

13 April 2023

Property | REITS

AME REIT (AMEREIT MK)

Buy

Well-Positioned For Growth; Initiate BUY

- **Initiate coverage with BUY, DDM-based MYR1.38 TP offers 17% upside, with a c.6% FY23F (Mar) yield.** With a high debt headroom, a clear pipeline of new developments from its sponsor, and favourable supply-demand dynamics in the industrial properties space, we think the outlook for AME REIT is bright. This is due to the positive outlook for its organic and inorganic growth, with management targeting MYR100m in new acquisitions each year.
- **A shariah-compliant, pure industrial M-REIT.** AME REIT has 33 industrial properties and three dormitories in Johor. It is well-positioned in the booming industrial segment – especially with regional electronic manufacturing services, technology, consumer products, and e-commerce sectors being expected to continue growing. The high-quality tenants the REIT attracts should ensure sustainable occupancy rates and rental reversions. Worker dormitories (dorms) form a sub-segment that should see robust demand in the coming years, given the increasing emphasis on ESG.
- **Backed by a sturdy sponsor.** AME Elite Consortium (AME) is a professional industrial property developer and contractor. It builds third-party industrial facilities and develops customised factories for clients in its own industrial parks. The 170-acre new land in Southern Industrial & Logistics Clusters (SiLC) should sustain the flow of assets to be injected into AME REIT over the longer term. Having spent >14 years in the industrial real estate segment, CEO Chan Wai Leo is experienced in driving the REIT's inorganic growth prospects.
- **Worker dormitories – a high growth segment.** So far, AME REIT is the only M-REIT that has worker dorms in its portfolio. Although the three worker dorms only account for 22% of asset value, income from this segment is likely to be lumpy whenever a new dorm is injected. We expect the sponsor to build more dorms in the coming years – given the robust demand for worker dorms, greater emphasis on ESG in the region, and regulatory shifts. This would lead to more dorms with better quality and that are compliant with requirements and standards set.
- **DDM-derived MYR1.38 TP.** We derive our TP using a DDM approach, as the REIT pays out most of its earnings as dividends, with a 2% ESG premium applied based on our in-house proprietary methodology. Our core net profit estimate for FY23 is MYR32m (+19% YoY), driven by the commencement of the third dorm's operations as well as better rental reversion post economic re-opening. We expect FY24-25 net income to grow by 5.6% YoY and 3.8% YoY, as contributions from two of the pipeline assets will start kicking in from FY24 onwards. Key downside risks: Unexpected slowdown in economic growth, increased competition, and loss of key tenants.

Target Price (Return): MYR1.38 (+17%)
Price (Market Cap): MYR1.18 (USD139m)
ESG score: 3.10 (out of 4)
Avg Daily Turnover (MYR/USD) 0.14m/0.03m

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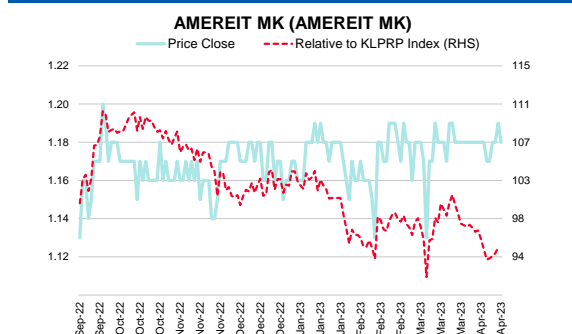


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.9	(0.9)	0.0	0.9	0.0
Relative	(9.1)	(3.9)	(6.9)	(15.9)	0.0
52-wk Price low/high (MYR)				1.13 – 1.20	



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: EXCELLENT

There is a focus on improving the efficiency of resource utilisation – energy, water, and materials – through better infrastructure, construction, operations and maintenance.

S: GOOD

AME REIT's sponsor has made donations and sponsorship to various parties over the years, including the poor families, Pusat Kebajikan Care Haven, Persatuan Penjagaan Kanak-Kanak Terencat Akal Johor Bahru

G: GOOD

There is only woman out of its total of six Board members, which is below the Securities Commission's target of 30%. Meanwhile, the number of independent directors make up half of the Board. The REIT manager has a balanced split between female and male staff (50:50).

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (MYRm)	28.7	35.2	41.5	45.9	48.5
Net property income (MYRm)	26.1	31.9	37.9	42.0	44.4
Reported net profit (MYRm)	19.6	26.9	32.1	33.9	35.2
Total distributable income (MYRm)	24.2	29.1	34.7	36.6	38.0
DPS (MYR)	na	na	0.07	0.07	0.07
DPS growth (%)	0.0	0.0	0.0	4.6	3.8
P/B (x)	na	na	1.17	1.17	1.17
Dividend Yield (%)	na	na	5.7	5.9	6.1
Return on average equity (%)	0.0	0.0	12.2	6.5	6.7
Return on average assets (%)	0.0	0.0	10.3	5.3	5.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	Recurring EPS (MYR)	0.04	0.05	0.06	0.07	0.07
Property	EPS (MYR)	0.04	0.05	0.06	0.07	0.07
AME REIT	DPS (MYR)	-	-	0.07	0.07	0.07
AMEREIT MK	BVPS (MYR)	-	-	1.01	1.01	1.01
Buy	Return on average equity (%)	-	-	12.2	6.5	6.7
	Weighted avg adjusted shares (m)	520.00	520.00	520.00	520.00	520.00
Valuation basis	Valuation metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
DDM	Recurring P/E (x)	31.32	22.77	19.10	18.09	17.42
	P/E (x)	31.32	22.77	19.10	18.09	17.42
	P/B (x)	na	na	1.2	1.2	1.2
	FCF Yield (%)	3.5	4.4	8.2	6.6	7.4
	Dividend Yield (%)	-	-	5.7	5.9	6.1
	EV/EBITDA (x)	27.24	21.99	(1.02)	(0.99)	(0.94)
	EV/EBIT (x)	27.24	21.99	(0.99)	(0.99)	(0.94)
Key drivers	Income statement (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Inorganic growth from acquisition opportunities, backed by a reputable sponsor and high debt headroom.	Total turnover	28.7	35.2	41.5	45.9	48.5
	EBITDA	22.5	27.9	32.4	37.3	39.5
	Depreciation and amortisation	0.0	0.0	1.0	0.0	0.0
	Operating profit	22.5	27.9	33.4	37.3	39.5
	Net interest	(0.9)	(1.0)	(1.3)	(3.4)	(4.3)
	Pre-tax profit	19.6	26.9	32.1	33.9	35.2
	Recurring net profit	19.6	26.9	32.1	33.9	35.2
Key risks	Cash flow (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Downside risks include increased competition from other properties and the loss of key tenants	Change in working capital	0.0	0.0	18.2	1.0	2.0
	Cash flow from operations	21.6	26.9	50.6	39.3	43.5
	Capex			0.0	1.0	2.0
	Cash flow from investing activities	0.0	0.0	(599.3)	(25.0)	2.5
	Dividends paid			(34.7)	(36.3)	(37.7)
	Cash flow from financing activities	(19.6)	(26.9)	559.4	(12.7)	(40.4)
	Cash at beginning of period	0.0	0.0	0.0	25.6	25.4
	Net change in cash	2.0	0.0	10.8	1.7	5.6
	Ending balance cash	2.0	0.0	10.8	27.3	31.0
Company Profile	Balance sheet (MYRm)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
AME REIT is a <i>shariah</i> -compliant, pure industrial REIT based in Johor. It is also the only M-REIT to own worker dormitories in its portfolio.	Total cash and equivalents	0	0	25	25	26
	Total investments	0	0	600	626	626
	Total assets	0	0	624	652	652
	Short-term debt			37	37	37
	Total long-term debt			43	69	69
	Total liabilities	0	0	100	126	126
	Shareholders' equity	0	0	525	525	526
	Total equity	0	0	525	525	526
	Net debt	0	0	55	81	80
	Total liabilities & equity	0	0	624	652	652
	Key metrics	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
	Revenue growth (%)	6.6	23.0	17.7	10.8	5.7
	Recurrent EPS growth (%)	(3.8)	37.6	19.2	5.6	3.8
	Operating EBITDA margin (%)	78.6	79.2	78.2	81.2	81.3
	Net profit margin (%)	68.4	76.5	77.5	73.8	72.6
	Dividend payout ratio (%)	0.0	0.0	108.0	106.9	106.9
	Capex/sales (%)	0.0	0.0	0.0	(2.2)	(4.1)
	Interest cover (x)	16.9	19.5	19.1	9.6	8.3

