AL-'AQAR HEALTHCARE REIT

(AQAR MK EQUITY, ALQA.KL)

HOLD

(MAINTAINED)

Price: RM1.16
Target Price (% return): RM1.25 (14%)
52-week High/Low: RM1.32/RM1.08

REITs

Rationale for report: Company Result

Short of catalysts

Retain HOLD with a lower TP of RM1.25. Muted 2Q26 earnings were weighed down by elevated financing costs, while the pivot to fixed-rate borrowings is not likely to yield meaningful savings given the higher risk-free curve. The real win, however, is stability, not lower costs. Also, asset recycling is taking shape, with wellness centres among the likely candidates for monetization. Still, stretched gearing suggests that future deals may require more equity and potentially costlier debt, diluting acquisition accretion.

- **HOLD with a lower TP of RM1.25 (from RM1.30);** this implies gross target yield of 6.2% (from 5.8%) and a spread of 240bp (from 220bp) vs 10-yr MGS, both near +0.5SD to their respective 10-yr averages. We widen our valuation buffer as risk-free curve resets higher and its thin trading liquidity leaves little room for valuation generosity in an increasingly selective market.
- **In line.** AQAR inked 2Q26 distributable income of RM15mil (flat YoY, -9% QoQ), bringing 1H26 to RM32mil (+5% YoY); this accounts for 49% of our and consensus FY26 forecasts. The muted quarterly showing was caused by higher financing costs associated with the earlier acquisitions of KPJ Ampang Puteri and Penang. Seeing results tracked estimates, our FY26-28 forecasts were kept. A DPU of 1.8sen was declared (+2% YoY).
- **More fixed financing ahead.** AQAR's debt is currently 100% floating, but management is targeting a 70:30 fixed-floating mix, with c.70% of borrowings maturing within a year. Refinancing via fixed-income market will lower interest rate risk and improve earnings visibility, which we view positively. However, timing is less ideal, seeing 10-yr MGS yield has climbed to c.3.9%, while fixed-rate debt typically carries a premium. Even in a best-case scenario, we expect funding costs to stay within the 4-5% range.
- **Capital recycling in motion.** With gearing already elevated at 48%, management plans to selectively monetize lower-yielding properties and redeploy proceeds into higher-return opportunities; wellness centres look the likeliest candidates, given yields running c.60bp below portfolio average. Going forward, a higher equity component in funding future deals could also help keep leverage in check. Crucially, inorganic runway remains ample: c.10 KPJ hospitals is still outside the REIT and AQAR is open to third-party assets.

YE to Dec	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	120.0	122.4	124.9	127.4
Core profit (RM mil)	64.2	66.1	68.2	70.2
Distributable Income (RM mil)	62.0	66.1	68.2	70.2
EPU (sen)	7.6	7.9	8.1	8.4
EPU Growth (%)	0.7	3.0	3.1	2.9
Consensus core profit (RM mil)		66.5	72.7	79.6
DPU (sen)	7.1	7.5	7.7	7.9
PE (x)	15.2	14.7	14.3	13.9
P/NAV (x)	0.9	0.9	0.9	0.9
Div yield (%)	6.1	6.4	6.7	6.8
ROE (%)	6.1	6.2	6.4	6.5
Gearing (%)	48.3	48.1	48.0	48.1

Source: Al-'Aqar Healthcare REIT, AmInvestment Bank Bhd.

Analyst (s)

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Key Changes

Target Price:	⬇
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	839.6
Market Cap (RMmil)	973.9
NAV (RM/Share)	1.28
P/NAV (x)	0.9
ROE (%)	6.4
Net Gearing (%)	48.0
Free Float	32.5
Avg Daily Value (RMmil)	0.1

Major Shareholders

LTH	(14.6%)
EPF	(12.6%)
Amanah Saham	(7.8%)

Price performance	3mth	6mth	12mth
Absolute(%)	(3.3)	(9.4)	(6.5)
Relative(%)	(5.7)	(9.9)	(14.6)

Source: Al-'Aqar Healthcare REIT, AmInvestment Bank Bhd.

