

# Al-Salam REIT (SALAM MK)

## 3Q22 missed estimates

### Upgrade HOLD; +8% total return

3Q22 results - despite QoQ improvement - and 2<sup>nd</sup> interim gross DPU of 0.5sen (YTD: 1.0sen) missed our estimates, mainly attributed to slower-than-expected recovery at Komtar JBCC. We lower our FY22-24E earnings by -11%/-14%/-14% and nudge down our DDM-TP by 5sen to MYR0.35 (unchanged cost of equity of 9.9%). Upgrade to HOLD, with total return of +8% which includes FY22E net yield of 6.4%.

### Supported by lower rental rebates

3Q22 core net profit grew 11% QoQ to MYR3.9m. This led 9M22 core earnings to MYR11.1m (+8% YoY), but only at 65% of our full-year estimate. QoQ earnings were largely driven by lower other trust expenses (-69%) from lower rental rebates. This was however partly offset by higher finance costs (+8.3%) and lower contribution from its MCHM College (-12%) due to lower revised rental rate. Elsewhere, the quarter's earnings continued to be supported by the F&B segment (i.e. QSR properties) which is on long-term and triple net leases. Menara KOMTAR also sustained its 3Q22 occupancy rate of 90% (3Q21: 86%).

### Tweaking estimates

We reduce FY22-24E earnings by -11%/-14%/-14%, after adjusting for lower occupancy at Komtar JBCC to 55% (from 60%). We have penciled in flattish rental reversion for KOMTAR JBCC's expiring leases in the near-term in anticipation of a challenging outlook for the mall. Komtar JBCC's occupancy was 52% end-3Q22.

### Assets diversification plan

Moving forward, ALSREIT is looking to diversify its asset class to Industrial e.g. warehousing and last-mile delivery for retail tenants (from current 56% Retail, 39% F&B and 5% Office in NLA), potential QSR's upstream assets, and/or sale and leaseback of assets within Johor Corp's 4 major industrial parks, namely Tanjung Langsat Industrial Park, Muar Furniture Park, Pengerang Industrial Park and the upcoming Sedenak Tech Valley. ALSREIT's gross gearing remained high at 0.51x (end-3Q22). Hence, we expect some of its future acquisitions to be fully financed by equity.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	86	72	85	87	88
Net property income	65	55	61	61	62
Core net profit	15	15	15	20	20
Core EPU (sen)	2.5	2.5	2.6	3.4	3.4
Core EPU growth (%)	(48.7)	0.6	4.1	28.5	1.9
Net DPU (sen)	1.9	2.1	2.2	2.8	2.9
Net DPU growth (%)	(56.2)	10.6	6.3	28.5	1.9
P/NTA (x)	0.5	0.5	0.3	0.3	0.3
Net DPU yield (%)	3.4	4.3	6.4	8.2	8.3
ROAE (%)	(2.2)	0.5	2.6	3.3	3.4
ROAA (%)	1.2	1.2	1.2	1.6	1.6
Debt/Assets (x)	0.51	0.51	0.50	0.50	0.50
Consensus Net DPU	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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# HOLD

[Prior:SELL]

Share Price	MYR 0.35
12m Price Target	MYR 0.35 (+8%)
Previous Price Target	MYR 0.40

### Company Description

Al-Salam REIT primarily invests and manages a real estate portfolio which consists of office, retail and F&B assets.

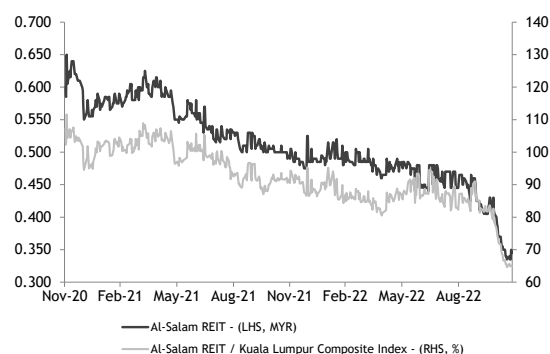
### Statistics

52w high/low (MYR)	0.53/0.34
3m avg turnover (USDm)	0.0
Free float (%)	9.1
Issued shares (m)	580
Market capitalisation	MYR200.1M USD45M

### Major shareholders:

Johor Corp.	52.5%
Tabung Amanah Warisan Negeri Johor	16.6%
Kumpulan Waqaf An Nur Bhd.	10.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(16)	(27)	(31)
Relative to index (%)	(18)	(26)	(30)