Source: Company data, RHB

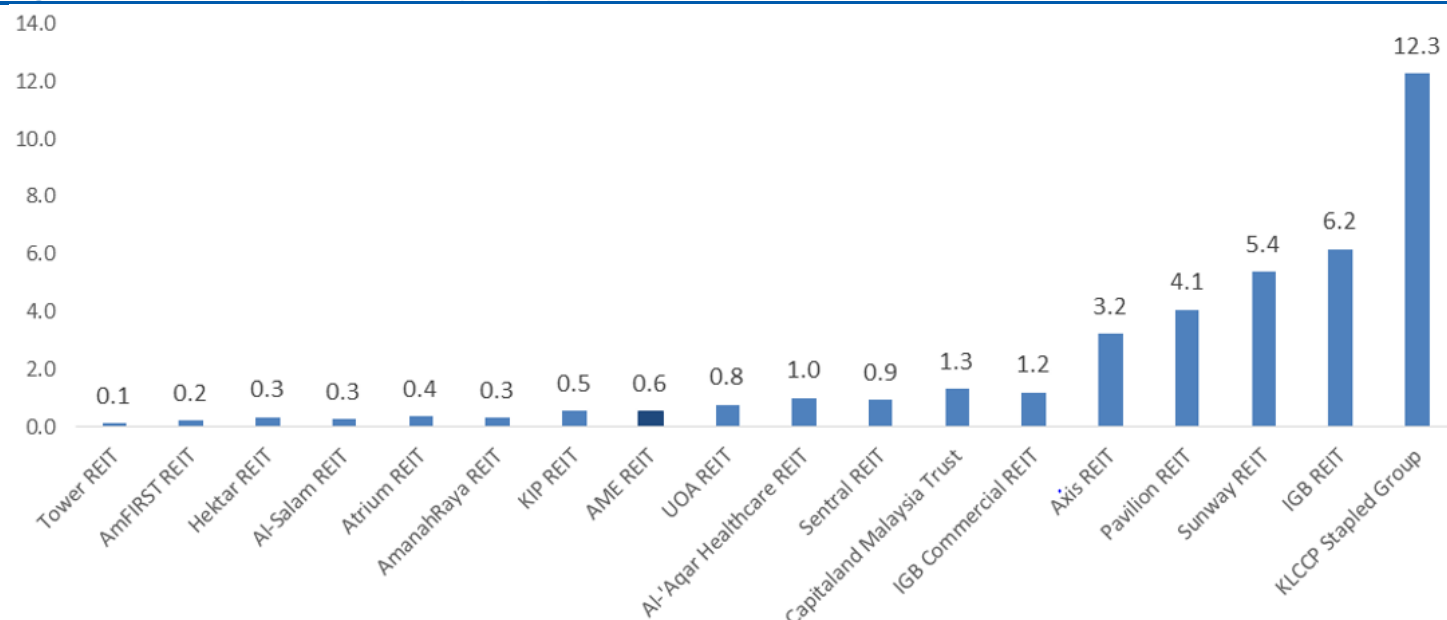
Investment Thesis

A pure industrial M-REIT with a relatively new asset profile. AME REIT was listed in Sep 2022. With an asset size of MYR599.8m, it is larger than Atrium REIT (ATRM MK, NR), but much smaller compared to Axis REIT (AXRB MK, BUY, TP: MYR2.14), which is currently the largest industrial REIT listed in Malaysia. However, AME REIT's assets are comparatively newer, at less than 10 years old.

As of Mar 2023, its portfolio comprises 33 industrial properties and three worker dorms, with a total NLA 1.75m sqf and 6,407 beds. Most of the industrial properties are located within the i-Park branded parks developed by its sponsor, AME. The dorms are located adjacent to i-Park and cater to tenants in the industrial parks. In March, the REIT announced that it completed the acquisition of two new properties from its sponsor, with a third expected to be completed in 2H23 – all for a cash consideration of MYR69.25m.

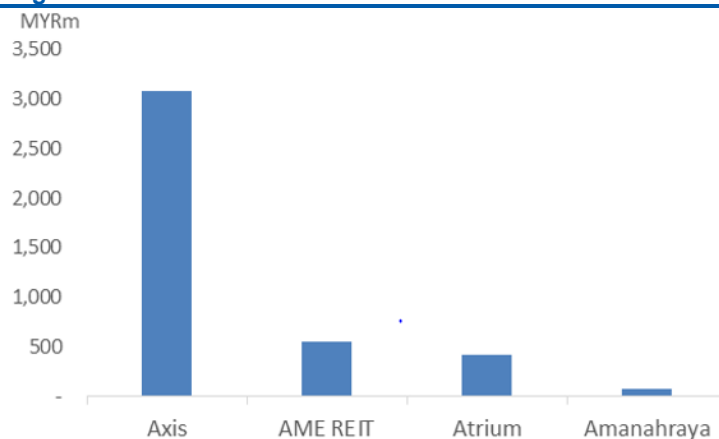
All of the properties in the portfolio are located in Johor – Indahpura, Senai Airport City (SAC) and SiLC. The state has developed good infrastructure, which is important for attracting manufacturers and foreign direct investments (FDIs). These include major highways – eg Johor Causeway, North-South Expressway, Second-Link Expressway – as well as seaports and airports such as Johor Port, Port of Tanjung Pelepas, Tanjung Langsat Port, and Senai International Airport.

Figure 1: Market cap of all listed REITs (MYRbn)



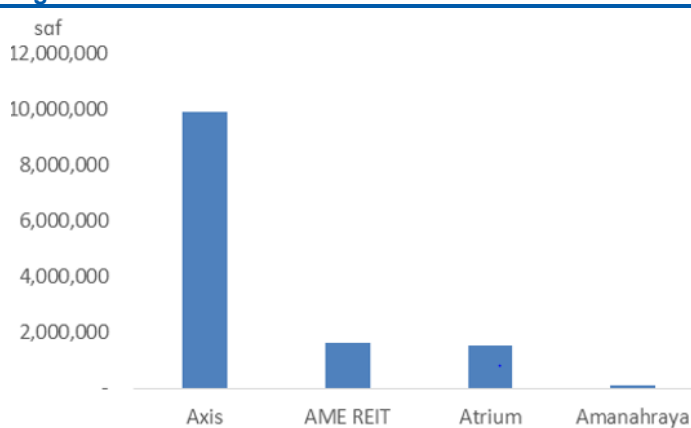
Source: Company data, Bloomberg

Figure 2: Industrial asset value for M-REITs



Source: Companies data

Figure 3: Industrial NLA for M-REITs



Source: Companies data

More favourable demand-supply dynamics for the industrial segment. In our opinion, the industrial segment is in a bright spot compared to the other sub-segments. Commercial retail and office spaces have been experiencing severe supply gluts over the past few years, and the slow absorption of space has resulted in a marginal decline in occupancy rates, as well as depressed or stagnant rental reversions for these segments. In contrast, the incoming supply of industrial units fell by about 14% pa on average from 2016 to 2019. This has supported the stable and resilient rental reversions we saw for the existing industrial M-REITs. The risk of oversupply in the industrial segment seems minimal, as most of the announced developments are made on a built-to-suit basis – thereby securing the properties' long-term tenancies.

