HLIB Research
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AME REIT

In a league of its own

We initiate coverage on AME REIT (AMER) with a BUY call and a TP of RM1.35 based on FY24 forward DPU at a targeted yield of 5.1%. We project AMER's earnings to grow by 16.8%/7.6%/4.2% for FY23f/24f/25f – driven by positive rental reversion and contribution from new assets. We like AMER due to its (i) backing of a sponsor with solid track record, (ii) sponsor and management's complete suite of capabilities in the supply chain of industrial properties and (iii) unique exposure to workers dormitories.

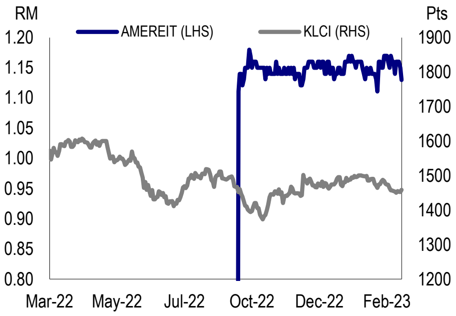
BUY (Initiate)

Target Price:	**RM1.35**
Previously:	**N.A.**
Current Price:	**RM1.13**

Capital upside	19.5%
Dividend yield	5.9%
Expected total return	25.4%

Sector coverage: REIT
Company description: AMER operates as a REIT. The company invests directly and indirectly, in a Shariah-compliant portfolio of income producing real estate used primarily for industrial and industrial-related purposes.

Share price



Historical return (%)	1M	3M	12M
Absolute	-0.9	-0.9	N.A.
Relative	-0.2	-2.5	N.A.

Stock information

Bloomberg ticker	AMEREIT MK
Bursa code	5307
Issued shares (m)	520
Market capitalisation (RM m)	588
3-mth average volume ('000)	207
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

AME Development Sdn Bhd	50.9%
Hong Leong Assur Bhd	5.7%
Lee Chai	4.7%

Earnings summary

FYE (Mar)	FY22	FY23f	FY24f
PAT – core	26.9	31.4	33.8
EPU – core (sen)	5.6	6.0	6.4
P/E (x)	20.3	18.8	17.5

Property portfolio. AME REIT (AMER) is the largest pure play industrial & industrial-related REIT with an asset portfolio comprising 31 industrial properties and 3 industrial related workers' dormitories. All of which are located across different locations in Iskandar Johor with an aggregate NLA of 1.61m sqft and appraised value of RM557.0m.

Sponsor with proven track record. AME Elite (Sponsor of AMER) is the only listed specialised industrial contractor cum industrial property developer in Malaysia. It has developed five industrial parks and one commercial development carrying a total estimated GDV of RM2.9bn as well as built more than 200 industrial properties in Peninsular Malaysia as a contractor.

Diversified exposure to growing areas. AMER's tenants mostly consist of global MNCs (90%) from various growing industries operating within E&E, Logistics & E-commerce and Packaging. Moreover, no single tenant makes up more than 8.0% of its occupied industrial NLA, offering diversification.

Quality assets translate to robust occupancy rates. Historical blended industrial portfolio occupancy rates have consistently stood above 90% (FY20-9MFY23). AMER also achieved an impeccable 100% renewal rate for FY20-FY22. As at 3QFY23, its industrial properties are fully occupied. Separately, AMER's worker dormitories are rented out on a master lease agreement with i-Stay (FY20-9MFY23: 100% occupancy rate), which provides a relatively low risk revenue stream to AMER.

Ample debt headroom… As at 31 Dec 2022, AMER's gearing stood at a comfortable 6%. Assuming a gearing up to the permissible limit (50% stipulated by SC's guidelines), there is still ample room for acquisitions up to RM508m without equity injection. This would fund acquisitions equivalent to c.90% of AMER's portfolio value before concerns of equity dilution could start setting in.

…to absorb quality assets from the Sponsor. AMER has been granted the right of first refusal (ROFR) from the Sponsor and its subsidiary i-Park Development for a period of 5 years. Hence, the Sponsor's existing investment portfolio as well as ongoing and future industrial park developments represent a rich pipeline of high quality assets to augment AMER's acquisition pathway (i.e. investment properties held under the Sponsor and properties earmarked for leases in i-TechValley).

Steady growth even with existing assets. Factoring in 3 earmarked acquisitions (Plot 43@SAC, Plot15 and 16@Indahpura), we project AMER's earnings to grow steadily by 16.8%/7.6%/4.2% for FY23-25f, respectively – arising from positive rental reversion and rental contribution upon completion of its ongoing acquisitions.

Initiate with a BUY, TP: RM1.35. We derive a TP of RM1.35 based on FY24 forward DPU at a targeted yield of 5.1% – derived from ascribing a 150bps "premium" to the 3-year historical average yield spread between industrial property REITs in Malaysia (Axis REIT and Atrium REIT) and MAG10YR. We opine the premium is justifiable due to management and Sponsor's complete suite of capabilities in the supply chain of industrial properties and its unique exposure to workers' dormitories.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Mar	FY23f	FY24f	FY25f
Cash	22.7	26.7	29.4
Investment properties	599.8	626.3	626.3
Others	1.5	1.6	1.7
Total Assets	**623.9**	**654.5**	**657.3**
Payables	18.7	20.8	21.7
Debt	89.2	115.7	115.7
Others	1.0	1.2	1.2
Total Liabilities	**108.9**	**137.7**	**138.6**
Unitholders' capital	515.0	516.8	518.7
Others	-	-	-
Equity	**515.0**	**516.8**	**518.7**
Total Liab & Equity	**623.9**	**654.5**	**657.3**

Income Statement

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Total revenue	28.7	35.2	41.5	46.3	48.1
Prop opex	(2.6)	(3.3)	(3.4)	(3.6)	(3.6)
Net prop income	**26.1**	**31.9**	**38.1**	**42.6**	**44.5**
Profit income	0.4	0.5	0.5	0.5	0.5
Net investment income	**26.5**	**32.4**	**38.5**	**43.1**	**44.9**
Mgmt fees	(2.8)	(3.2)	(3.7)	(3.9)	(4.0)
Trustee fees	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Other trust exp	(0.6)	(0.7)	(0.8)	(0.7)	(0.7)
Finance costs	(1.3)	(1.5)	(2.5)	(4.5)	(4.9)
Core PBT	**21.6**	**26.9**	**31.4**	**33.8**	**35.2**
Tax	-	-	-	-	-
Core PAT	**21.6**	**26.9**	**31.4**	**33.8**	**35.2**
EIs	-	-	-	-	-
Reported PAT	**21.6**	**26.9**	**31.4**	**33.8**	**35.2**