Price Chart

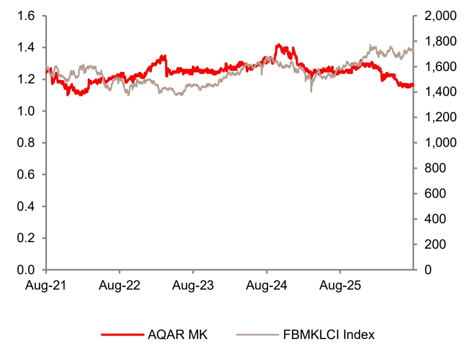
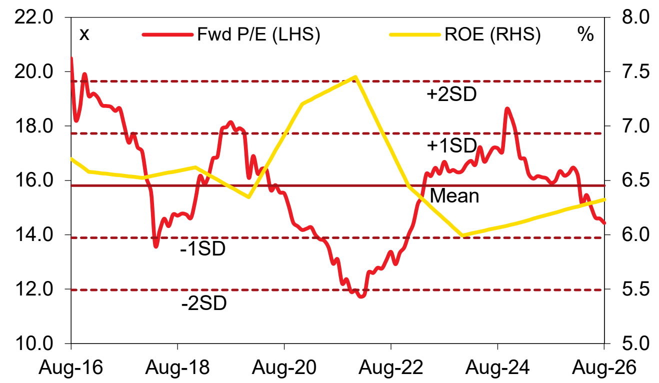


EXHIBIT 1. 2Q26 Results Summary

FYE Dec (RMmil)	2Q26	2Q25	YoY (%)	1Q26	QoQ (%)	1H26	1H25	YoY (%)
Revenue	33.0	28.8	14.3	33.0	0.0	65.9	58.0	13.6
Opex	-1.8	-1.7	3.4	-1.9	-4.6	-3.7	-3.5	5.9
Net property income	31.2	27.1	15.0	31.1	0.3	62.3	54.6	14.1
Management and trustee fees	-2.5	-1.7	46.9	-2.2	12.3	-4.7	-4.1	14.8
Others	-0.5	-0.2	n.m.	-0.3	65.6	-0.7	-0.4	82.8
EBIT	28.2	25.2	11.9	28.6	-1.3	56.8	50.0	13.5
Net interest costs	-12.4	-9.3	34.2	-11.3	10.2	-23.7	-18.3	29.6
Exceptionals	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pre-tax profit	15.8	16.0	-1.0	17.3	-8.7	33.1	31.7	4.3
Tax & minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Net Profit	15.8	16.0	-1.0	17.3	-8.7	33.1	31.7	4.3
Core Profit	15.8	16.0	-1.0	17.3	-8.7	33.1	31.7	4.3
Distributable Income	15.3	15.4	-0.3	16.8	-8.9	32.2	30.6	5.1
Core EPU (sen)	1.9	1.9	-1.0	2.1	-8.7	3.9	3.8	4.3
DPU (sen)	1.8	1.7	1.7	1.9	-8.8	3.7	3.5	6.3
NAV/share (RM)	1.25	1.26	-0.5	1.25	0.0	1.25	1.26	-0.5
Margins (%)			+/- ppt		+/- ppt			+/- ppt
NPI	94.6	94.0	0.6	94.3	0.3	94.4	94.0	0.4
EBIT	85.6	87.4	-1.8	86.7	-1.1	86.1	86.2	-0.1
PBT	47.9	55.3	-7.4	52.5	-4.6	50.2	54.7	-4.5
Core Profit	47.9	55.3	-7.4	52.5	-4.6	50.2	54.7	-4.5
Distributable Income	46.5	53.3	-6.8	51.0	-4.5	48.8	52.7	-3.9

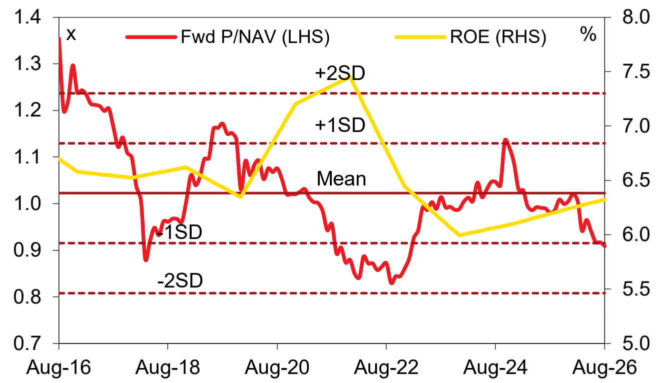
Source: Al-'Aqar Healthcare REIT , AmInvestment Bank Bhd.