Figure 4: More favourable supply conditions for the industrial segment

	Retail space (sq m)	% change	Incoming supply of purpose-built office space (sq m)	% change	Industrial (units)	% change
2015	1,505,201	-	1,667,750	-	11,206	-
2016	1,819,077	20.9%	2,005,349	20.2%	6,901	-38.4%
2017	1,776,334	-2.3%	2,154,036	7.4%	5,675	-17.8%
2018	1,684,818	-5.2%	2,310,743	7.3%	4,917	-13.4%
2019	1,952,135	15.9%	2,378,131	2.9%	4,343	-11.7%
2020	1,808,648	-7.4%	2,510,145	5.6%	4,354	0.3%
2021	1,713,696	-5.2%	1,647,275	-34.4%	4,316	0.0%
2022	1,378,696	-19.5%	1,529,442	-7.2%	4,205	-2.6%

Source: National Property Information Centre (NAPIC), RHB

The pandemic has accelerated growth in the e-commerce sector, as well as demand for semiconductor, technology, and electronic products from the manufacturing sector. A lot of the focus has been on third-party logistics assets to minimise the risk of supply chain disruptions (which were prevalent during the pandemic). The long-term outlook for the industry looks bright, in view of the continued growth of e-commerce and digitalisation. According to National Property Information Centre (NAPIC), the transaction value for industrial properties amounted to MYR21.2bn in 2022, marking a 25% YoY increase from MYR16.9bn in 2021.

Figure 5: Some notable expansion/new industrial facilities in Penang and Johor announced over the last two years

Company	Location	Size	Purpose
Tiong Nam Logistics	SAC's Free Commercial Zone	62.6 acres	1.1m sqf for Mercedes-Benz's Asia-Pacific after-sales logistics hub and local assembly plant.
Dominant Enterprise	SAC	10.2 acres	Warehouse.
VS Industry	i-Park @ SAC	9.5 acres	Capacity expansion.
Simmtech Holdings (South Korea)	Batu Kawan Industrial Park	18 acres	Printed Circuit Board and packaging substrate.
Greotech Technology	Batu Kawan Industrial Park	Total 530,000 sqf factories	Machinery and equipment.
Hotayi Electronic (M) (Taiwan)	Batu Kawan Industrial Park	190,000 sqf factory	Electronic manufacturing services (EMS).
QES Group	Batu Kawan Industrial Park	2 acres	High-tech electromechanical contract manufacturing services.
Pentamaster Corp	Batu Kawan Industrial Park	500,000 sqf factory	Automation engineering technology solutions provider.
UWC	Batu Kawan Industrial Park	12 acres	Semiconductor industry.
PIE Industrial	Seberang Jaya Industrial Park	150,000 sqf factory & 80,000 sqf warehouse	EMS.
NI Malaysia	Bayan Lepas Industrial Park	6 acres	Automated test equipment and virtual instrumentation software.
Intel Electronics (M)	Bayan Lepas Industrial Park	NA	Semiconductor industry.

Source: Various media, Bursa Malaysia, Knight Frank Research

Quality tenants ensure resilient occupancy rates and steady rental reversions. About 90% of AME REIT's tenants (by NLA) are overseas-based manufacturers, while corporations from Germany, the UK, the US and Australia account for 47% of the total. Given that 26 out of the 33 industrial properties are located in i-Park SAC and i-Park Indahpura, we believe the foreign MNCs are attracted to the features that i-Park developments offer. These include gated and guarded services, recreational facilities and a clubhouse, landscape management, business service centre, health & safety monitoring, and green building concepts in factory design. Proper worker dorms set up adjacent to the two i-Parks are also an important factor, providing necessary convenience to industrial park tenants.

Given the tenants' strong background and profile, AME REIT's rental reversion and occupancy rate have been rather stable and resilient. This is true even during the COVID-19 pandemic in 2020-2021, when 12 tenants requested for rental deferments of up to six months – without rental reduction and rebates – as well as changes to their terms of tenancy. Subsequently, all outstanding rental charges were fully paid by the tenants.

Since Mar 2020, AME REIT only had three early termination of leases, as one tenant moved to another facility for expansion purposes, and the vacant space was taken up by a new tenant with a 13-day void period. The remaining two early terminations were replaced with new tenancies, with only a 1-day void period recorded for one property.

Figure 6: Tenants' country of origin as a percentage of occupied NLA

Country of origin	% of occupied NLA
Germany	17.6%
United Kingdom	11.8%
Malaysia	9.5%
United States	9.2%
Australia	8.5%
China (incl. HK)	8.1%
Denmark	6.6%
France	6.4%
Switzerland	6.2%
Netherlands	4.2%
Italy	3.6%
Japan	3.4%
Singapore	2.9%
Kuwait	2.0%
Total	100.0%

Source: Company data

Figure 7: Tenants' country of origin as a percentage of pro forma gross rental income

Country of origin	% of gross rental income
Germany	11.4%
United Kingdom	11.5%
Malaysia	6.8%
United States	5.3%
Australia	6.6%
China (incl. HK)	6.4%
Denmark	5.3%
France	4.6%
Switzerland	3.3%
Netherlands	3.2%
Italy	2.5%
Japan	2.4%
Singapore	2.0%
Kuwait	1.4%
Malaysia - Dormitories	27.3%
Total	100.0%

Source: Company data

Portfolio occupancy. Occupancy rates for the industrial properties clustered in Indahpura and SiLC are typically at 100%. However, the occupancy rate for properties in SAC is slightly lower, at around 93-95% over the last two years. This is mainly due to the time gap between the termination/expiry of leases and the commencement of new ones. As a whole, AME REIT's portfolio has a weighted average lease expiry (WALE) of almost four years.

Worker dorms – a new high-growth asset class. Partly due to COVID-19, the pandemic has helped to push through regulatory changes that prompted stronger demand for better-quality worker accommodations. The Human Resource Ministry has come out with new regulations regarding the minimum requirements for accommodations provided by employers, beginning Sep 2020.

We believe this asset class will grow rapidly, as more local manufacturers will strive to comply with the required standards of lodging for their workers. Likewise, MNCs or local manufacturers with high exposure to big MNC customers that generally have greater emphasis of ESG would prefer to set up their facilities in areas that offer proper worker accommodations.

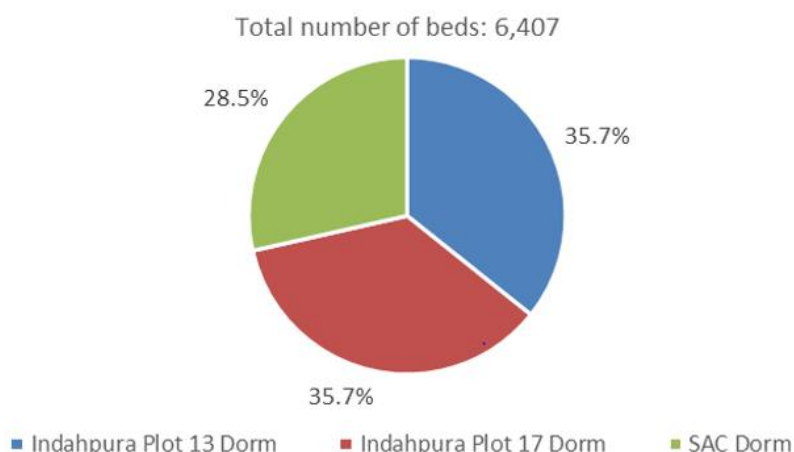
AME REIT is the only listed REIT in Malaysia that has worker dorms in the portfolio. Although the three dorms only account for 22% of the REIT's asset value currently, revenue

and earnings should see a step up once a new dorm is injected. Currently, these dorms contribute about 22% of total gross monthly rental income.

