

PRESS RELEASE:RAM Rates Al-'Aqar Capital MYR300M Sukuk AAA-P1



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Monday, Nov 19, 2007

Following is a press release from RAM Rating Services Bhd.:

KUALA LUMPUR, Nov. 19, 2007: RAM Ratings has assigned preliminary ratings of AAA, AA2, AAA(bg) and P1 to the respective MYR165 million Class A Islamic Medium-Term Notes ("IMTNs"), MYR30 million Class B IMTN, MYR90 million Class C IMTN MYR15 million Islamic Commercial Papers ("ICPs") to be issued under the MYR300 million Sukuk Ijarah Program of Al-'Aqar Capital Sdn Bhd ("Al-'Aqar Capital" or "the Issuer").

Al-'Aqar Capital, a special-purpose vehicle, is wholly owned by Amanah Raya Berhad, the REIT Trustee for Al-'Aqar KPJ Real Estate Investment Trust ("Al-'Aqar REIT" or "the REIT"). The Issuer's activities are limited to this Islamic sale-and-leaseback transaction, involving hospital properties owned by Al-'Aqar REIT.

The ratings of the Class A IMTN, Class B IMTN and ICP reflect the debt service coverage ratio ("DSCR") and loan-to-value ("LTV") ratio that commensurate with each rating category; the rating of Class C IMTN reflects the credit strength of the guarantor bank - Public Bank Berhad ("Public Bank") - which enhances the credit risk profile of the Class C IMTN beyond its stand-alone rating. RAM Ratings reaffirmed Public Bank's general bank ratings at AAA/P1, with a stable outlook, in May 2007.

This is the first domestic commercial real estate ("CRE")-backed transaction involving hospital properties. Under this transaction Al-'Aqar Capital will issue IMTNs and ICPs (collectively, "the Sukuk Ijarah") to acquire the beneficial interests in six hospitals, namely Ampang Puteri Specialist Hospital, Damansara Specialist Hospital, Johor Specialist Hospital, Ipoh Specialist Hospital, Selangor Medical Centre and Puteri Specialist Hospital, from the REIT. Subsequent to the purchase, the Issuer will enter into Ijarah Agreements with the REIT for the six hospitals. The Ijarah period and Ijarah payments under the Ijarah Agreements will be determined prior to the issuance, to match the profit payments on the Sukuk Ijarah. The redemption of the Sukuk Ijarah is expected to be met via a Purchase Undertaking by the REIT to repurchase the 6 hospitals upon the Expected Maturity of the Sukuk Ijarah, or via disposal in the open market.

Al-'Aqar REIT will use the sale proceeds to repay its existing borrowings and to acquire another five hospitals from KPJ Healthcare Berhad ("KPJ" or "the Group") - Kedah Medical Center, Perdana Specialist Hospital, KPJ Kajang Specialist Hospital Sentosa Medical Center and Kuantan Specialist Hospital. As part of the security for the Sukuk Ijarah, the REIT will also provide third-party first legal charge on these five hospitals to the Security Trustee.

Of the portfolio of 11 hospitals, four are considered "flagship" private hospitals, which provide an extensive range of medical services. These hospitals are situated in prime locations in their respective regions, and thus have high levels of operating and cashflow stability. Of the remainder, five hospitals are mid-sized concerns while two are newly established. The lessees of the hospital properties are hospital operators under KPJ. The KPJ Group is the largest provider of private healthcare services in Malaysia, and its stable of hospitals is of prime importance to the Group's business operations. KPJ is also the largest shareholder of Al-'Aqar REIT, and has a vested interest in the operational and financial stability of the REIT, which is the lessee under the Ijarah Agreement (lease agreement).

The ratings are, however, moderated by the specialized nature of hospitals, which makes them less liquid as there is limited secondary trading of hospitals in Malaysia. The disposal of the said hospitals through the open market may be a challenge. Nonetheless, RAM Ratings notes that the emergence of healthcare REITs in the region will add to the demand for hospitals as investment properties. There is also "restriction on ownership" for a particular hospital, i.e. Perdana Specialist Hospital ("PSH") which is built on Malay Reserve Land. The potential for such a property to be disposed of may be limited compared to those with unrestricted title. Nonetheless, RAM Ratings notes that the appraised market value of PSH represents only 6.4% of the total appraised value of the portfolio.

The Malaysian private-healthcare industry is subject to industry and regulatory factors that may affect the performance of hospital owners and operators. Hence this transaction is exposed to additional risk factors compared to other CRE-backed transactions that involve more "common" assets such as office buildings, retail malls and industrial properties.

RAM Ratings expects the redemption of the Sukuk Ijarah upon its Expected Maturity to be met via the exercise of the Purchase Undertaking by the REIT. The REIT's ability to finance the purchase would depend on its financial position at that time. Given that the lease payments from the hospital operators are the sole source of cashflow for the REIT vis-à-vis supporting future borrowings to repurchase the six hospitals, RAM Ratings has stressed these future lease payments to assess the adequacy of

interest coverage under stressed conditions. Nonetheless, the structural features of the transaction allow the Security Trustee dispose of the hospitals should the REIT fail to exercise its Purchase Undertaking.

Meanwhile, the initial issuance will be limited to a respective MYR155 million, MYR29 million and MYR14 million of the Class A IMTNs, Class B IMTNs and ICPs; there is no initial issuance limit on the Class C IMTNs. Further issuances up to the respective limits under the Sukuk Ijarah Program will be conditional upon either the substitution of PSH with another property that is at least comparable and subject to the approval of RAM Ratings, or confirmation from the Legal Advisor that the relevant authorities have approved the disposal of PSH (which is built on Malay Reserve Land) under the Power of Attorney.

(END) Dow Jones Newswires