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Al' Aqar Healthcare REIT sees growth through niche position

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KUCHING: Al' Aqar Healthcare Real Estate Investment Trust (REIT), the only healthcare REIT and one of only three Islamic REITS in Malaysia, is said to have greater accretive value to be unlocked on the back of its niche position as well as asset acquisitions in Australia while being protected by limited rental reversions.

The research arm of Kenanga Investment Bank Bhd (Kenanga Research) stated that positive contributions from the REIT's yield accretive asset acquisition in Australia of about 8.5 per cent would drive growth going forward, while rental reversions were stable and limited to a maximum reduction of two per cent per annum.

It added that the group was keen on acquiring assets by financial year 2014 (FY14) from its parent, KPJ Healthcare Bhd (as the former has rights for the first option to acquire KPJ properties), and third parties (such as retirement homes in Australia) while acquisition news could be as soon as the third quarter of 2013.

"Management appears extremely interested in third party acquisitions to accelerate growth as acquiring from the parent is a lengthy three to four year process as the parent prefers to spin-off matured assets.

"However, the REIT has limited gearing room as its current gearing level is now 0.48 times (close to the Security Commission's limit of 0.5 times).

"If the group places out 20 per cent (696.2 million new units) of its fund size, based on placement price of RM1.25 (five per cent discount to the five-day volume-weighted average price of RM1.32), it will raise proceeds of RM174.6 million.

"If the entire placement proceeds are used for acquisitions, we expect gearing to be lowered to 0.43 times," the research team explained.

The REIT was initially formed to own and invest in six syariah-acceptable properties, which comprise of KPJ healthcare centres; the group rents out the entire asset, thus occupancy rates are 100 per cent.

To date, the REIT has completed five acquisition exercises with a total of 25 properties, and total asset value increasing by 178 per cent to RM1.46 billion since listing in 2006.

Australian assets currently make up 10 per cent of total group asset composition, with Malaysia taking 85 per cent and Indonesia the remaining five per cent.

With Kenanga Research's estimated RM174.6 million from placement proceeds while assuming 8.5 per cent net property income (NPI) yield for the Australian asset acquisition, it expected FY14 estimated RNI to increase by 22.3 per cent to RM74.3 million.

This was on the assumption that the annualised impact of the acquisition while FY14 estimated dividend per unit (DPU) would increase by 3.9 per cent to 9.4 sen, it said, while pointing out that many other Malaysian REITs (M-REITs) were finding it challenging to acquire local assets given the low cap rate environment.

"Al-Aqar REIT is currently trading at FY13 to FY14 estimated gross yields of 6.4 to 6.7 per cent, price earnings ratios of 15.8 to 15.1 times, and FY14 estimated price to book value of 1.1 times.

"We believe the stock deserves a slight premium to its peers as it is the only healthcare M-REIT and operates within a niche market with minimal direct competition, while downside to the stock is limited as reversions reductions are capped to maximum two per cent per annum," Kenanga Research summed up.

The research team derived a target price of RM1.41 per unit (11.7 per cent total return) and remained bullish on the REIT based on FY14 estimated target net dividend yield of 6.4 per cent.