Given the robust demand ahead, the REIT's sponsor is expected to build more dorms in its new land in SiLC (called i-TechValley) as well as its existing i-Park developments.

The three dorms under AME REIT house a total of 6,407 beds. Growth in the average rental per bed is rather minimal every year. However, the addition of newer dorms – which typically incorporate bigger space, and have better features and facilities – are able to command better rental rates. The dorms have a 100% occupancy rate, as they are rented on master lease agreements to I Stay Management.

Figure 8: Distribution of beds among the three dorms



Source: Company data

Backed by a strong sponsor with a proven track record in industrial property development. The REIT's sponsor, AME, specialises in building industrial properties. It is the only pure industrial property developer listed on Bursa Malaysia. The company constructs third-party industrial facilities and develops customised factories according to its clients' needs. AME also manages the industrial parks it develops. Over the years, the company has launched five industrial parks in Indahpura and SAC (in various phases) and a commercial development, which have a combined GDV of MYR2.9bn.

New land in SiLC (i-TechValley) to sustain organic growth. In Oct 2022, AME launched a MYR1.5bn GDV, 170-acre land in SiLC. The company is confident that it can attract FDI from across the globe similar to Indahpura and SAC. Prior to its launch, it has already garnered investments from domestic companies and MNCs. This should also bode well for the prospects of pipeline assets that can be injected into AME REIT over the longer term, when more plants and factories are set up in the industrial park.

Completed two out of three acquisitions from sponsor. In March, AME REIT completed the acquisition of two properties (Plot 43 @ SAC and Plot 15 @ Indahpura) from its sponsor for a total cash consideration of MYR42.75m. A third acquisition, for Plot 16 Indahpura, is expected to be completed in 4QFY24, to the tune of MYR26.5m. These properties have a combined GFA of 256,857 sqf, with leases secured for a tenure of 10 years. Plot 16 Indahpura is still under construction, and will come with a brief rent-free period once it is completed. The REIT will only acquire the asset once the rental kicks in.

Figure 9: Pipeline assets from AME

	*Monthly Rental / sqf	NLA	Expected lease tenure
Plot 43 @ SAC	MYR1.60 – MYR1.85	56,814 sqf	Fixed 10 years
Plot 15 @ Indahpura	MYR1.50 – MYR1.85	101,764 sqf	Fixed 10 years
Plot 16 @ Indahpura	MYR1.50 – MYR1.90	98,249 sqf	Fixed 10 years

Note: Incremental rental rate over the 10-year lease term
Source: Company data

Inorganic growth via third-party acquisitions to drive near-term earnings, dividends, and asset portfolio growth. While waiting for more assets to be completed and leased out from the sponsor, we think AME REIT will grow more rapidly via third-party acquisitions. The REIT should have ample capacity to do so, given its expected gearing of just 12% after the two completed acquisitions. Based on our estimate, it could have a debt headroom of MYR220m, assuming a gearing target of around 35% – in line with the sector average. As its asset size and market cap grow, we believe the REIT's liquidity will also improve over time.

Valuation & Recommendation

We derived our MYR1.38 TP based on a DDM valuation, as REITs regularly pay out at least 90% of their distributable incomes to unitholders, in order to qualify for tax exemptions. We expect AME REIT to pay out 100% of its distributable income in the first year of listing, and will likely pay close to, if not 100% of distributable income in subsequent years. The dividends will be paid quarterly.

In addition, DDM also effectively captures the multi-year earnings growth potential with AME REIT, where the occupancy rate expansion, addition of new dorms, and possibility of acquiring any assets from its sponsor in the medium-to-long term may be imputed into the fair value. We highlight that this methodology is consistent with the approach we use to value the other REITs under our coverage.

Figure 10: AME REIT's DDM valuation

FYE March	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
Distributable income (MYRm)	36.64	38.04	41.25	42.23	48.27	49.66	51.12	52.58	53.52	54.49
Dividend payout (%)	99%	99%	99%	99%	99%	99%	99%	99%	99%	99%
(MYRm)										
Terminal value	356.17									
NPV	347.73									
Total equity value	703.90									
Intrinsic Value per share (MYR)	1.35									
ESG premium/discount	2%									
TP	1.38									
Implied FY24F dividend yield	5.1%									
<u>Assumptions</u>										
Rf	4.00%									
Beta	0.40									
Market risk premium	3.00%									
Cost of equity	5.20%									
Terminal growth	2.20%									

Source: RHB

Our assumptions:

- Risk-free rate: 4.0%, in-house assumption;
- Market risk premium: 3%;
- Market returns: 7% (i)+(ii)
- Beta: 0.4 – average adjusted beta for M-REITs;
- Discount period of 10 years;
- Terminal growth: 2.2%;
- Cost of equity: 5.2%, (ii)*(iv)+(i);

Generally, M-REITs with *shariah*-compliant status and high exposure to the industrial segment tend to trade at higher valuations, given the better growth prospects of this sector, as well as the scarcity of *shariah*-compliant M-REITs listed on Bursa Malaysia. Similarly for AME REIT, its expected yields based on our estimated DPU are 6.0% for FY24 and 6.2% for FY25, which is slightly lower than the average dividend yield for MREITs under our coverage (6.2%).

13 April 2023

Property | REITS

Growth prospects should be much stronger, given the low base effect and, more importantly, the backing of a sponsor provides good visibility of pipeline assets to be injected over the long run.

Our valuation implies a FY24F P/BV of 1.2x, which is in line with AXRB's 1.2x P/BV. We view the latter as the closest comparable, considering the similar business model and inorganic growth opportunities via acquisitions of the sponsor's or third-party assets.

The implied valuation also indicates a 11% premium to the regional peer average of 1.1x P/BV (generally, M-REITs trade at a lower yield and higher P/BV compared to S-REITs). Industrial S-REITs are relevant to draw reference to, given the similarity in terms of business models. The peers listed below are largely the S-REITs with high exposure to industrial properties.

Nevertheless, it is worth noting that international peers may not be entirely relevant or suitable to be compared with, given the disparity in operating environments and demand/supply dynamics across different regions. In addition, listed players in Singapore are much bigger in terms of market capitalisation, asset size and profit base – and many of them also have industrial assets in various developed western countries.

Figure 11: Regional peer comparison for industrial REITs

	FYE	Last Price	Target (LC)	Mkt Cap (USDm)	P/E (x)		EPS Growth (%)		P/BV (x)	ROE (%)	Div Yield		Rec
					FY23F	FY24F	FY23F	FY24F	FY23F	FY23F	FY22F	FY23F	
Singapore													
CapLand Ascendas REIT	Dec	2.82	3.25	8,930	19.1	22.0	-0.19	-0.13	1.2	6.2	5.8	5.8	Buy
AIMS APAC REIT	Mar	1.30	1.50	705	10.4	10.5	13.64	13.61	0.9	8.7	7.3	7.3	Neutral
EC World REIT	Dec	0.30	0.55	183	7.3	7.0	2.97	4.09	0.3	4.5	18.4	18.4	Neutral
Mapletree Logistics Trust	Mar	1.69	-	6,130	20.9	20.9	15.7	0.0	1.1	4.9	5.3	5.1	-
Mapletree Industrial Trust	Mar	2.34	-	4,828	17.5	17.2	-4.3	1.5	1.2	6.9	5.9	5.9	-
Frasers Logistics & Commercial Trust	Sep	1.29	-	3,612	18.7	19.3	-64.8	-2.9	1.0	5.0	5.7	5.7	-
Sabana Industrial Real Estate Investment Trust	Dec	0.44	-	363	15.2	15.7	-40.5	-3.4	NA	5.4	6.6	6.8	-
Daiwa House Logistics Trust	Dec	0.58	-	300	12.5	12.2	NA	2.2	0.7	6.0	8.9	8.9	-
Average					18.2	19.1	-6.6	0.4	1.1	6.0	6.0	6.0	
Malaysia													
Axis REIT	Dec	1.89	2.14	746	18.6	18.2	5.4	2.1	1.2	6.7	5.2	5.2	Buy

Note: Data as at 4 Apr 2023

Source: Bloomberg, RHB

Financial Overview

We project AME REIT's FY23-25 revenues to grow YoY by 17.7%, 10.8% and 5.7%, reaching MYR49m by FY25 from MYR35m in FY22. Growth in FY23 is expected to be much stronger, as the third dorm will commence operations in 3QCY22, while the rental reversions and occupancy rates for industrial properties should pick up following the re-opening of the economy and international borders.