EXHIBIT 2. 10yr forward P/E band



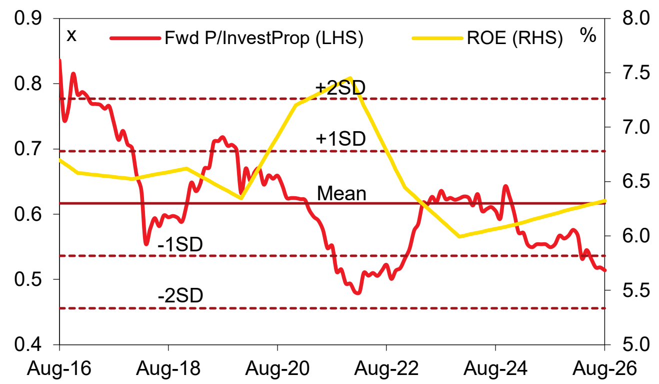
Source: AmInvestment Bank, Bloomberg

EXHIBIT 3. 10yr forward P/NAV band



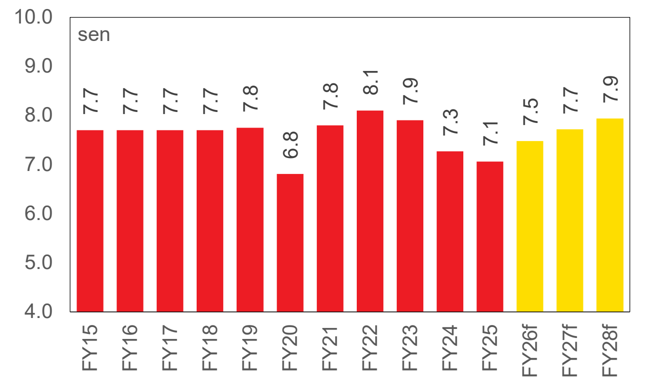
Source: AmInvestment Bank, Bloomberg

EXHIBIT 4. 10yr price-to-investment properties band



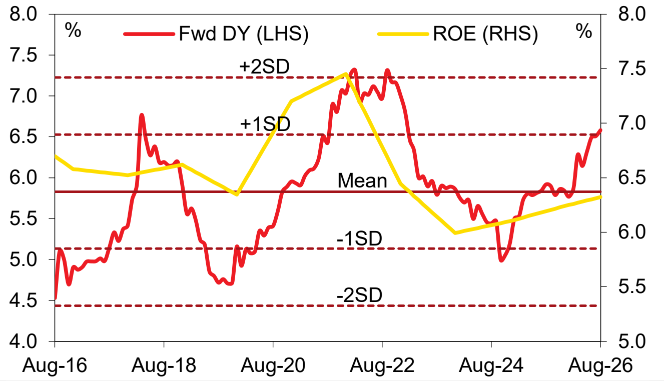
Source: AmInvestment Bank, Bloomberg

EXHIBIT 5. DPU trajectory over time



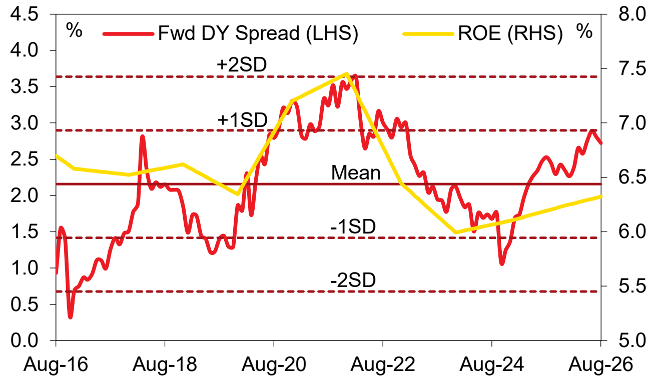
Source: AmInvestment Bank, Bloomberg

EXHIBIT 6. 10yr forward gross DY band



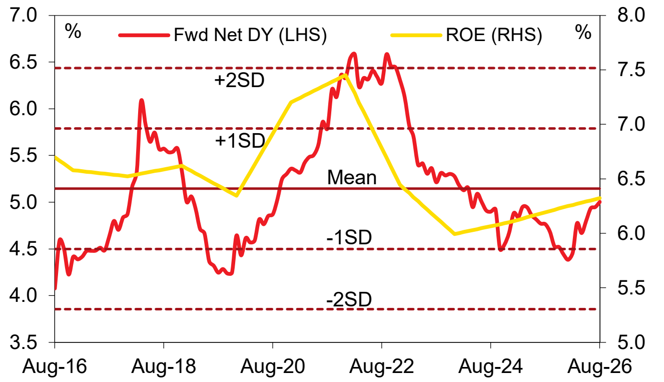
Source: AmInvestment Bank, Bloomberg

EXHIBIT 7. 10yr forward gross yield spread band



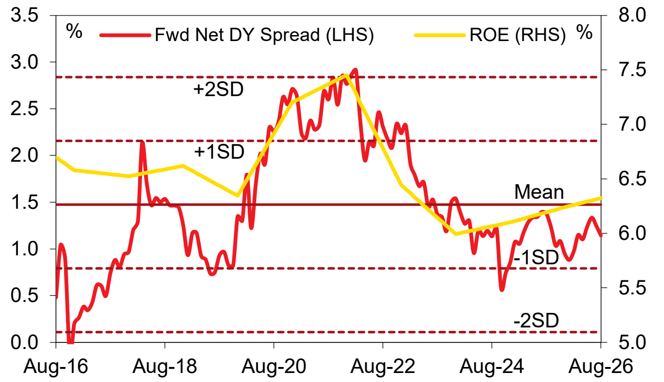
Source: AmInvestment Bank, Bloomberg

EXHIBIT 8. 10yr forward net DY band



Source: AmInvestment Bank, Bloomberg

EXHIBIT 9. 10yr forward net yield spread band



Source: AmInvestment Bank, Bloomberg

EXHIBIT 10. Valuations

Weighted average cost of capital (WACC)	8.2% (from 7.8%)
Long-term growth rate (LTG)	2.0%
Implied yield / spread	6.2% / 240bp (from 5.8% / 220bp)
FY27 DPU	7.7sen
ESG premium	-
12-month target price	RM1.25 (from RM1.30)

Source: AmInvestment Bank

Company profile

AQAR is a specialty Islamic REIT focused on healthcare assets. The portfolio comprises 22 properties: 17 hospitals, 1 college, and 3 wellness centres in Malaysia, coupled with 1 aged care facility in Australia. The total value is RM1.9bn and the assets are leased on long-term master leases to established operators, like KPJ (making up c.99% of gross revenue/NPI), underpinning stable and recurring income.

As at FY25, gearing stands at 48%, which is relatively elevated vs peers. The debt structure is fully floating-rate with an average cost of 4.8%. Interest coverage ratio is 2-3x.

Investment thesis and catalysts