Cash Flow Statement

FYE Mar	FY23f	FY24f	FY25f
Profit before taxation	31.4	33.8	35.2
Others	21.9	4.5	3.2
CFO	**53.3**	**38.3**	**38.4**
Disposal / (purchase)	(599.8)	(26.5)	-
Others	-	-	-
CFI	**(599.8)**	**(26.5)**	**-**
Distribution paid	(35.0)	(34.3)	(35.7)
Debts raised/(repaid)	89.2	26.5	-
Equity raised/(repaid)	520.0	-	-
Others	(5.0)	-	-
CFF	**569.2**	**(7.8)**	**(35.7)**
Net CF	**22.7**	**3.9**	**2.7**
Beginning Cash	-	22.7	26.7
End Cash	**22.7**	**26.7**	**29.4**

Valuation & Ratios

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Core EPU (sen)	4.7	5.6	6.0	6.4	6.7
P/E (x)	24.2	20.3	18.8	17.5	16.9
DPU (sen)	N.A.	N.A.	6.7	6.9	7.1
Dividend yield	N.A.	N.A.	5.9	6.1	6.3
Distribution payout ratio	N.A.	N.A.	100%	95%	95%
NTA/ unit	N.A.	N.A.	1.0	1.0	1.0
P/ NTA	N.A.	N.A.	1.1	1.1	1.1
BVPS (RM)	N.A.	N.A.	1.0	1.0	1.0
P/B (x)	N.A.	N.A.	1.1	1.1	1.1
NPI margin	91%	91%	92%	92%	92%
Core PAT margin	75%	76%	76%	73%	73%
ROE	N.A.	N.A.	6.1%	6.5%	6.8%
ROA	N.A.	N.A.	5.0%	5.2%	5.4%
Gearing	N.A.	N.A.	17.3%	22.4%	22.3%
Net gearing	N.A.	N.A.	12.9%	17.2%	16.7%

Key Assumptions

FYE Mar	FY21	FY22	FY23f	FY24f	FY25f
Gross rental income:					
SAC	13.0	17.0	18.2	18.9	19.1
Indahpura	7.6	8.0	9.9	12.3	13.6
SILC	2.0	3.0	3.1	3.1	3.1
Dormitories	6.1	7.2	10.4	11.9	12.3
Total revenue	**28.7**	**35.2**	**41.5**	**46.3**	**48.1**

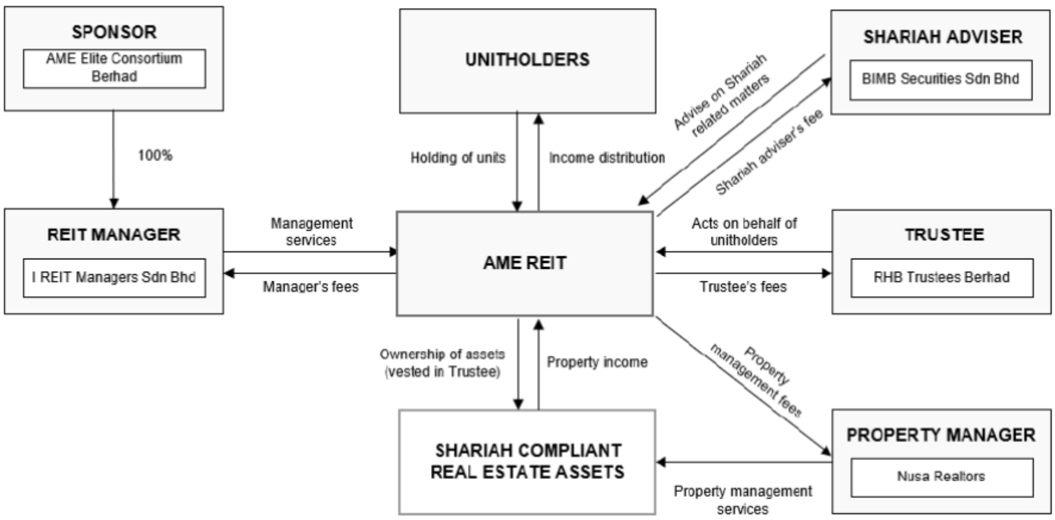
Company Background

Sponsor. Incorporated on 27 Aug 2018 as public limited company and was subsequently listed on the Main Market of Bursa on 14 Oct 2019, AME Elite Consortium Bhd (the Sponsor) is a property development and construction group with core expertise in the construction of customised large manufacturing plants and design-and-build of industrial parks. This is complemented by its offerings in engineering services, property investment and management services in Malaysia.

AMER. AME REIT ("AMER") is an Islamic REIT that is constituted by the deed of trust entered between the Manager and the Trustee dated and registered with the Securities Commission (SC) on 23 May 2022. Subsequently listed on 20 Sep 2022, AMER is an Islamic REIT established with the principal investment policy of investing directly or indirectly in a Shariah-compliant portfolio of income producing real estate used primarily for industrial and industrial-related purposes.

REIT Manager. The manager of AMER, I REIT Managers Sdn Bhd (the Manager) is a wholly-owned subsidiary of the Sponsor. The Manager is authorised to carry out fund management activities in relation to REITs. At the time of writing, the Manager only manages AMER.

Figure #1 AME REIT's Structure



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Property portfolio. AMER's portfolio comprises 31 freehold industrial properties and 3 freehold industrial-related workers' dormitories. All of which are located across four different locations in Iskandar Malaysia region namely i-Park@Senai Airport City, i-Park@Indahpura, i-Park@SiLC and District 6@SiLC with an aggregate industrial NLA of 1.61m sqft and appraised value of RM557.0m as at 31 Dec 2022. At the point of writing, AMER is undergoing an acquisition of 3 industrial properties from the Sponsor, namely Indahpura's Plot 15 and Plot 16 as well as SAC's Plot 43. Completion of the exercise is expected to lift AMER's total industrial NLA to 1.9m sqft and portfolio appraised value to about RM626.3m.

Figure #2 Industrial NLA by location

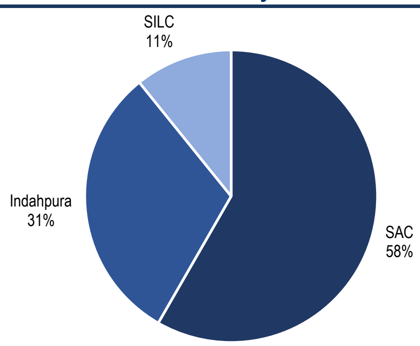

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Figure #3 Appraised value by asset

