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AI-'Aqar KPJ REIT backed by KPJ Healthcare's expansion

In The Edge Financial Daily Today 2012

Written by Financial Daily

Tuesday, 10 April 2012 10:46

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AI-'Aqar KPJ REIT

(April 9, RM1.20)

Initiate coverage with buy and a target price of RM1.39: We initiate coverage on AI-'Aqar with a "buy" rating and a fair value of RM1.39 based on a 10% discount to its discounted cash flow (DCF) value of RM1.55 a unit. Taken together with the dividend per unit (DPU) estimate of 7.8 sen for FY12, our fair value implies a total return of 16% on the current price.

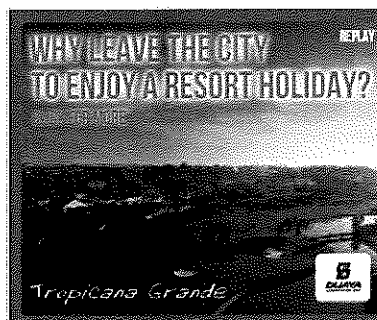
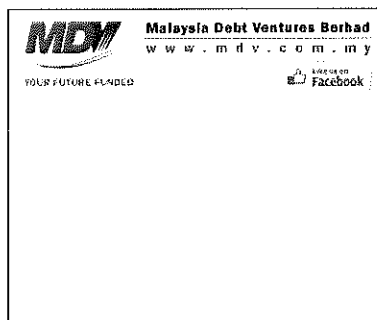
AI-'Aqar has been given the first right of refusal to a pool of hospitals, locally or overseas, from KPJ Healthcare Bhd. Its acquisition pipeline is looking strong with the first right of refusal to KPJ's upcoming hospitals. We assume it will acquire at least two hospitals each in FY13 and FY14F from KPJ for about RM100 million. Management has indicated it will be exploring third-party acquisitions in the future.

We forecast AI-'Aqar's earnings at RM85 million for FY12 and RM89 million for FY13, expanding by a further 7% to RM96 million for FY14. This translates into earnings per unit of 8.2 sen each for FY12 and FY13.

We have incorporated the injection of two properties each for FY13 and FY14. We estimate AI-'Aqar will pay out 99% of its distributable income, translating into an estimated DPU of 7.8 sen for FY12 and 7.9 sen for FY13 and dividend yields of 6.4% and 6.5% respectively.

Our DCF value of RM1.55 per unit is based on the assumption of a risk-free rate 3.6% (10-year Malaysia Government Securities [MGS] yield), market risk premium of 12%, cost of debt of 4.5%, beta of 0.5 and weighted average cost of capital of 5.5%. We believe that the value of AI-'Aqar and its sponsor KPJ may be boosted by the imminent listing of Khazanah Nasional Bhd's Integrated Healthcare Holdings Sdn Bhd, which may drive a sector-wide re-rating. As it is, KPJ is already trading at a steep discount to its regional peers.

AI-'Aqar has a projected yield of 6.4% for FY12 and a 272 basis-point spread over the 10-year MGS yield of 3.68%, hence, our "buy" rating. — *AmResearch, April 9*



AI-'Aqar Healthcare REIT

| YE to Dec (RM mil) | FY11 | FY12F | FY13F | FY14F |
|---------------------|------|-------|-------|-------|
| Revenue | 84.5 | 95.5 | 103.3 | 113.3 |
| Net profit | 85.1 | 84.7 | 89.3 | 95.4 |
| Realised net profit | 46.4 | 54.7 | 59.3 | 65.4 |
| EPU (sen) | 7.9 | 8.2 | 8.2 | 8.5 |
| EPU growth (%) | na | 3.8 | - | 3.7 |
| Consensus EPS (sen) | na | 0.10 | 0.11 | 0.12 |
| DPU (sen) | 7.6 | 7.8 | 7.9 | 8.1 |
| PE (x) | 8.3 | 9.5 | 9.8 | 9.8 |
| PV (RM mil) | 11.6 | 12.7 | 13.2 | 13.4 |
| Div yield (%) | 6.3 | 6.4 | 6.5 | 6.7 |
| RDE (%) | 12.7 | 11.1 | 10.8 | 11.1 |
| Gearing (%) | 46.4 | 45.2 | 47.3 | 49.3 |

Source: AmResearch

This article appeared in The Edge Financial Daily, April 10, 2012.

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