While niche hospital exposure and its c.6% yield have appeal, the investment case remains constrained by: (i) limited inflation hedge, given long-dated master leases capping rental upside, (ii) thin liquidity, with ADV c.85% beneath the sector, and (iii) KPJ-dominant tenant concentration risk. Furthermore, the REIT's distributable income growth has been largely stagnant at c.1% CAGR over 2015-25.

That said, AQAR retains strong defensive qualities, positioning it as a steady income name in risk-off environments; long-term master lease structure supports stable and predictable cash flows. Also, it provides minimal short-term vacancy risk and low sensitivity to cyclical leasing conditions. In addition, AQAR stands out as one of the few Shariah-compliant REITs listed in Malaysia.

Valuation methodology

We value AQAR using the Dividend Discount Model (DDM), considering it consolidates the REIT's distribution outlook, growth prospects, and risk profile into a single framework. As a sanity check, the implied yield is cross-referenced against its historical trading band to ensure the valuation is grounded and reasonable.

We derived a TP of RM1.25 and it implies gross target yield of 6.2% and a spread of 240bp vs 10yr MGS, both near +0.5SD to their respective 10yr averages. Although the REIT offers unique exposure to hospital assets and its c.6% yield is compelling, we see limited appeal from weak trading liquidity and concentrated tenant exposure.

Risk factors

Key downside risks include:

i) High tenant concentration in KPJ; any financial distress or default at the operator level would materially affect AQAR, given the majority of assets are leased to KPJ.

ii) OPR hikes may drive higher borrowing costs and push up 10yr MGS yields, tightening yield spreads and pressuring valuations.

iii) Elevated gearing limits financial flexibility.