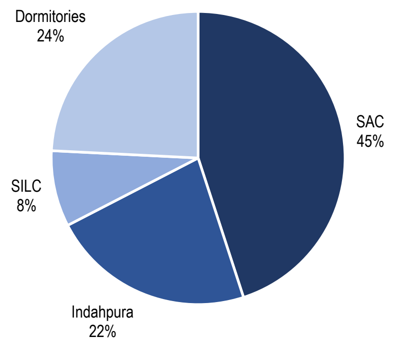

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Figure #4 AMER's Portfolio

Properties	NLA (sqft)	Tenant	Status	Appraised value (RM m)
Indahpura:				
Plot 7	55,365	GN Resound	Completed	14.0
Plot 8	55,365	Heraeus Materials	Completed	14.0
Plot 14	89,169	Bericap	Completed	21.0
Plot 18	27,521	HID Global	Completed	7.0
Plot 20	27,521	Cam Plas Johor	Completed	7.0
Plot 21	26,977	Nippon Kinzoku	Completed	7.0
Plot 36	27,521	Samwoo	Completed	7.0
Plot 65	27,980	W&S Plastics	Completed	7.0
Plot 66	67,639	HQ Pack	Completed	17.0
Plot 69	61,135	Merlin	Completed	17.0
Plot 120	32,186	W&S Plastics	Completed	7.0
Plot 13 (Dormitories)	NA	i-Stay	Completed	45.0
Plot 17 (Dormitories)	NA	i-Stay	Completed	45.0
Senai Airport City:				
Plot 5	31,202	Polycore Optical	Completed	8.0
Plot 6	28,809	Fedex	Completed	7.0
Plot 9	31,202	PPC Moulding	Completed	8.0
Plot 16	58,074	MyTech	Completed	14.0
Plot 17	58,074	MyTech	Completed	14.0
Plot 18 & 19	129,275	Dyson	Completed	47.0
Plot 1A1	71,486	Lyreco	Completed	17.0
Plot 1B1	81,969	DHL	Completed	17.0
Plot 1C2	72,177	AAC Technologies	Completed	23.0
Plot 20	58,074	TEK Auto	Completed	14.0
Plot 21	58,074	Weidmuller	Completed	14.0
Plot 30	31,424	Hochuen	Completed	8.0
Plot 32	100,367	MNC EMS	Completed	21.0
FZW	129,818	GWP, Agility & GN Resound	Completed	38.0
Dormitories	NA	i-Stay	Completed	45.0
SILC:				
Plot 3 & 4	24,319	Lightpack Food	Completed	6.5
Plot 6	12,785	Lightpack Food	Completed	3.5
Plot 3&4 D6	92,202	Westrock Coffee & Tea	Completed	24.0
Plot 6D6	45,984	Ametalin	Completed	13.0
Grand Total	**1,613,694**			**557.0**

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Figure #5 Ongoing acquisitions

	Plot 43@SAC	Plot 15@Indahpura	Plot 16@Indahpura
			
Estimated ALA* (sqft)	56,814	101,764	98,249
Lease commencement date	5-Oct-22	3QCY23	5-Oct-22
Expected lease term	10 years	10 years	10 years
Tenure	Freehold	Freehold	Freehold

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**Agreed lettable area*

Management Team of the Manager

Figure #6 Key management team

Name	Position	Details
Lee Sai Boon	Chairman/Executive Director	• Around 28 years of experience in construction and about 11 years in property development, property investment and management. • Responsible for the overall operations and performance of the mechanical and electrical services division of the Sponsor.
Chan Wai Leo	CEO/Executive Director	• 25 years of experience in audit, financial reporting, property investment, REIT management and property development. • Oversee the day-to-day operations of AMER which includes preparing proposals and working with the Board to determine and implement the overall business, investment and operational strategies or policies for AMER.
Lee Chai	Executive Director	• 38 years of experience in the construction industry and around 10 years of experience in property development, property investment and management. • Currently the GMD of AME Group – responsible for the business growth and direction, strategic corporate planning and overall operations and management of AME Group.
Lee Ling Sien	Operations Manager	• Assisting the CEO in overseeing AMER's overall operations, including to formulate business plans to maximise the rental income and implement AMER's strategy.
Liow Jing Hong	Finance Manager	• Responsible for overseeing AMER's overall accounting and financial matters.
Kuan Pek Kwan	Compliance Officer	• Responsible for ensuring the Manager's compliance with securities law, regulations and guidelines governing the regulated activities.

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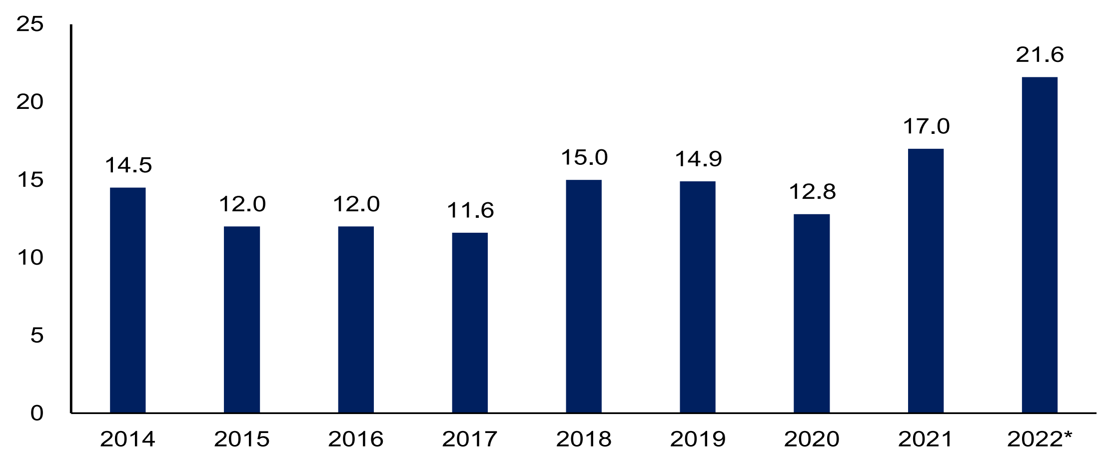
Industry Overview

Resilience of industrial properties. Unlike retail and office, industrial properties have proven its resilience amidst the pandemic, thanks to the meaningful growth of e-commerce activities which subsequently lifted the demand for logistics-related industrial properties. Hence, industrial properties transactions remained active with RM17.0bn worth taking place in 2021 (vs RM12.8bn in 2020) and subsequently logged RM10.8bn in 1H22 – this demonstrated strong buying interests from investors, especially to potential land banks for future expansion and development. While the tailwinds arising from the pandemic are abating with e-commerce activities moderating, we expect the outlook for industrial properties to remain fairly stable on the back of (i) consistent positive rental reversion, (ii) sustained transactional activities within the industrial space and (iii) resumption of investment activities which had been previously been put on hold from the pandemic.

Figure #7 Value of industrial property transaction (RM bn)



NAPIC, HLIB Research
**annualised 1H22 data*

Sweet spot for MNCs. Adding to that is the investment diversion to Malaysia amidst the heightening geopolitical tensions between US and China, which has led to some multinational companies diverting their expansion to Southeast Asia from their original expansion plans in China – according to Smith Zander. Also aided by longer tenancy length in nature, rental rates for industrial properties have remained stable throughout the challenging period. As most parts of the globe (including Malaysia) entered into the endemic phase, with AMER being Johor-centric, the full reopening of Malaysia-Singapore border will aid in attracting newer tenant pools, besides retaining both local and existing tenants – as Johor has already been a spot where many global manufacturers' facilities are set up. Hence, we strongly believe that industrial REITs will continue its stable growth trajectory moving forward.