Earnings growth in FY24 will be driven by the acquisition of the three assets from the sponsor, with full contributions from Plot 43 at SAC and Plot 15 at Indahpura. As for Plot 16 at Indahpura, income contributions should start in 4QFY24.

Expect minimal vacancies for industrial properties. We expect near-to-full occupancy rates for all industrial properties under AME REIT's portfolio, which is very much in line with its historical trend. As industrial properties are typically single-tenanted, tenancy from these industrial players tend to be sticky. A significant non-renewal rate is unlikely, unless tenants decide to move out and relocate to another facility or expand to a bigger factory within the industrial park, which are historically the reasons for non-renewal.

Earnings contributions from the workers' dorms should be stable as all the dorms are rented on master lease agreements, hence the tenancy will stay at 100%.

Asset injection to be the key earnings driver over the long term. As rental reversions for industrial properties are typically around 2-3% per year, and tenancies tend to be stable at a high occupancy rate, we believe asset injection will be the key earnings driver for AME REIT. The same strategy has been adopted by AXRB, whereby its total asset value has grown from MYR2.55bn in 2017 to MYR4.26bn in 2022 (+67%) while its number of properties has increased from 40 to 62 over the same period.

We expect AME REIT to have an acquisition target of MYR100m each year, which is well-supported by the REIT's balance sheet. A combination of debt and issuance of new units is typically the funding option for REITs in general, but the aforementioned significant debt headroom reduces the need for equity dilution in the medium term.

Rental reversion. We expect the annual rental reversion for industrial properties to be 2-3% and 7-10% every three years. The slight decline in average rental psf in SiLC was probably because of lower rental rates being offered for certain units, but total rental income for SiLC was higher due to the full 12 months' contribution in FY22, compared to only 8.8 months average tenanted months in FY21. Meanwhile, the higher rental reversion for properties in Indahpura could be due to its low base effect, as properties in Indahpura were built much earlier.

Figure 12: Our key assumptions

Occupancy rates	FY21	FY22	FY23F	FY24F	FY25F
<u>Industrial properties</u>					
SAC	93.5%	95.0%	98.8%	98.8%	98.8%
Indahpura	100.0%	99.7%	99.8%	99.8%	99.8%
SiLC	58.4%	100.0%	100.0%	100.0%	100.0%
Dormitories	100.0%	100.0%	100.0%	100.0%	100.0%
Rental rates (MYR psf)					
<u>Industrial properties</u>					
SAC	1.60	1.59	1.62	1.66	1.71
Indahpura	1.55	1.57	1.60	1.63	1.68
SiLC	1.59	1.43	1.47	1.51	1.54
Dormitories (MYR per bed)	124	146	146	148	149

Source: RHB

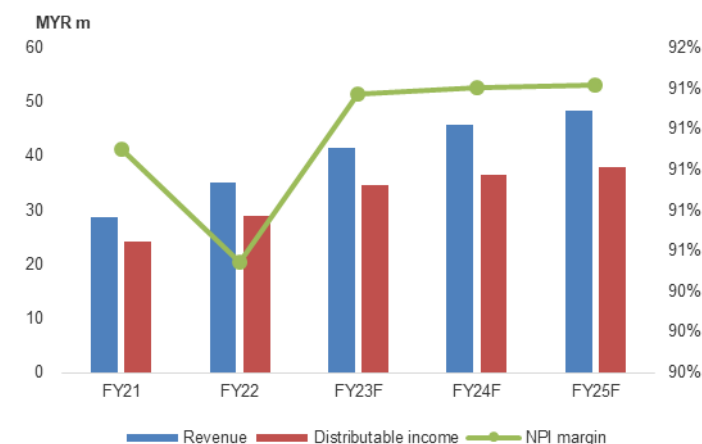
Property expenses to remain subdued. We assume NPI margins of around 91-92% for FY23-25 vs 90.5% for FY22. Property operating expenses – which comprise quit rent, insurance, repair & maintenance, other operating expenses, and property management fees – are expected to remain relatively stable. All the items should be quite similar to the historical trend, and the repair & maintenance expenses will likely be minimal, given the young age of AME REIT's assets. Property management fees are calculated at the fixed rate of MYR20,000 per month plus reimbursement of expenses.

13 April 2023

Property | REITS

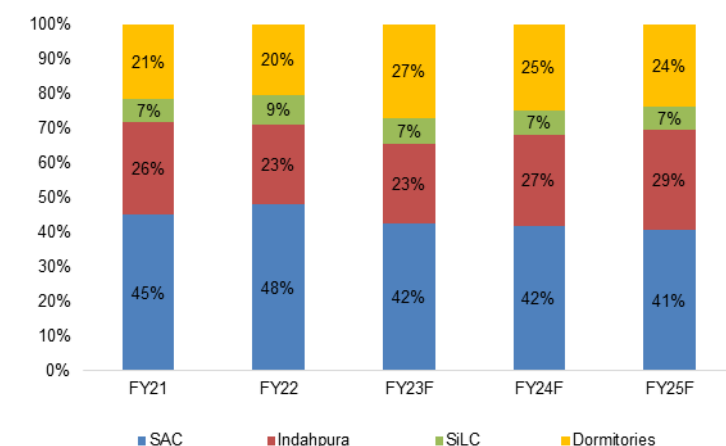
Earnings outlook. Our estimate of the distributable income for FY23 is MYR34.7m, implying a growth of 19% YoY from MYR29m in FY22. This would be followed by 5.6% YoY growth in FY24F and 3.8% YoY in FY25F. The stronger growth is mainly driven by the commencement of newly acquired properties, better rental reversion for industrial properties following the re-opening of the economy, while being offset by an increase in borrowing costs.

Figure 13: Revenue, distributable income, and NPI margin trends



Source: Company data, RHB

Figure 14: Revenue contribution from subject properties



Source: Company data, RHB

Figure 15: WALE profile of the properties

	By occupied NLA of properties available for tenancy (years)	By pro forma gross rental income (years)
Industrial properties		
- SAC subject properties	4.6	4.9
- Indahpura subject properties	2.5	2.5
- SiLC subject properties	2.4	2.1
Dormitories	N/A	2.5
Portfolio WALE	3.7	3.5

Source: Company data

ESG

Environment. The i-Park concept incorporates the planning, development and management of the industrial parks. These are in line with the REIT's objective to promote sustainability, and provide a green, healthy, and comfortable environment for occupants. As for the buildings, they are planned and designed with the same principals – there is a strong focus on improving efficiency of resource utilisation – energy, water, and materials – through better infrastructure, construction, operations, and maintenance.

Standard features of the i-Park @ SAC and certain phases in i-Park @ Indahpura factory buildings include:

- i. Building materials and design elements to improve energy efficiency, such as:
 - a. Incorporating translucent sheets that allow for increased natural lighting;
 - b. Zincalume metal roof with thick fibreglass insulation to keep the interior cool;
 - c. High ceiling and up-lift jack roof system for natural ventilation;
 - d. Low window height design to minimise overall thermal transfer into the building and maximise daylight harvesting;
 - e. Reflective glaze and high solar reflectance roofing to minimise thermal transfer into the building;
 - f. Sun-shading fixtures and building orientation that reduce direct sunlight and glare;
 - g. Optional solar power systems.
- ii. Features to improve water efficiency:
 - a. Rainwater harvesting to be reused for landscaping and general cleaning purposes;
 - b. Low water consumption toilet fixtures to reduce water usage.