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Gross revenue	**117.2**	**120.0**	**122.4**	**124.9**	**127.4**
Property opex	-6.5	-7.0	-7.2	-7.4	-7.6
Net property income	**110.7**	**113.0**	**115.2**	**117.5**	**119.7**
Property mgmt fees	-4.7	-5.7	-5.9	-6.1	-6.3
Trustee-related fees	-5.1	-2.9	-2.9	-3.0	-3.1
Other operating expenses	-2.3	-4.0	0.0	0.0	0.0
Earnings b4 interest & tax	**98.6**	**100.3**	**106.4**	**108.3**	**110.3**
Interest income	1.9	1.8	2.3	2.6	2.8
Borrowing cost	-37.0	-38.0	-42.6	-42.8	-43.0
Non-operating gains/(losses)	-5.4	-8.4	0.0	0.0	0.0
Profit before tax	**58.1**	**55.7**	**66.1**	**68.2**	**70.2**
Taxation	0.2	0.0	0.0	0.0	0.0
Profit after tax	**58.3**	**55.7**	**66.1**	**68.2**	**70.2**
Core Profit	**63.7**	**64.2**	**66.1**	**68.2**	**70.2**
Distributable income	**62.2**	**62.0**	**66.1**	**68.2**	**70.2**

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash	87.3	101.5	129.7	133.9	148.0
Trade & other debtors	94.2	106.9	108.0	109.1	110.3
Current Assets	**181.5**	**208.4**	**237.8**	**243.0**	**258.3**
Trade & other Creditors	5.7	7.4	7.6	7.8	8.0
Short term Borrowings	109.9	638.4	0.0	300.0	0.0
Current Liabilities	**115.6**	**645.8**	**7.6**	**307.8**	**8.0**
Fixed assets	1,654.4	1,879.2	1,879.2	1,879.2	1,879.2
Other Long term assets	0.0	0.0	0.0	0.0	0.0
Long-term Assets	**1,654.4**	**1,879.2**	**1,879.2**	**1,879.2**	**1,879.2**
Total Assets	**1,835.9**	**2,087.6**	**2,117.0**	**2,122.2**	**2,137.5**
Term loans	649.2	370.6	1,019.1	719.1	1,029.1
Other Long term Liabilities	17.6	21.3	21.5	22.1	22.7
Long-term Liabilities	**666.8**	**392.0**	**1,040.6**	**741.2**	**1,051.8**
Share Capital	854.8	854.8	854.8	854.8	854.8
Reserves	198.8	195.0	214.1	218.5	223.0
Shareholders' Funds	**1,053.5**	**1,049.8**	**1,068.9**	**1,073.3**	**1,077.7**
Total Liab & SF	**1,835.9**	**2,087.6**	**2,117.0**	**2,122.2**	**2,137.5**

Cash Flow (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	**58.1**	**55.7**	**66.1**	**68.2**	**70.2**
Working Capital	-1.9	6.2	-0.8	-0.3	-0.3
Others	39.9	45.3	40.3	40.2	40.2
Operating cash flows	**96.0**	**107.2**	**105.5**	**108.1**	**110.1**
Capex	0.0	0.0	0.0	0.0	0.0
Enchancement exp.	-2.2	-4.5	0.0	0.0	0.0
Others	14.9	-239.2	2.3	2.6	2.8
Investing cash flows	**12.7**	**-243.6**	**2.3**	**2.6**	**2.8**
Issue of shares	0.0	0.0	0.0	0.0	0.0
Dividend paid	-66.1	-56.6	-47.0	-63.8	-65.7
Borrowings	0.0	250.0	10.0	0.0	10.0
Others	-34.5	-41.3	-42.6	-42.8	-43.0
Financing cash flow	**-100.6**	**152.1**	**-79.6**	**-106.6**	**-98.7**
Net inflows/(outflows)	**8.2**	**15.6**	**28.2**	**4.1**	**14.2**

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	-3.1	2.3	2.1	2.0	2.0
NPI growth (%)	-3.3	2.1	2.0	1.9	1.9
Core profit growth (%)	-3.2	0.7	3.0	3.1	2.9
NPI margin (%)	94.4	94.2	94.1	94.1	94.0
Core profit margin (%)	54.4	53.5	54.0	54.6	55.1
DPU payout (%)	98.1	95.6	95.0	95.0	95.0
Interest coverage ratio (x)	2.7	2.6	2.5	2.5	2.6
Gearing (%)	41.3	48.3	48.1	48.0	48.1

Source: Company, AmInvestment Bank Bhd.

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