Workers' dormitories. The Covid-19 pandemic has highlighted the poor living conditions of many foreign workers in Malaysia, especially among the manufacturing industry. This led to the Human Resource Ministry enforcing minimum standards with regards to providing proper housing accommodation to foreign workers, which subsequently gave rise to the enactment of Act 446. Underpinned by regulatory shifts and the demand for compliant dormitories, we expect the workers' dormitory market – as an alternative asset class – to grow rapidly. This would be beneficial for AMER, being the first REIT with a niche on dormitories.

On a side note, the labour shortage woes which has been hampering various sectors in Malaysia (prominently the manufacturing industry which represents a reasonable mix of AMER's tenants) is gradually easing as foreign workers arrivals are gaining pace due to the reopening of international borders. Human Resources Minister V. Sivakumar has also announced that employers in 7 sectors (including manufacturing) applying for foreign workers from 15 source countries will receive approval within 3 days without the need to go through pre-conditional hiring qualification and quota eligibility. The new recruitment and quota plan has been well-received as Home Minister Datuk Sri Saifuddin Nasution Ismail said a total of 2,000 applications from employers involving 155,621 foreign workers have been submitted to the government. As the entry of foreign workers gain traction, demand for dormitories is expected to accelerate as employers seek accommodation for their incoming workers.

Investment Thesis

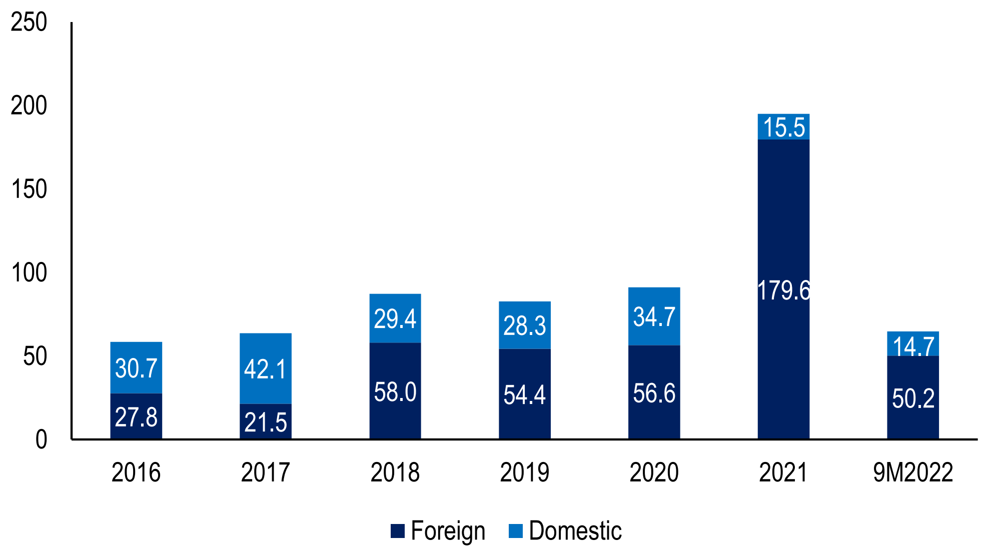
Largest pure play industrial & industrial-related Shariah compliant REIT. AMER is the largest listed Shariah-compliant pure play industrial & industrial-related REIT, with aggregate asset market value of RM557m and market capitalisation of RM588m. Given the steady growth of Shariah compliant funds (Islamic AUM 2016-2021 CAGR: 8.5%), there is an increasing appetite for "halal yield" which AMER could in part, satiate. AMER's closest listed peer under our coverage would be Axis REIT (~93% industrial title) with market value of asset at RM4.2bn, market capitalisation around RM3.3bn and trades at projected CY23/24 yields of 5.1%/5.3% (HLIBf: 7 Mar-23). The other listed peer would be Atrium REIT (100% industrial) carrying an asset market value and market capitalisation of RM533m and RM353m, respectively.

Sponsor with proven track record. AMER is backed by AME Elite, a reputable sponsor with a proven track record. AME Elite is the only listed specialised industrial contractor cum industrial property developer in Malaysia with market capitalisation of RM833m. AME Group's history traces back to 1995 when it started in the field of design and build construction of customised large manufacturing plants and industrial buildings. The sponsor has completed more than 200 manufacturing plants and industrial factories in Peninsular Malaysia. In 2011, the group ventured into industrial park development and has since completed five industrial parks and one commercial development carrying a total estimated GDV of RM2.9bn. Given its track record and well renowned customers, future developments of high quality industrial real estate present opportunities for AMER to add to its burgeoning list of high yielding assets.

Johor, a well-developed economic hub. AMER's entire property portfolio is strategically located within the Iskandar Malaysia region in Johor. Touted as an economic hub in the Southern region, Iskandar Malaysia aims to receive a cumulative investment of RM383.0bn by 2025. The vast investment flow in the region is set to propel its industrial development and economic activities in various sectors. The state's well-developed logistical infrastructure forms one of the key elements in elevating the appeal of industrial properties within Johor. Ample transportation infrastructures include Senai International Airport, Johor Port, Port of Tanjung Pelepas, Tanjung Langsat Port, Johor Causeway, North-South Expressway and Malaysia-Singapore Second Link Expressway. Several projects under construction are Johor-SG Rapid Transit System and Iskandar Bus Rapid Transit would further enhance regional connectivity and accessibility, including into Singapore.

Strong investment backdrop… From 2016-2021, total approved manufacturing investments recorded a CAGR of 11.8%. The impressive figure was primarily driven by robust manufacturing FDI flows which logged a CAGR of 19.5% over the said period. Despite the Covid-19 pandemic inevitably impacting enquiries from disrupted business travels, 2021 approved investments saw an impressive jump, increasing 2.1x. According to Smith Zander, increase in FDI flows over the past few years can be partly attributed to the escalating US-China trade war resulting in relocation of foreign companies' manufacturing base away from China into Southeast Asia, Malaysia included. As the US began setting tariffs and trade barriers on China in early 2018, FDI flows into Malaysia started picking up. While the numbers have moderated in 9M22 (due to high base effects from some mega one offs in 2021 – i.e. RM42bn from Risen Solar and RM30bn from Intel Electronics), the full year sum is expected to remain decent, relative to pre-Covid levels. We believe a meaningful sum of manufacturing investments approved in 2021 will translate to actual expenditure over the coming years and spill over to industrial properties. Additionally, from our checks with an industrial properties landlord, many corporates are resuming their investment plans in Malaysia which were previously put on hold due to the pandemic.