Source: FactSet

Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	3QFY22	3QFY21	% YoY	2QFY22	% QoQ	9MFY22	9MFY21	% YoY
Revenue	17.8	17.6	1.1	17.6	1.2	52.2	54.1	(3.5)
<b>Net property income</b>	<b>12.4</b>	<b>13.6</b>	<b>(8.5)</b>	<b>12.4</b>	<b>(0.0)</b>	<b>36.9</b>	<b>41.5</b>	<b>(11.0)</b>
Interest income	0.1	0.1	6.5	0.1	60.2	0.2	0.2	(1.5)
Revaluation gain/(loss)	-	-	NA	-	NA	-	-	NA
Finance costs	(7.2)	(6.5)	10.6	(6.7)	8.3	(20.4)	(19.4)	4.8
Non-property expenses	(0.6)	(0.7)	(1.3)	(0.6)	0.2	(1.9)	(1.9)	(0.5)
Other trust expenses	0.2	(1.7)	(113.8)	(0.7)	(134.7)	(1.0)	(7.3)	(86.1)
<b>Pretax profit</b>	<b>4.9</b>	<b>4.8</b>	<b>2.0</b>	<b>4.5</b>	<b>8.7</b>	<b>13.8</b>	<b>13.0</b>	<b>6.2</b>
Tax	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>4.9</b>	<b>4.8</b>	<b>2.0</b>	<b>4.5</b>	<b>8.7</b>	<b>13.8</b>	<b>13.0</b>	<b>6.2</b>
<b>Net profit ex-EI</b>	<b>3.9</b>	<b>3.8</b>	<b>3.0</b>	<b>3.5</b>	<b>11.1</b>	<b>11.1</b>	<b>10.2</b>	<b>8.2</b>
EPU ex-EI (sen)	0.7	0.7	3.0	0.6	11.1	2.4	2.2	6.7
<b>Gross DPU (sen)</b>	<b>0.5</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>1.0</b>	<b>0.5</b>	<b>100.0</b>
	<b>3QFY22</b>	<b>3QFY21</b>	<b>+/- ppt</b>	<b>2QFY22</b>	<b>+/- ppt</b>	<b>9MFY22</b>	<b>9MFY21</b>	<b>+/- ppt</b>
<i>Net property margin (%)</i>	69.8	77.2	(7.4)	70.7	(0.9)	70.7	76.6	(6.0)
<i>Net income ex-EI margin (%)</i>	22.2	21.8	0.4	20.2	2.0	21.2	18.9	2.3

Source: Trust, Maybank IBG Research

## Risk statement

There are several risks to our earnings estimates, target price and rating for ALSREIT. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for ALSREIT. All of ALSREIT's borrowings are based on floating rates. About 1/3 of KOMTAR JBCC's leases are due for renewal in FY23.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
Price/DPU(x)	29.4	23.4	15.7	12.2	12.0
P/BV (x)	0.5	0.5	0.3	0.3	0.3
P/NTA (x)	0.5	0.5	0.3	0.3	0.3
DPU yield (%)	3.8	4.7	7.1	9.1	9.3
FCF yield (%)	8.6	12.8	6.1	9.0	9.2

**INCOME STATEMENT (MYR m)**

Revenue	86.1	71.5	85.2	86.6	88.2
<b>Net property income</b>	<b>65.0</b>	<b>55.0</b>	<b>61.0</b>	<b>61.4</b>	<b>61.8</b>
Management and trustee fees	(17.6)	(13.4)	(9.3)	(5.3)	(5.3)
Net financing costs	(28.4)	(25.7)	(36.5)	(36.6)	(36.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(31.3)	(12.7)	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>(12.3)</b>	<b>3.2</b>	<b>15.2</b>	<b>19.6</b>	<b>20.0</b>
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	(1.2)	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>(13.5)</b>	<b>3.2</b>	<b>15.2</b>	<b>19.6</b>	<b>20.0</b>
Core net profit	14.6	14.6	15.2	19.6	20.0
Distributable inc to unitholders	14.6	14.6	15.2	19.6	20.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	6.3	9.8	7.8	7.5	7.3
Accounts receivable	26.7	38.4	43.4	44.1	44.8
Property, Plant & Equip (net)	0.9	0.7	0.6	0.6	0.5
Investment properties	1,189.4	1,177.2	1,178.2	1,179.6	1,181.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	31.3	27.4	30.9	31.4	32.0
<b>Total assets</b>	<b>1,254.6</b>	<b>1,253.5</b>	<b>1,261.0</b>	<b>1,263.3</b>	<b>1,265.6</b>
ST interest bearing debt	52.0	0.0	0.0	0.0	0.0
Accounts payable	13.1	14.0	20.4	21.3	22.3
LT interest bearing debt	581.9	635.7	635.7	635.7	635.7
Other liabilities	10.2	13.2	13.2	13.2	13.2
<b>Total Liabilities</b>	<b>657.2</b>	<b>662.9</b>	<b>669.3</b>	<b>670.2</b>	<b>671.2</b>
Shareholders Equity	597.4	590.6	591.7	593.0	594.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>597.4</b>	<b>590.6</b>	<b>591.7</b>	<b>593.0</b>	<b>594.4</b>
<b>Total liabilities and equity</b>	<b>1,254.6</b>	<b>1,253.5</b>	<b>1,261.0</b>	<b>1,263.3</b>	<b>1,265.6</b>

