, 08 October 2014 10:20

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Al-Aqar Healthcare REIT

(Oct 7, RM1.40)

Maintain "hold" with higher fair value of RM1.50: We reaffirm our "hold" recommendation on Al-Aqar Healthcare REIT with a higher fair value of RM1.50 per unit (versus RM1.40 per unit previously) based on a discounted cash flow (DCF) valuation, following the proposed acquisition of the new extension of KPJ Healthcare University College (KPJUC).

Al-Aqar has entered into a sale and purchase agreement with KPJ Healthcare's wholly-owned subsidiary, Puteri Nursing College Sdn Bhd (PNCBSB), to acquire two parcels of freehold land in Nilai, Negeri Sembilan, together with buildings erected thereon for a total RM77.8 million. The proposed acquisition is expected to be completed in the first quarter of financial year 2015 (1QFY15).

The acquisition is the new extension block of KPJUC, comprising an eight-storey academic block (118,618 sq ft) and an 11½-storey hostel block (190,231 sq ft). The REIT's portfolio of property is maintained at 25. We are not surprised by the move given that the main KPJUC building was injected into the REIT in 2009. The Nilai Municipal Council requires that both parcels of land be amalgamated for the approval of the master expansion plan for KPJUC.

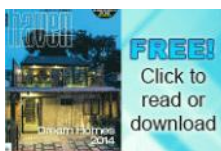
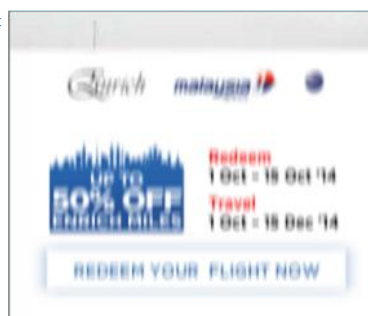
The purchase consideration of RM77.8 million will be satisfied by: i) RM38.9 million cash (50%); ii) the balance of RM38.9 million (50%) either by cash, issuance of new units in Al-Aqar to the vendor or a combination of cash and issuance of Al-Aqar units.

We assume that the remaining 50% of the purchase price will be based on deferred consideration unit. In that event, Al-Aqar's fund size will increase to 726.6 million (+4%). This would raise KPJ's shareholding to 55.4% and PNCBSB at 4.2%. Gearing level would remain manageable at 47%.

Similarly, Al-Aqar will lease the property to KPJ. The lease term is for a period of 15 years with an option to renew for another 15 years. The rental is reviewed after three years.

The initial three-year rental is fixed at RM5.5mil per annum, which is based on 7.1% of the purchase consideration. The acquisition would enhance financial year 2015 forecast (FY15F) earnings by an estimated 11% to RM63 million and by 7% in FY16F.

We do not expect any near-term hospital acquisition from KPJ given that its new hospitals are still in the infancy stage, hence, our "hold" rating. The stock is currently trading at a distribution yield of 5.7%, translating into a yield spread of 182 basis points. — AmResearch, Oct 7



REVIEW
www.theedgereview.com

Al-Aqar Healthcare REIT


FYDEC (RM MIL)	2013	2014F	2015F	2016F
Revenue	107.4	108.3	115.6	123.5
Net profit	73.3	55.5	62.8	67.4
Realised net profit	53.6	55.5	62.8	67.4
EPU (sen)	10.5	8.0	8.8	9.3
EPU growth (%)	16.5	(24.3)	10.8	5.1
Consensus EPU (sen)	0.0	57.4	63.4	65.4
DPJ (sen)	7.7	8.0	8.6	9.3
PER (x)	13.3	17.6	15.8	15.1
EV/Ebitda (x)	1.5	1.9	2.3	2.3
Div yield (%)	5.5	5.7	6.2	6.6
ROE (%)	9.0	6.8	7.7	8.2
Gearing (%)	46.7	42.4	40.5	40.7

Source: AmResearch, Company report

This article first appeared in *The Edge Financial Daily*, on October 8, 2014.

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