Figure #8 Total approved manufacturing investments in Malaysia (RM bn)



MIDA, HLIB Research

…translates to sustained demand negating black swan event. This strong investment backdrop has likewise translated into robust industrial property sales growth achieved by AMER's sponsor, AME Elite. We reckon this point towards resilient demand pulse for the i-Park brand of industrial space in Johor. The sponsor's FY21 sales only contracted slightly by -4.0% despite the Covid-19 related lockdowns that year. Since then, even with lingering restrictions and borders remaining largely shut, sales roared back in FY22 and nearly doubled YoY in just the first nine months of FY23. Similarly, the industrial rental market has performed well with AMER's portfolio exhibiting 100% asset renewal rates across FY20-22, notably encompassing the Covid-19 period.

Figure #9 AME Elite's sales (RM' m) (FYE Mar)

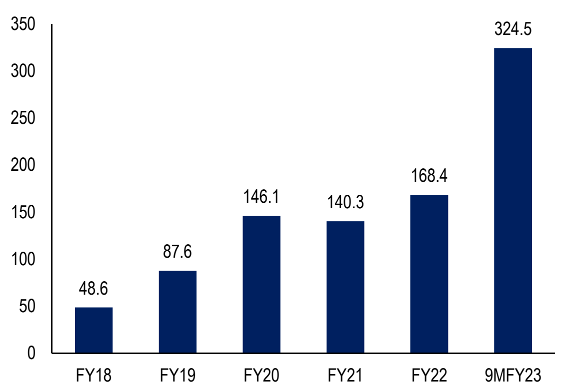


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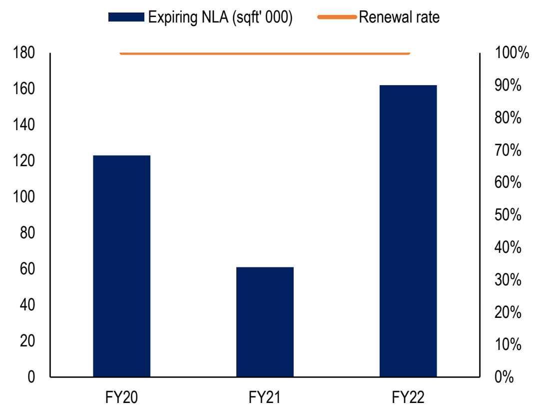
Figure #10 Expiring NLA and renewal rates



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Unique exposure to workers' dormitories. AMER is the first Malaysian REIT to offer exposure to an emerging dormitory asset class. Since the Covid-19 pandemic outbreak, there has been increasing scrutiny on quality of workers' accommodation in the country. This has also resulted in a string of negative exposés implicating various Malaysian corporates. In response, the Malaysian government has implemented new rules, imposing a set of minimum standards for accommodation provided by employers (Act 446). AMER's worker dormitories adhere to the prescribed minimum regulatory standards as evidenced by certifications obtained from Jabatan Tenaga Kerja (JTK) for all of its dorms. In addition to normal living spaces, the dorms provide first aid room, quarantine room, space for a café, laundry shop, grocery and a multi-purpose hall. The various dorms under AMER boast floor space per worker of 3.6 sqm (~38 sqft), consistent with Act 446. The dormitories are rented to i-Stay on a master lease agreement, thereby providing a stable revenue stream to AMER. However, we opine that the actual demand pulse for the dormitories of i-Stay may be the bellwether for its future renewal rate with AMER. From the perspective of i-Stay, we highlight the occupancy rate of the SAC dormitories faced a temporary blip in 1H22 (4QCY21: 97% vs 2QCY22: 54%) due to transition period between old and new tenants as well as I Stay's diversification efforts to dilute its concentration risks for a single tenant. As at 4QCY22, the occupancy level of SAC dormitories has reverted to full occupancy (inclusive of bookings). This signals strong demand for its dormitories, and in our view, provides sufficient upside for AMER's dormitories lease rates.

Figure #11 Dormitories' pic

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Figure #12 Safety features

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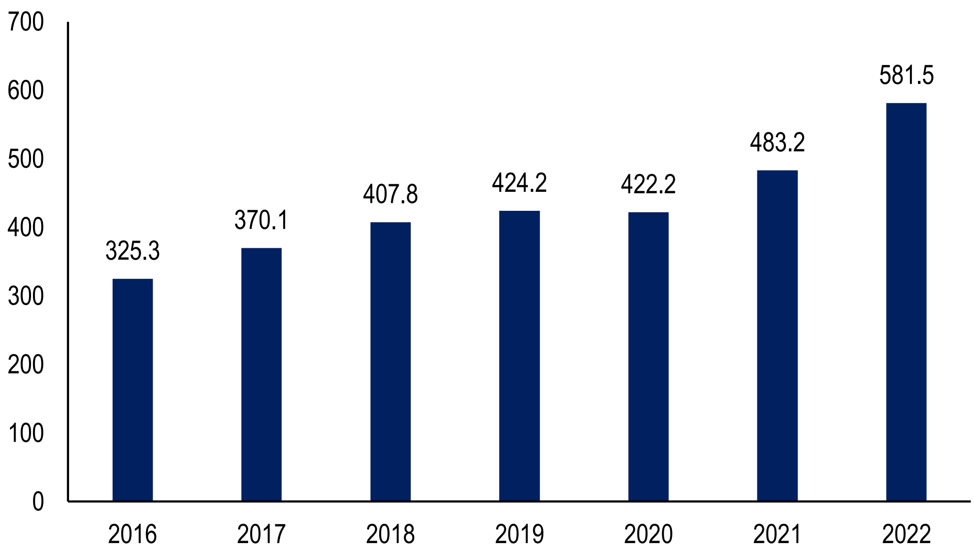
Diversified tenant base. AMER's tenant base is reasonably diversified as no single tenant making up more than 8.0% of occupied industrial NLA. This implies a broad spectrum of lease terms from various industry backgrounds, which meaningfully alleviates annual renewal risks. We also highlight that AMER's tenants mostly consist of global MNCs with significant long term business interests in the region. AMER's tenant portfolio by trade reveals a moderately balanced segment exposure. As at 31 Dec 2022, The top three areas of exposure are Electrical & Electronics (E&E) at 31.2%, Logistics & E-commerce at 13.3% and Packaging at 12.6%. These segments have demonstrated commendable growth rates, case in point: E&E manufacturing sales logged 10.2% CAGR for 2016-2022 while e-commerce revenue registered 31.3% CAGR for 2017-2022.

