

JCorp's assets give Al-Salam REIT a solid base

BY KAMARUL AZHAR

The listing of Al-Salam Real Estate Investment Trust on Sept 29 will offer investors an opportunity to benefit from Johor Corporation's large asset base. Al-Salam REIT will be listed with RM903.1 million worth of assets injected by JCorp.

The shariah-compliant REIT will also be boosted by organic growth through potential rental reversions at one of its major assets, strong occupancy level of close to 100% and the growth of the food and beverage services industry.

"The REIT manager (Damansara REIT Managers Sdn Bhd) has outlined the strategies that will benefit the expansion of Al-Salam REIT. They are the active asset management strategy, acquisition growth strategy and capital and risk management strategy.

"The manager will optimise the occupancy rates of the properties, revise the rental rates and improvise on the net lettable area to improve on the returns of the property portfolio," states Inter-Pacific Research in a Sept 15 report.

Based on the initial public offering (IPO) price of RM1 per unit, Al-Salam REIT's market capitalisation will be RM580 million. TA Securities valued the REIT at RM1.12 per unit, while Inter-Pacific Research assigned a fair value of RM1.14 per unit.

Al-Salam REIT's IPO consists of institutional and retail offerings, totalling up to 252.4 million new units. The sponsor, JCorp, will own a 56.5% stake in Al-Salam REIT post-IPO. Institutional investors are allotted 240.8 million units, or 41.5%, with the rest for retail investors.

RHB Investment Bank Bhd is the principal adviser, sole global coordinator and sole underwriter of the listing. The investment bank

of RHB Capital Bhd and Maybank Investment Bank Bhd are joint placement agents.

On Sept 22, Malaysian Issuing House Sdn Bhd announced that the public portion of the IPO of 18.34 million units was oversubscribed by 2.96 times, receiving 2,442 applications for 45.92 million units.

With a market capitalisation of RM580 million, Al-Salam REIT is comparable in value to UOA REIT (RM659.68 million), Hektar REIT (RM600.95 million), AmFIRST REIT (RM542.26 million) and Amanah Raya REIT (RM481.5 million).

Al-Salam REIT was spun off from JCorp's real estate investment trust, with assets including a community hypermarket, shopping mall, office building and quick service restaurants (QSR). Over the next two years, a slew of property acquisitions have been laid out for Al-Salam REIT.

The REIT manager plans to utilise more than 95% of the RM252.36 million proceeds from the IPO for property acquisitions, including Menara JCorp and Menara 238 in Kuala Lumpur, Menara VSQ in Petaling Jaya, and Galleria @ Kotaraya in Johor Baru.

The acquisitions in the Klang Valley and Johor Baru, coupled with its existing assets across the country — including Menara Komtar, Komtar JBCC, KFC International College, @Mart Hypermarket and QSR chains — will double Al-Salam REIT's asset base to RM2 billion over the next two years.

According to TA Securities analyst Thiam Chiann Wen, Komtar JBCC, located opposite the Sultan Iskandar Customs, Immigration and Quarantine checkpoint and the JB Sentral train station, is well positioned to benefit from higher tourist traffic from Singapore.

Al-Salam REIT will also benefit from the growth of the QSR business in the country, as it

Al-Salam Real Estate Investment Trust

IPO details

Main market	
Issue price: RM1	
Par value: RM1	
Paid-up capital: RM580 million	
Estimated free float: 43.5%	
Controlling shareholder: Johor Corporation	
Oversubscribed by: 2.96 times	
Fair value: RM1.12 (TA Securities)	
RM1.14 (Inter-Pacific Securities)	
Listing date: Sept 29	

Financial highlights:

DEC 31 RM MIL	2012	2013	2014
Revenue	10.8	11.1	14.9
Net profit/(loss)	4.89	5.11	(2.08)
EPS (sen)/based on			
enlarged share capital	0.8	0.88	-0.35
Dividend per share (sen)	NA	NA	NA
Dividend yield (%)	NA	NA	NA

will own 22 outlets and five industrial premises. Incomes from these properties are going to be driven by the shift in the dining trend among Malaysians towards eating out more often.

"Urbanisation has resulted in a shift in lifestyle and dining patterns, as Malaysians show a preference for dining out during lunch breaks and after long working hours, as opposed to preparing meals at home," Thiam says in a Sept 10 report.

According to independent market research, the consumer foodservice market in Malaysia

has grown rapidly with sales transactions rising from RM18.2 billion in 2004 to RM33.3 billion in 2013, representing a compound annual growth rate (CAGR) of 6.9%, she says.

She adds that sales transactions for consumer foodservice are expected to grow from RM33.3 billion in 2013 to RM38.9 billion in 2016 at a CAGR of 5.3%, based on independent market research.

Al-Salam REIT's growth will be fuelled by not only asset acquisitions but also potential rental upside for Komtar JBCC. The mall, which opened its doors in July last year, has an average rental rate of RM5.63 per sq ft, a huge discount to the average RM27 psf rental rate of prime properties in Johor Baru.

"Further rental upside could come from higher gross turnover rent if strong arrivals to Komtar JBCC materialise. We understand that most of Komtar JBCC's tenants are subject to a revenue sharing scheme based on the percentage of net or gross sales turnover ranging from 2% to 15%," says Thiam.

Inter-Pacific Research states that the occupancy rates of Al-Salam REIT's properties are also good. The occupancy rate of Komtar JBCC currently stands at 89%, and the management is optimistic that it will reach 91% next year.

Al-Salam REIT will be the second REIT listed by JCorp after Al-Aqar Healthcare REIT. The REITs share the same manager — Damansara REIT Managers — which is a subsidiary of Damansara Assets Sdn Bhd, which in turn is a subsidiary of JCorp.

"Led by the same REIT manager with rich experience in property management, we expect Al-Salam to replicate Al-Aqar Healthcare REIT's success in capitalising on opportunities for future income and NAV (net asset value) growth," says Thiam.

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