Social and governance. While the REIT has not had any track record, its sponsor has a good track record of upholding the ESG values. For the Social pillar, AME has made donations and sponsorships to various parties over the years, including the poor families, Pusat Kebajikan Care Haven, Persatuan Penjagaan Kanak-Kanak Terencat Akal Johor Bahru, etc. Internally, AME's management also places high emphasis on employee health and safety. It also provides regular training and development programmes for the staff. As both the REIT and its sponsor share largely the same board of directors, we believe the REIT should have similar practices going forward.

As for governance, there is only woman out of the six Board members (17%) in AME REIT, which is below the Securities Commission's target of 30%. Meanwhile, the number of independent directors make up half of the board. The REIT manager has a balanced split between female and male staff (50:50).

Company Overview

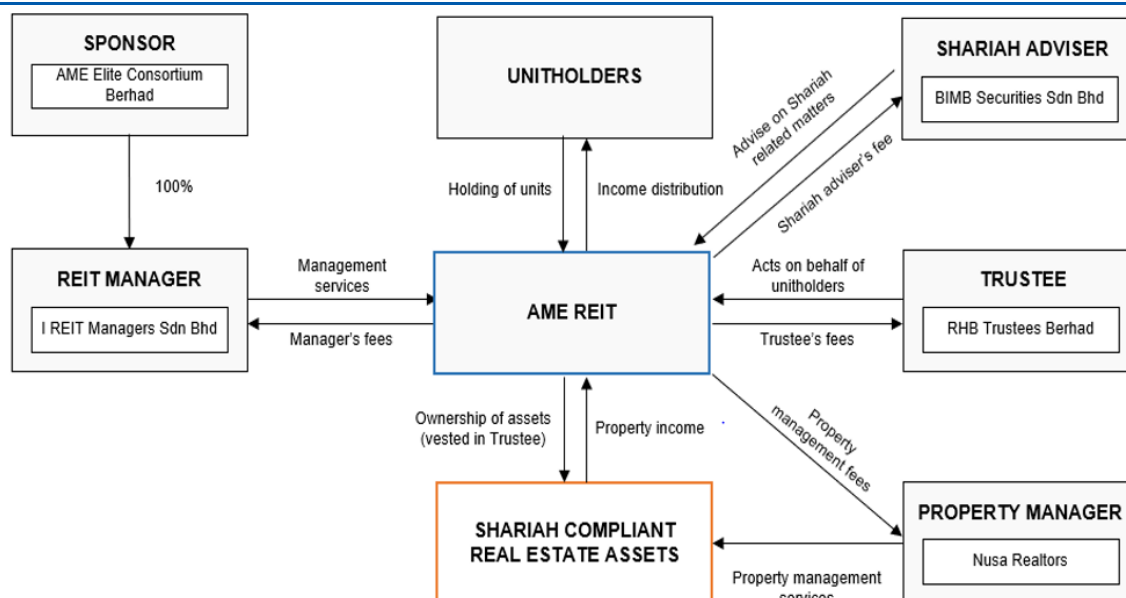
Company profile

AME, the sponsor of AME REIT, was listed on the Main Market of Bursa Securities on 14 Oct 2019. It is an integrated industrial property development one-stop solutions provider that started its industrial park development in Johor in 2011. Its capability and know-how in the design-and-build of industrial properties is at the forefront of the industry. It is able to facilitate the approval process from the authority (to obtain foreign consent for overseas manufacturers), and customise then build the factories typically within a year, including renovation and retrofitting services.

The sponsor has four executive directors. Group Managing Director Lee Chai, together with the executive directors Lee Sai Boon, Lim Yook Kim, and Kang Ah Chee have more than 27 years of experience in the construction industry and 10 years in property development.

The following diagram illustrates the structure of AME REIT and indicates the relationship between AME REIT, the manager, trustee, property manager, *shariah* adviser, and unitholders.

Figure 16: Structure of AME REIT



Source: Company

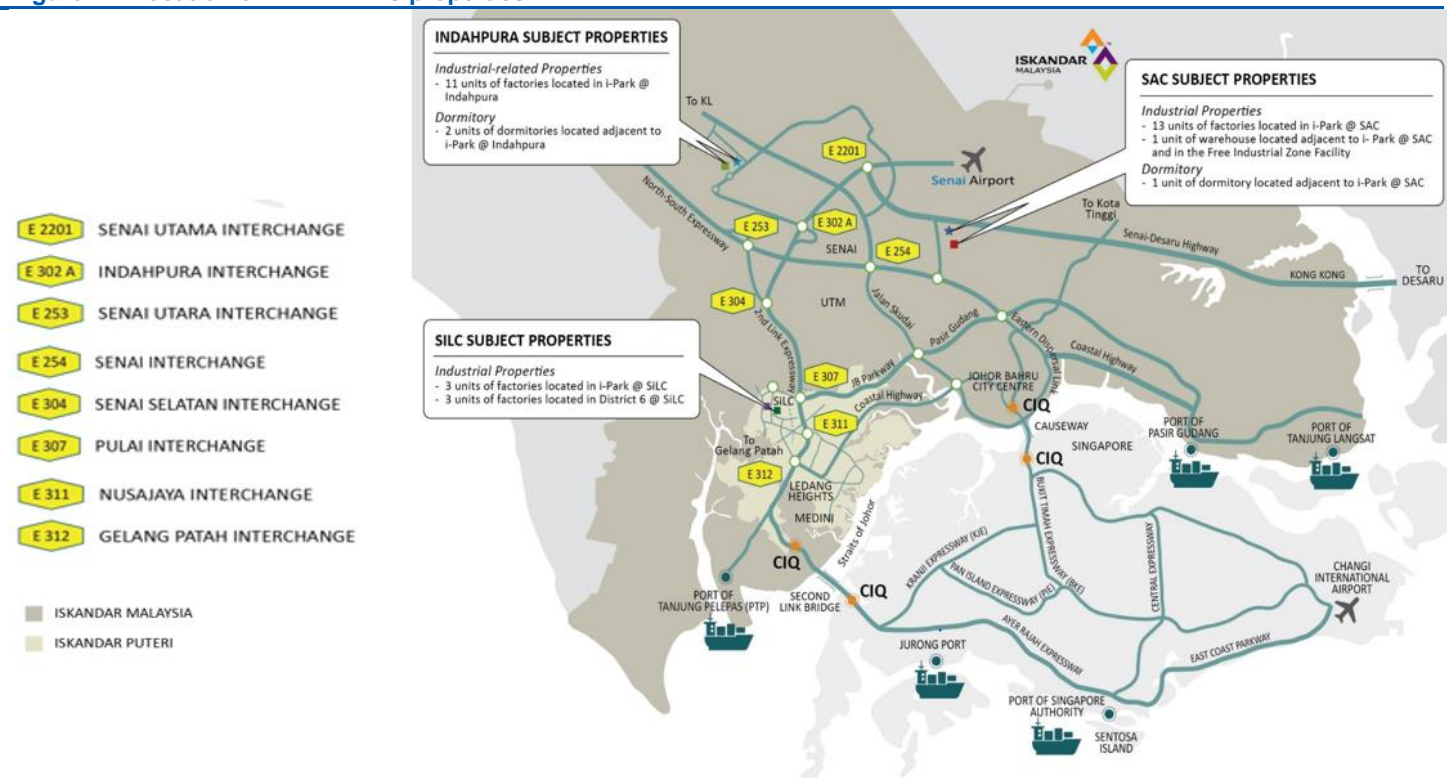
The 36 properties under AME REIT's portfolio are split into three clusters in Iskandar Malaysia, and these are the industrial parks that the sponsor has successfully developed over the years. Given the strategic locations, these industrial parks are able to enjoy the logistics infrastructure in the surrounding area. These include Senai International Airport, three seaports (Johor Port, Tanjung Pelepas Port, and Tanjung Langsat Port), as well as major highways (Johor Causeway, North-South Expressway and Second Link Expressway). The close proximity to Singapore and the completion of the Johor Bahru-Singapore Rapid Transit System at end-2026 should further attract investment and business expansion from Singapore, given the relatively cheaper cost of doing business in Malaysia. The sponsor's signature industrial parks have garnered various international, regional and domestic accolades.