Figure #13 Manufacturing sales volume of E&E products (Malaysia), 2016-2022 (RM' m)



DOSM, HLIB Research

Figure #14 Top 10 tenants by industrial NLA (as at 31-Dec-22)

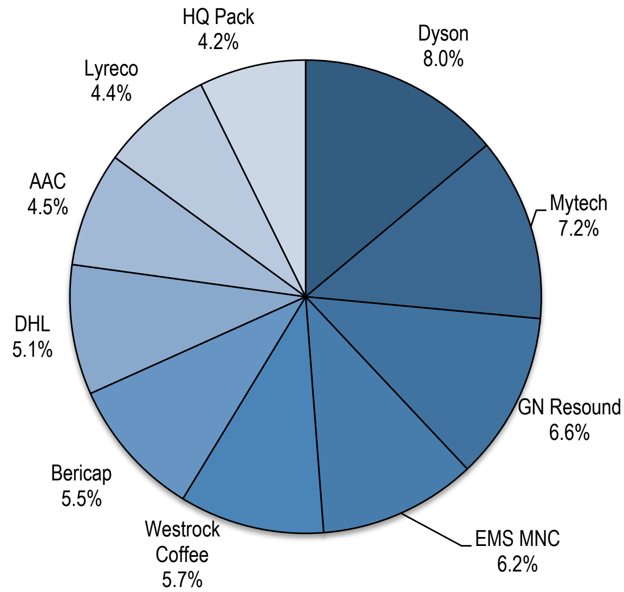


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Figure #15 Trade segment breakdown of industrial tenants (% of NLA as at 31-Dec-22)

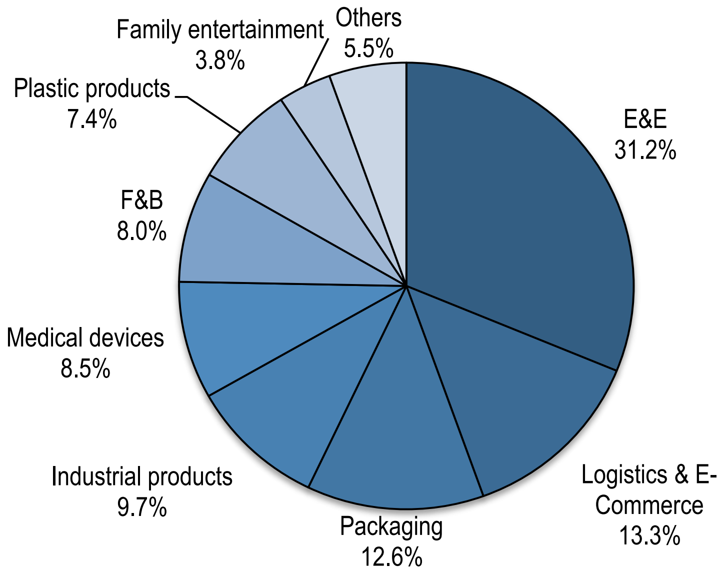

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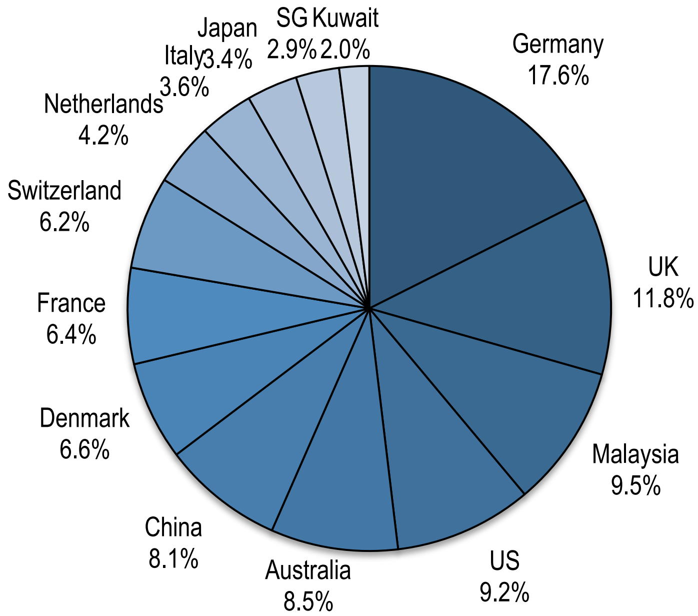
Figure #16 Geographical breakdown of industrial tenants (% of NLA as at 31-Dec-22)



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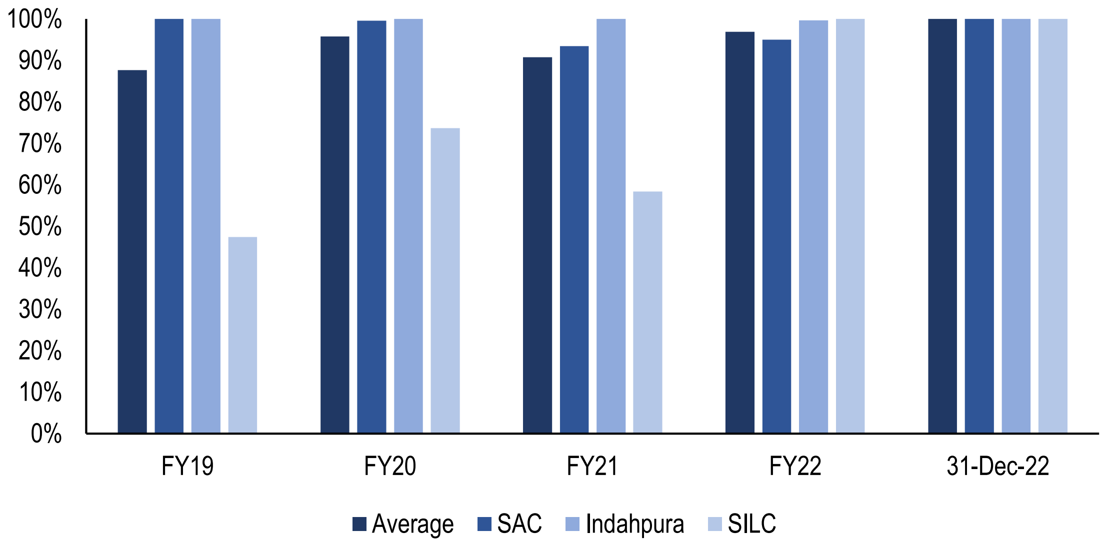
Robust & stable occupancy rates. Historical blended industrial portfolio occupancy rates have consistently stood above 90% (FY20-9MFY23). As at 31 Dec 2022, its properties have achieved full occupancy with its weighted average lease expiry stood at 3.0 years. Apart from the strong appeal of its industrial properties (taking cue from its impeccable 100% asset renewal rates for FY20-22), the robust occupancy rates are partly attributed to the nature of its asset portfolio which predominantly comprises single-tenant properties. Unlike retail and office properties, tenants for industrial properties typically commit heavy capital in developing a manufacturing premise, which reduces the likelihood of relocation. We reckon this enhances tenant stickiness leading to higher renewal rates for AMER's properties. Additionally, excluded from the aforementioned metrics are AMER's workers' dormitories which are rented out on a master lease agreement with i-Stay, a 70%-owned subsidiary of the sponsor (FY20-9MFY23: 100% occupancy rate). Hence, we believe these dorms provide a relatively low risk revenue stream to AMER (c.22% of FY20-FY22 revenue). We are projecting an increase of revenue contribution to c.26% going forward with revenue kickers from the completion of additional two blocks at Indahpura in Jul-2022 and upward reversion to market rental rates.

