



Atrium REIT

“Atrium Shah Alam 4 to Potentially Contribute Significantly to Financial Performance in FY23”

Bloomberg: ATRM MK | Reuters: ATRL.KL | Stock Code: 5130

Valuation / Recommendation

We are maintaining our **BUY** recommendation and target price of RM1.69 for Atrium REIT. At target price of RM1.69, Atrium REIT would have a FY23 estimated distribution yield of approximately 5.4% based on our forecast total distributions of 9.1 sen per unit that we expect will be paid in FY23.

We are lowering our required expected distribution yield to 5.4% from 6% previously as we expect the proposed private placement and special issuance to be completed, which will increase Atrium REIT’s balance sheet strength. Additionally, we are assuming that rental from Atrium Shah Alam 4 will only commence in 2Q23, hence we expect actual profitability to be higher once full year contributions from Atrium Shah Alam 4 begin.

Investment Highlights

Net rental income decreased 2.0% to RM8.9m in 2Q22 (2Q21: RM9.0m); 2Q22 net profit was flat at RM5.4m. The decrease in net rental income was due to rent-free amortization adjustment in 2Q22. Net profit was flat despite the decline in net rental income and lower other income due to reduced administrative expenses amounting to RM0.4m in 2Q22 (2Q21:RM1.3m). Administrative expenses were lower compared to 2Q21 where real estate agents’ fees were incurred for the securing of a new lessee and a new tenant for Atrium Shah Alam 1 and Atrium USJ-Block B respectively.

Lowering our FY22 revenue forecast to RM39.5m (previous: RM40.9m). We are lowering our FY22 revenue forecast as we think rental growth will be lower than we previously expected. In line with lower revenue projection, we are lowering our FY22 net profit forecast to RM20.4m (previous: RM23.1m).

Raising FY23 revenue forecast to RM48.1m (previous: RM46.4m). We are increasing our FY23 revenue estimate as we expect Atrium Shah Alam 4 to contribute significantly to revenue in FY23. In line with our expectations for higher revenue, we are raising our FY23 net profit forecast to RM28.7m (previous: RM25.5m). Despite our higher net profit forecast for FY23, we are reducing our estimate for earnings per unit to 10.8 sen (previous: 12.5 sen) due to lower rental growth than previously expected, and to account for the larger number of units outstanding should the private placement and special issuance of units be completed.

Atrium Shah Alam 4 asset enhancement initiative (AEI). Atrium REIT has proposed a private placement and special issuance of units that is expected to raise approximately RM85.3m mainly to fund AEI on Atrium Shah Alam 4 which will increase the property’s total gross built up area by approximately 196,473 square feet to 376,026 square feet. The AEI has commenced and is targeted to be completed by 1Q23.

Risk factors. Unable to rent out properties at reasonable rental rates once existing leases expire.

MAIN MARKET

REITS

BUY

TP: RM1.69

Price: RM1.47

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RESULTS (RM m) FY Dec 31	2Q22	1Q22	qoq %	2Q21	yoy %
Net Rental Income	8.9	8.9	(0.3)	9.0	(2.0)
EBIT	7.6	7.6	0.4	7.5	2.0
Net Finance Expense	(2.2)	(2.1)	-	(2.1)	-
Profit Before Tax	5.4	5.5	(2.0)	5.4	(0.1)
Net Profit	5.4	5.5	(1.5)	5.4	0.4
Earnings per unit (Sen)	2.65	2.69	(1.5)	2.64	0.4

Business Overview

Atrium REIT is an industrial asset focused real estate investment trust. Its property portfolio consists of eight industrial properties located in prime locations in the Klang Valley and Penang, namely, Atrium Shah Alam 1, Atrium Shah Alam 2, Atrium Shah Alam 3, Atrium Shah Alam 4, Atrium Puchong, Atrium USJ, Atrium Bayan Lepas 1 and Atrium Bayan Lepas 2.

Stock Return Information

FBMKLCI (pts)	1,495.05
Expected Capital Gains (%)	15.0
Expected Gross Distribution Yield (%)	6.2
Expected Total Return (%)	21.2

Price Performance

	1M	3M	12M
Absolute (%)	0.7	0.8	7.3
Relative to Index (%)	(2.4)	7.4	7.2



Sources: Mercury Securities, Bloomberg, Company

Share Information		Top 3 Shareholders (%)	
Market Cap (RM m)	300.8	Tuck Chan Kam	21.3
Issued Shares (m)	204.6	Hong Leong Assurance Bhd	7.5
52W High (RM)	1.52	Glory Blitz Industries Sdn Bhd	7.0
52W Low (RM)	1.42		
Estimated Free Float (%)	56.5		
Beta vs FBMKLCI	0.39		
65-Day Average Vol.	56,785		

Sources: Mercury Securities, Bloomberg, Wall Street Journal

INVESTMENT STATISTICS	FY Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM m)		23.0	34.4	39.1	39.5	48.1
Net Rental Income (RM m)		21.4	32.2	36.4	36.7	44.8
Net Profit (RM m)		3.5	21.0	18.2	20.4	28.7
Earnings Per Unit (sen)^		2.3	10.2	8.9	9.3	10.8
EPU Growth (%)		(76.4)	355.1	(13.1)	4.5	16.1
PE (x)*		46.2	14.4	16.5	15.8	13.6
Gross Distribution Yield (%)*		7.5	8.6	6.6	6.1	6.2
Net Gearing (%)^		54.1	69.1	87.6	65.8	64.1
ROA (%)^		0.8	4.2	3.4	3.3	4.6
Return on Unitholders' Funds (%) ^		1.3	7.9	6.9	5.9	8.1
NA Per Unit (RM) ^		1.28	1.30	1.29	1.31	1.33

Sources: Mercury Securities, Company

^Adjusted based on the assumption that the proposed private placement and special issuance of a total of 60.9 million new units will be completed at RM1.40 per unit.

*PE and gross distribution yield for FY19-20 are based on the closing share price of the last trading day of FY19-20.

**Net gearing is calculated as: (Total debt – Cash & Equivalents)/Total Unitholders' Funds

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