SiLC properties: This is one of the earliest projects developed by the sponsor. There are six properties located at SiLC, three of which are in i-Park @ SiLC while the other three are in District 6 @ SiLC. Both i-Park and District 6 in SiLC are in Iskandar Puteri, about 4km from the Second Link Expressway. It is also 18km from the Tanjung Pelepas Port and 26km from Senai International Airport. While i-Park is a gated and guarded industrial park, each factory unit in District 6 is gated and built with an individual guard house that is managed by the owner/tenant.

Indahpura properties. There are 12 industrial properties and two dorms located at Indahpura. i-Park @ Indahpura is located at Bandar Indahpura in Kulai, about 7km from the Second Link Expressway, and 11km from Senai International Airport. i-Park @ Indahpura is an award-winning industrial park. Given its facilities and amenities, such as gated & guarded features, vehicle and visitor access control systems, dorms, etc, the industrial park has attracted many local manufacturing companies and MNCs to set up their production plants there.

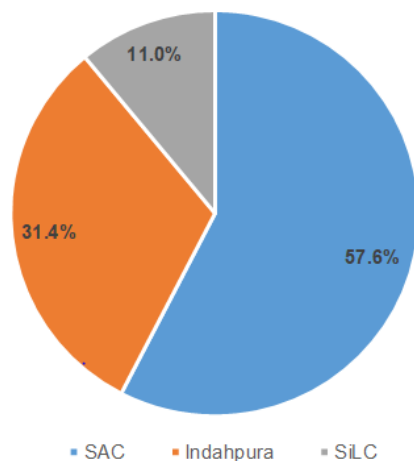
SAC properties. There are 15 industrial properties and one dorm located in SAC. i-Park @ SAC is AME's third i-Park development project. It is located in Senai Airport City, which is next to the Senai-Desaru Expressway. i-Park @ SAC is planned to be built with various types of factories, worker dorms, as well as sports and recreational facilities. The design and facilities are also more modern compared to those in Indahpura.

Figure 17: Location of AME REIT's properties



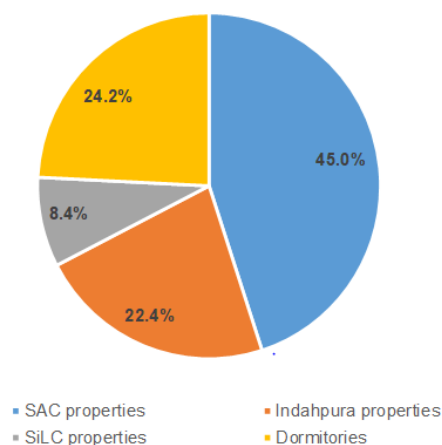
Source: Company

Figure 18: Distribution of industrial properties (by NLA)



Source: Company data

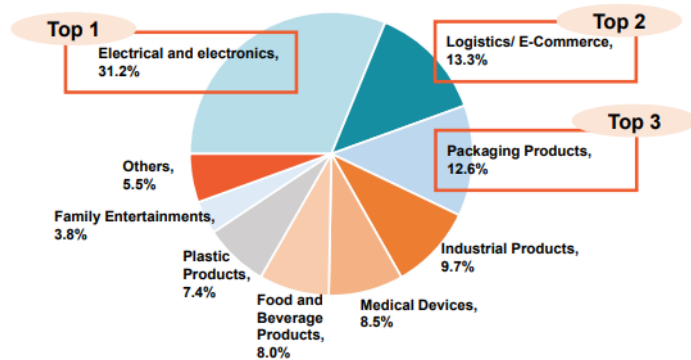
Figure 19: Distribution of subject properties by market value



Source: Company data

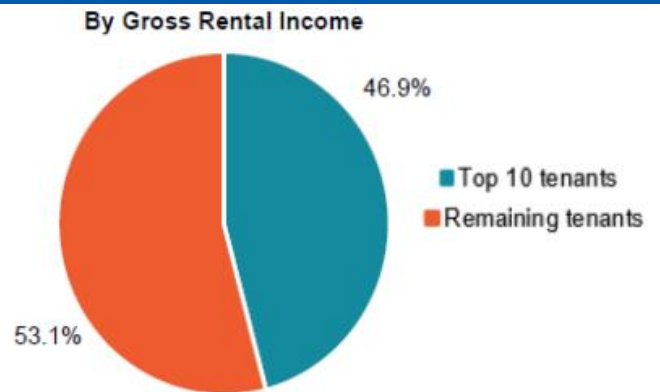
Tenants are mainly from light industries, spread across various sectors. It is also worth noting that i-Park developments mainly cater to the light industries. Given its thoughtful design and amenities, both i-Park @ Indahpura and SAC have been able to attract tenants from various trade sectors. Currently, 31.2% of the tenants (by NLA) are predominantly from the E&E sector, followed by 13.3% from logistics services/e-commerce and 12.6% from product packaging. The rest of the tenants are from plastic products, medical devices, F&B products, furniture, family entertainment, and others. The top 10 tenants that are occupying 59.7% of the total portfolio NLA are contributing 46.9% of total gross rental income, while the remaining tenants make up the remaining 53.1%.

Figure 20: Exposure to diversified trade sectors



Source: Company data

Figure 21: Income contribution among tenants is well-distributed



Source: Company data

Figure 22: Selected AME REIT assets in SAC

Plot 18 & 19 SAC



Plot FZW SAC






Plot 1C2 SAC



Age of building	Two years	One year	One year
NLA (sqf)	129,275	Plot A: 47,209 Plot B: 31,969 Plot C: 50,860	72,177
Purchase Consideration (MYR)	47,000,000	38,000,000	23,000,000
Tenancy Terms	10 years + three years	Plot B: Three years Plot C: 10 years + three years	10 years + three years



Source: Company data, RHB

Figure 23: Selected AME REIT assets in Indahpura

	Plot 14 Indahpura	Plot 66 Indahpura	Plot 69 Indahpura
			
Age of building	One year	Seven years	Five years
NLA (sqf)	89,169	67,639	61,135
Purchase Consideration (MYR)	21,000,000	17,000,000	17,000,000

Source: Company data, RHB

Figure 24: Selected AME REIT assets at SiLC

	Plot 3 & 4 SiLC	Plot 6 SiLC
		
Location	SiLC Industrial	SiLC Industrial
Age of building	Eight years	Eight years
NLA (sqf)	24,319	12,785
Purchase Consideration (MYR)	6,500,000	3,500,000

Source: Company data, RHB

Key Risks

Key risks to AME REIT:

- i. **Tenancy cycles in which a substantial number of tenancies expire in certain years.** A significant number of tenancies are for terms of six years and less. In particular, 11 tenancies of industrial properties occupying approximately 0.4m sqf NLA, as well as the SAC dorm, will expire in FY24, which account for approximately MYR1m of the *pro forma* gross rental income. There can be no assurances that tenants will renew their tenancies. Therefore, non-renewal and non-replacement of tenancies may have an adverse effect on the income of AME REIT and its distribution to unitholders.
- ii. **Loss of third-party key tenants.** As at the latest practicable date, the contribution of the Top 10 largest tenants of the industrial properties, all whom are third parties, is approximately 41.5%. The downturn in the businesses of these tenants may adversely impact AME REIT's business and financial condition. The tenants' ability to make rental payments to the REIT may be affected by factors such as an economic downturn, performance of the tenants' other businesses, and ability to compete with their competitors.
- iii. **Increased competition from other properties.** The subject properties are exposed to competition from other industrial properties within Iskandar Malaysia. The appeal of the subject properties may diminish in the future to newly developed properties in the area that may include more attractive features to tenants or a better location. This may result in AME REIT failing to retain major tenants or attract new tenants, hence, lowering income and market value of the subject properties.
- iv. **The appraised values of the subject properties are based on various assumptions,** which may not materialise. The price at which AME REIT is able to sell the subject properties in the future may be lower than the acquisition value. There can be no assurance that the assumptions relied on to derive the appraised values of the properties will be based on accurate measures of the market, and the said values of the assets may be evaluated inaccurately.
- v. **Subject properties may require significant capex beyond the REIT manager's current estimate.** To remain competitive, the subject properties may require refurbishments and improvements which require capex that is significantly beyond the REIT manager's current estimate. There is a risk that AME REIT may not be able to fund capital improvements from funds derived from its operating activities, equity or debt financing. The inability to secure funding for capex may affect rental negotiations, which – in turn – may influence AME REIT's financial condition.