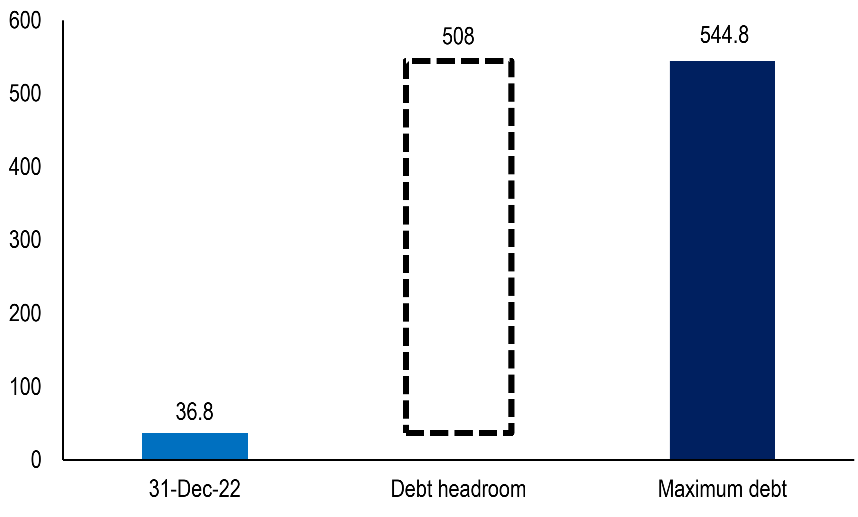
Figure #17 Historical occupancy rate



AME REIT, HLIB Research

Ample debt headroom… Similar with other REITs, AMER is bounded by the SC's Guidelines on Listed Real Estate Investment Trusts (REITs), of maintaining its gearing level below 50%. As at 31 Dec 2022, AMER's indebtedness is about 6%. Assuming gearing up to the permissible limit would unleash additional ammunition of RM508m for potential asset acquisitions without resorting to equity fund raising (assuming asset value increases with debt load). For context, this would fund acquisitions equivalent to c.90% of AMER's portfolio value, offering a substantial amount of asset acquisition/DPU growth before fears of equity dilution starts setting in. AMER's asset value could cross the much coveted RM1.0bn mark post-listing without any further equity injection, which is in line with management's annual acquisition target of RM100m for the next 5 years.

Figure #18 Debt headroom (RM' m)



AME REIT, HLIB Research

…to absorb expansive assets pipeline from the Sponsor. In addition to the 3 property acquisitions aforementioned from the Sponsor, its existing investment portfolio as well as ongoing and future industrial park developments represent pipeline of high quality assets to augment AMER's asset acquisition pathway. For instance, upon fulfilment of AMER's investment criteria, we believe the 6 industrial properties held under the Sponsor's investment properties portfolio is likely to be injected into the REIT. We also note that there are another 4 leased properties held as inventory. On a longer term horizon, the Sponsor has in Oct 2022 officially launched a RM1.5bn GDV industrial park in SiLC, Johor which is slated for full completion by 2030, namely i-TechValley. The development also consists of a workers' dormitory capable of accommodating more than 2000 beds. From our ground checks, the demand for the industrial park has been sturdy, having even received bookings and sales prior to its official launch (15% sold as at 31 Dec 2022). Traditionally, 10-20% of completed units of an industrial park was earmarked by the Sponsor for leasing purposes. However, it is likely to rise further as the listing of AMER shortens the group's capital recycling period.

Separately, the Sponsor has also formed a 50-50 SPV with Majestic Builders Sdn Bhd to jointly develop an integrated industrial park with workers' dormitories in Seberang Perai Tengah, Penang on a 176.0-acre development land. The construction works are expected to commence in 3Q23 and completed by 2030. With all of this in mind, AMER has been granted the right of first refusal (ROFR) from the Sponsor and its subsidiary, i-Park Development for a period of 5 years since its listing to facilitate AMER's future asset acquisitions. Prudent criteria for future acquisitions would be yield accretive, stable cash flows, potential for further capital growth as well as potential to enhance geographical diversification.

Ex-Johor assets are on the cards. Cognisant of its geographical concentration, AMER is striving to acquire yield accretive assets in the Central and Northern regions. To spearhead this effort, AMER CEO's Chan Wai Leo who previously served as Head of Investments at Axis REIT will be hunting for assets to reduce AMER's geographical concentration. We believe a successful diversification endeavour could potentially lead to valuation rerating for AMER. Nonetheless, we do anticipate geographical concentration to remain in the medium term as we think immediate acquisition pipeline is likely Johor based as indicated by the aforementioned pipeline under development.

Financial Overview

3QFY23 results review. Gross revenue and net property income (NPI) came in at RM10.8m and RM10.1m respectively. Core net profit stood at RM8.3m, which was in line with management's forecast of RM31.0m when pro forma annualised. We expect 4QFY23 performance to remain largely stable, factoring in minor contribution from Plot 43@SAC and Plot 15@Indahpura upon completion of the acquisitions exercise in mid-March.

FY23f. We project AMER's FY23 core net profit to grow by 16.8% YoY driven by:

i. Fully tenanted contribution from its FZW plot. For illustration, the entire FZW plot constitutes 8.0% of AMER's total industrial NLA.
ii. Higher contribution from Indahpura with construction of Plot 14 completed in Jan-22.
iii. Additional rental income arising from the acquisition of Indahpura's Plot 15 and SAC's Plot 43 in March 2023.
iv. Stronger contribution from dormitories due to completion of dormitory construction in Indahpura and commencement of leasing at a higher rate.

FY24f. We project AMER's FY24 core net profit to increase by 7.6% YoY supported by:

i. Full year contribution from Indahpura's Plot 15 and SAC's plot 43 in 4QFY23.
ii. Full year contribution from new dormitories at Indahpura with higher rental rate.
iii. Leases of Indahpura's Plot 16 expected to commence in 3QCY23/1QFY24.
iv. Positive rental reversion at i-Park@Indahpura and i-Park@SAC

FY25f. We project FY25 core net profit to rise slightly at 4.2% due to rental reversion at expiring dormitories to the market rate.

To note, we have not baked in any asset acquisitions in our forecast horizon (beyond the 3 ongoing acquisitions) as we hold a prudent stance until it materialises. According to management, AMER is targeting to undertake RM100m acquisitions annually for the next 5 years in an effort to achieve RM1.0bn portfolio value. The Sponsor's existing portfolio of 10 industrial properties and ongoing developments in Johor, in our view, are low hanging fruits for AMER due to the ROFR agreement.