**CASH FLOW (MYR m)**

<b>Cash flow from operations</b>	<b>29.6</b>	<b>36.5</b>	<b>13.2</b>	<b>19.4</b>	<b>19.7</b>
Capex	(2.1)	(0.6)	(1.0)	(1.4)	(1.4)
Acquisitions & investments	0.0	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.5	0.3	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(1.7)</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>(1.4)</b>	<b>(1.4)</b>
Dividends paid	(13.2)	(10.0)	(14.2)	(18.2)	(18.6)
Interest expense	0.0	0.0	0.0	0.0	0.0
Change in debt	7.2	1.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(24.9)	(26.2)	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(30.9)</b>	<b>(35.2)</b>	<b>(14.2)</b>	<b>(18.2)</b>	<b>(18.6)</b>
<b>Effect of exchange rate changes</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash flow</b>	<b>(2.9)</b>	<b>1.1</b>	<b>(2.0)</b>	<b>(0.3)</b>	<b>(0.2)</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(9.3)	(16.9)	19.0	1.7	1.8
Net property income growth	(6.0)	(15.4)	11.0	0.6	0.6
Core net profit growth	(48.7)	0.6	4.1	28.5	1.9
Distributable income growth	(48.7)	0.6	4.1	28.5	1.9
<b>Profitability ratios (%)</b>					
Net property income margin	75.5	76.9	71.7	70.9	70.1
Core net profit margin	16.9	20.5	17.9	22.6	22.6
Payout ratio	nm	nm	83.7	83.7	83.7
<b>DuPont analysis</b>					
Total return margin (%)	nm	4.5	17.9	22.6	22.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.1	2.1	2.1	2.1	2.1
ROAE (%)	(2.2)	0.5	2.6	3.3	3.4
ROAA (%)	1.2	1.2	1.2	1.6	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.9	1.9	1.9	1.9
Net gearing (%) (excl. perps)	105.0	106.0	106.1	105.9	105.7
Net interest cover (x)	1.7	1.6	1.4	1.5	1.5
Debt/EBITDA (x)	13.3	15.2	12.3	11.3	11.2
Capex/revenue (%)	2.5	0.9	1.2	1.6	1.6
Net debt/ (net cash)	627.5	625.9	627.9	628.1	628.4
Debt/Assets (x)	0.51	0.51	0.50	0.50	0.50

Source: Company; Maybank IBG Research

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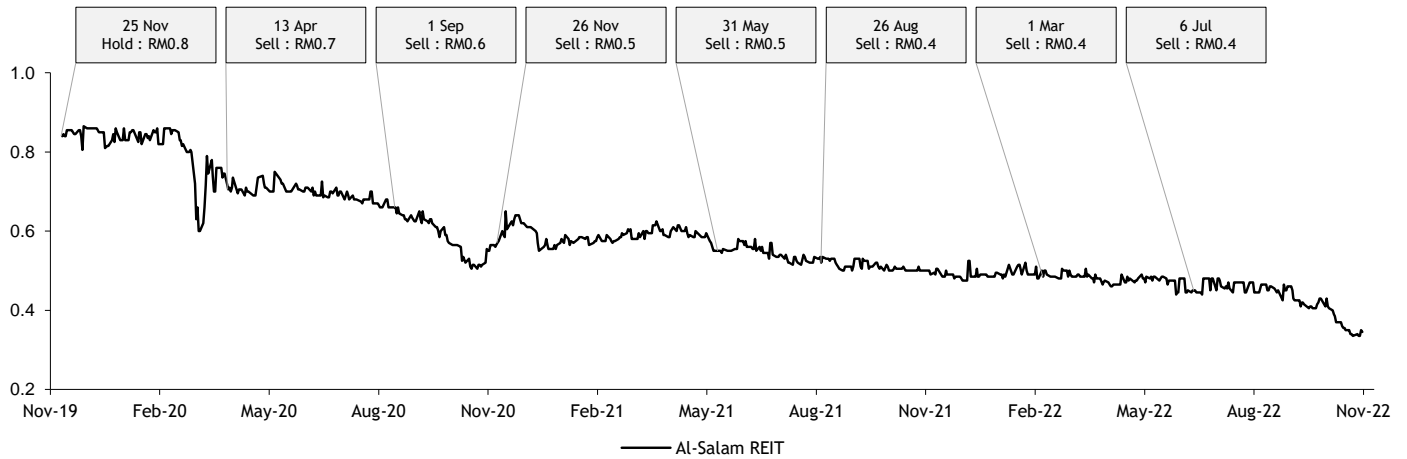
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**Historical recommendations and target price: Al-Salam REIT (SALAM MK)**



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