Manager's Board Of Directors

Lee Sai Boon was appointed to the board on 19 Apr 2021. He is the Chairman and Executive Director, with more than 28 years of experience in construction and around 11 years in property development, property investment, and management. In Dec 1994, Lee together with Lee Chai, Lim Yook Kim, and Kang Ah Chee incorporated Asiamost, a company that provides fire protection systems for building and construction projects. He was appointed as a Director of AME Construction in Mar 1996, and co-founded AME Engineering Industries in 2008.

Chan Wai Leo was appointed to the board on 1 Apr 2022. He is the CEO and Non-Executive Director, with approximately 25 years of experience in audit, financial reporting, property investment, REIT management, and property development. Chan obtained his ACCA in 1996, and began his career with Arthur Andersen & Co Malaysia as an audit staff assistant. In 2006, he joined AXIS Development as Senior Finance Manager, coordinating the acquisition, sourcing of financing, and disposal of investment properties in the Axis Development group of companies. In 2011, he was re-designated as Head of Originations and Investments.

Lee Chai was appointed to the board on 19 Apr 2021. He is the Executive Director, with around 38 years of experience in the construction industry and around 10 years of experience in property development. Lee is currently the Group Managing Director of AME. Throughout his tenure in AME, Lee has played a major role in the design and construction of customised large manufacturing plants and other industrial buildings. He also led various industrial development projects, overseeing all stages of development including the launch of i-Park @ SiLC in 2011.

Datin Cheryl Kaur Pola was appointed to the board on 1 Apr 2022 and is the Independent Non-Executive Director, as well as a member of both the Audit and Risk Management Committee and Nomination and Remuneration Committee. Datin Cheryl has 21 years of experience in research and fund management, with her last position being the Deputy Head of Equities at Affin Hwang Asset Management until her departure in May 2020.

Yau Yin Wee was appointed to the board on 1 Apr 2022. He is the Independent Non-Executive Director. He is also the Chairman of the Nomination and Remuneration Committee. Yau brings more than 30 years of experience in Marketing and Credit Management. Prior to his retirement in Mar 2021, he was the Senior Regional Head in Hong Leong Bank.

Wee Beng Chuan was appointed to the board on 1 Apr 2022. He is the Independent Non-Executive Director, as well as the Chairman of the Audit and Risk Management Committee. He obtained his ACCA qualification in Dec 1988 and commenced his professional training in audit firm Weston Kay in London. Upon his return to Malaysia, he joined KPMG Malaysia as an Audit Senior in Mar 1993. In Oct 2003, he was admitted as a partner of KPMG Malaysia and was responsible for the audit of a wide range of companies until his retirement on 31 Dec 2017.

Lim Yook Kim was appointed to the board on 1 Apr 2022. He is the Alternate Director to Lee Chai. Lim has around 48 years of experience in the construction industry and around 11 years in property development. Lim plays a major role in the construction operations activities of AME. He began his career in 1974 as a general construction worker in Singapore. In 1993, he was appointed as a director of AME Construction. In Aug 2018, Lim was appointed as Executive Director of AME and is responsible for the on-site operations and activities carried out by the construction and engineering division.

Kang Ah Chee was appointed to the board on 1 Apr 2022. He is the Alternate Director to Lee Sai Boon. Kang has around 50 years of experience in the construction industry and around 11 years in property development, property investment and management. Kang began his career as a mechanical welder in a steel fabrication company in 1972. He was appointed as a director of AME Construction in Oct 1993. He co-founded AME Engineering Industries, a company principally involved as a contractor for fabrication of building structures. In Aug 2018, Kang was appointed as the Executive Director of the sponsor.

Lim Pei Shi was appointed to the board on 1 Apr 2022. She is the Alternate Director to Chan Wai Leo. Lim has around 10 years of experience in the sales and marketing, leading and management of industrial properties. She is instrumental in the sales and marketing of AME's industrial properties. She joined AME Development as a Marketing Administration Executive in Aug 2011 and was appointed as the Marketing Director in Feb 2013. She was promoted to the position of Property Development Director in Jul 2019, a position she still currently holds.

Key Management Team

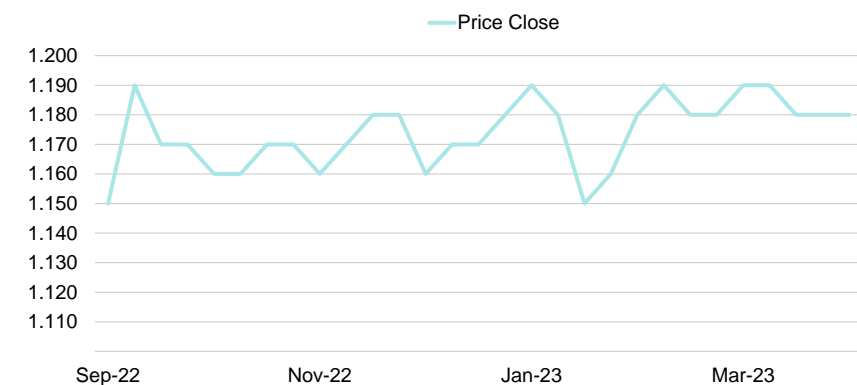
Other than Chan Wai Leo, the CEO, the information of other key members of the management team is set out below:

Lee Ling Sien is the Operations Manager. Lee has around nine years of experience in the sales and marketing of properties, including i-Park @ Indahpura and i-Park @ SAC for AME. She joined AME Development as a marketing and planning executive in Feb 2013 after starting her career as a Marketing Trainee with Axis REIT Managers. Lee was promoted in Jul 2015 as a business development executive then to the position of Marketing Manager in 2018, before being transferred to the REIT Manager in May 2022.

Liow Jing Hong is the Finance Manager. Liow has been a qualified member of the ACCA since Sep 2016, and was admitted as a chartered accountant of the Malaysian Institute of Accountants in Dec 2016. He started his career with Marcus Ching & Associates in Jul 2011, then left the firm in 2013 to join KPMG Malaysia as an audit associate after the completion of his ACCA examinations. He progressed smoothly to become an Audit Manager before joining AME Construction as a corporate accountant. He was promoted to Finance Manager in Jan 2021.

Kuan Pek Kwan is the Compliance Officer. She has approximately nine years of corporate secretarial experience in property, retail and services industries. Kuan began her career as an Assistant Company Secretary in ASI Secretarial Services from Aug 2013. In 2015, she joined Lion Group Management Services as a Secretarial Executive where she assisted in providing in-house secretarial services to Parkson Holdings and Lion Industries. She then joined Hap Seng Management Services in 2017 as a secretarial executive. After a short career break, Kuan joined Tricor Corporate Services in Jun 2020 as a senior associate.

Recommendation Chart



Source: RHB, Bloomberg

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