Additionally, recent major launches (RM1.5bn GDV i-TechValley in SiLC and RM1bn GDV jointly-developed industrial park in Penang) and its intention to hunt for assets outside Johor in a bid to reduce its geographical concentration suggest that the targets are attainable. Also, AMER has ample debt headroom to facilitate future acquisitions.

Figure #19 Revenue and Core PAT projections (RM' m)

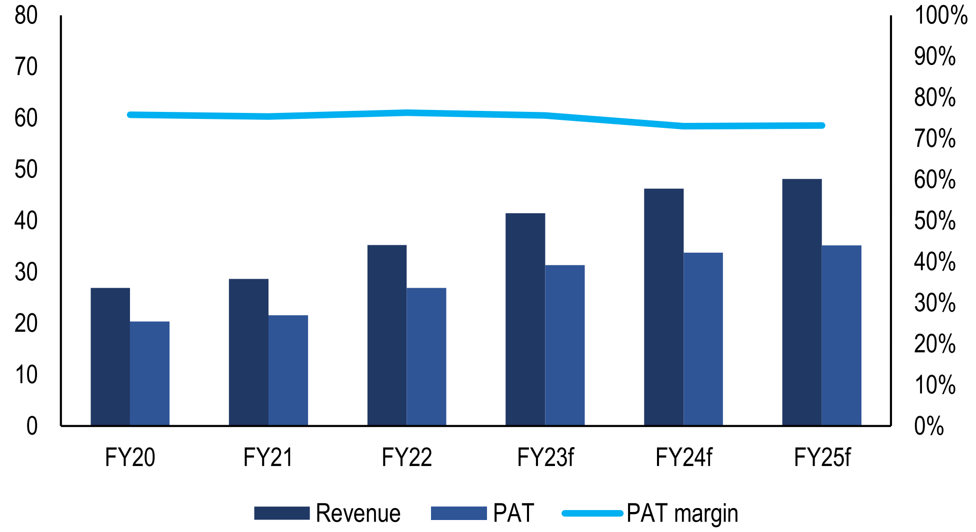


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Figure #20 Revenue and Core PAT projections (RM' m)

Gross rental income (RM' m)	FY23f	FY24f	FY25f
i-Park Senai Airport City (SAC)	18.2	18.9	19.1
Occupancy rate	98%	97%	98%
Rental rates (per sqft)	1.62	1.63	1.63
i-Park Indahpura	9.9	12.3	13.6
Occupancy rate	98%	97%	98%
Rental rates (per sqft)	1.59	1.62	1.62
SiLC properties	3.1	3.1	3.1
Occupancy rate	100%	100%	100%
Rental rates (per sqft)	1.45	1.48	1.48
Dormitories	10.4	11.9	12.3
Occupancy rate	100%	100%	100%
Rental rates (per bed)	153.0	155.4	160.4

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Valuation & Recommendation

Initiate with BUY, TP: RM1.35. We derive a TP of RM1.35 based on FY24 forward DPU at a targeted yield of 5.1% – derived from ascribing 150bps "premium" to the 5-year historical average yield spread between industrial property REITs in Malaysia (Axis REIT and Atrium REIT) and MAG10YR. We deem AMER to be a compelling case, given its (i) backing of a strong sponsor with established track record and brand name (i.e. i-Park), (ii) sponsor and management's complete suite of capabilities in the supply chain of industrial properties – from design, construction and engineering, industrial development to property investment and management services, (iii) its smaller asset base translates to meaningful growth upon execution of asset acquisitions (relative to its much bigger peer), and (iv) unique exposure to workers' dormitories. The targeted yield of 5.1% is 80bps higher than Axis REIT's in-house targeted yield of 4.3%. In our opinion, the higher targeted yield is justified by (i) its smaller asset base (RM557m vs Axis's RM4.2bn), (ii) geographical concentration (100% Johor), and (iii) brief trading history since its listing. Our TP implies a total return of 25.4% (19.5% capital gain and 5.9% dividend yield). At current price, AMER is yielding 5.9%/6.1%/6.3% for FY23f/24f/25f.

Figure#21 Average yield spread between our REITs coverage and 10-year MGS since 2018

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Figure#22 Peers comparison

Stock	Mkt Cap (RM m)	Price (RM)	Target (RM)	Rating	FYE	P/E (x) FY23	P/E (x) FY24	P/B (x) FY23	P/B (x) FY24	Yield (%) FY23	Yield (%) FY24
Al-'Aqar Healthcare REIT	991	1.31			Dec	14.9	15.2	NA	NA	6.0%	6.0%
Al-Salam REIT	255	0.44			Mar	9.6	9.4	NA	NA	8.6%	8.9%
AmanahRaya REIT	321	0.56			Dec	NA	NA	NA	NA	NA	NA
AME REIT	589	1.13	1.35	BUY	Mar	18.8	17.5	1.1	1.1	5.9%	6.1%
AmFIRST REIT	233	0.34			Mar	NA	NA	NA	NA	NA	NA
Atrium REIT	353	1.38			Dec	NA	NA	NA	NA	NA	NA
Axis REIT	3,273	1.88	2.23	BUY	Dec	19.3	18.4	1.2	1.2	5.1%	5.3%
CLMT	1,170	0.53			Dec	12.6	12.3	0.5	0.6	7.0%	7.7%
Hektar REIT	337	0.675			Dec	9.4	9.5	NA	NA	9.2%	9.2%
IGB REIT	6,176	1.72	1.78	BUY	Dec	17.5	16.9	1.6	1.6	6.3%	6.6%
IGBCR	1,218	0.52	0.49	SELL	Dec	15.5	13.8	0.5	0.5	6.5%	7.3%
KIP REIT	549	0.905			Jun	13.1	11.6	NA	NA	6.9%	7.7%
KLCCSS	12,276	6.8	6.64	HOLD	Dec	17.3	16.7	0.8	0.8	5.6%	5.9%
Pavilion REIT	4,129	1.35	1.47	BUY	Dec	16.5	15.6	1.1	1.1	5.8%	6.2%
Sentral REIT	943	0.88	0.77	HOLD	Dec	11.8	11.4	0.7	0.7	8.5%	8.7%
Sunway REIT	5,343	1.56	1.87	BUY	Dec	14.9	14.2	1.0	1.0	6.4%	6.7%
Tower REIT	126	0.45			Dec	NA	NA	NA	NA	NA	NA
UOA REIT	763	1.13	1.10	HOLD	Dec	11.5	11.0	0.8	0.8	8.5%	8.9%
YTL Hosp REIT	1,704	1.00			Jun	11.9	10.8	NA	NA	8.0%	9.5%
Average						**14.3**	**13.6**	**0.9**	**0.9**	**7.0%**	**7.4%**

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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