

ACORN REIT EARNINGS NOTE– FY'2022

31st March 2023

Acorn Holdings released their FY'2022 financial results for the Acorn D-REIT and I-REIT, which invests in purpose-built student accommodation (PBSA). The Development Real Estate Investment Trust (D-REIT) finances the development of student hostels whereas the Investment Real Estate investment trust (I-REIT) is mainly invested in the respective properties by the firm for rental income.

Below is a summary of the Acorn's D-REIT and I-REIT FY'2022 performances:

Figures in Kshs mn Unless Stated Otherwise

| Cytonn Report: Income Statement | | | | | | |
|---------------------------------|----------------|--------------|--------------|----------------|--------------|----------------|
| | Acorn I – REIT | | | Acorn D - REIT | | |
| | FY'2021 | FY'2022 | Change | FY'2021 | FY'2022 | Change |
| Rental Income | 334.0 | 442.0 | 32.3% | 59.0 | 311.0 | 427.0% |
| Income from Other Sources | - | 4.8 | - | 18.7 | 34.9 | 87.1% |
| Operating Expenses | 160.9 | 323.4 | 100.9% | 378.6 | 669.9 | 76.9% |
| Profit Before Tax | 387.5 | 504.9 | 30.3% | 775.9 | 384.2 | (50.5%) |
| Basic EPS | 1.09 | 1.90 | 74.3% | 3.53 | 1.78 | (49.5%) |

Figures in Kshs bn Unless Stated Otherwise

| Cytonn Report: Balance Sheet | | | | | | |
|------------------------------|----------------|---------|--------|----------------|---------|--------|
| | Acorn I - REIT | | | Acorn D - REIT | | |
| | FY'2021 | FY'2022 | Change | FY'2021 | FY'2022 | Change |
| Total Assets | 3.8 | 6.8 | 81.0% | 8.4 | 10.4 | 23.3% |
| Total Equity | 3.6 | 5.9 | 63.5% | 5.2 | 6.2 | 17.6% |
| Total Liabilities | 0.2 | 0.9 | 435.4% | 3.2 | 4.2 | 32.5% |

Ratios summary for the D-REIT and the I-REIT

| Ratios Summary | | | | | | |
|--------------------------------|----------------|---------------|-----------------|----------------|---------------|-----------------|
| | Acorn I - REIT | | | Acorn D - REIT | | |
| | FY'2021 | FY'2022 | % Points Change | FY'2021 | FY'2022 | % Points Change |
| ROA | 10.3% | 7.4% | (2.9%) | 0.8% | 3.1% | 2.3% |
| ROE | 10.8% | 8.6% | (2.2%) | 14.8% | 6.2% | (8.6%) |
| Debt Ratio | 4.7% | 13.9% | 9.2% | 37.9% | 40.7% | 2.8% |
| PBT Margin | 87.6% | 109.1% | 21.4% | 895.5% | 109.0% | (786.6%) |
| Rental Yield | 9.8% | 6.8% | (3.0%) | 0.8% | 3.4% | 2.6% |
| Annualized Rental Yield | 9.8% | 6.8% | (3.0%) | 0.8% | 3.4% | 2.6% |
| Distribution Per Unit | 0.38 | 0.73 | 92.3% | 10.51 | 2.58 | (75.5%) |
| Payout Ratio | 42.1% | 38.3% | (3.8%) | 291.8% | 144.5% | (147.3%) |

Key Highlights in FY'2022:

- In February 2022, Acorn began the construction of two new hostels worth Kshs 2.5 bn next to the University of Nairobi Chiromo Campus along Science Crescent Road, off Riverside Road, consisting of 1,950 beds under the Qejani hostel brand, and the Qwetu hostel consisting 850 beds, bringing the total student accommodation capacity to 2,800 beds,
- In June 2022, Acorn's Kshs 5.7 bn green bond that was floated in 2020, was voted as the most innovative bond in the Europe, Middle East, and Africa (EMEA) Finance 2021 Awards,

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- Student housing developer Acorn Holdings announced plans to repay loans worth Kshs 800.2 mn, which is a portion of its outstanding Kshs 5.7 bn green bond, through an early redemption option. For more information, see [Cytonn Weekly #43/2022](#), and,
- Student housing developer Acorn Holdings received Kshs 1.8 bn from the sale of Qwetu Aberdare Heights I hostel located in Ruaraka. With the funds from the sale, Acorn settled part of the debt worth Kshs 800.2 mn to investors, thereby bringing the value of its outstanding bonds down to Kshs 2.6 bn. For more information, see [Cytonn Weekly #45/2022](#).

Income Statement:

- The basic earnings per unit for the Acorn D – REIT declined by 50.5% to Kshs 1.8 in FY'2022 from Kshs 3.6 in FY'2021. This was mainly driven by an 76.9% increase in the total expenses to Kshs 669.9 mn, from Kshs 378.6 mn in FY'2021, coupled with a 34.3% decline in fair value of investment properties to Kshs 701.6 mn, from Kshs 1,067.8 mn in FY'2021. For the I – REIT, the basic earnings per unit increased by 74.3% to Kshs 1.9, from Kshs 1.1 in FY'2021, driven by a 243.4% adjustment in Fair Value of Investment property to Kshs 365.3 mn from Kshs 161.0 mn, coupled with a 4.7% increase in total operating income to Kshs 463.0 mn from Kshs 442.1 mn in FY'2021. This resulted to a 30.3% increase in profits which came in at Kshs 504.9 mn, from Kshs 387.5 mn in FY'2021,
- The rental income for both the D-REIT and I-REIT increased by 427.0% and 32.3% to Kshs 311.0 mn and Kshs 442.0 mn in FY'2022, respectively, from Kshs 59.0 mn and Kshs 334.0 mn in FY'2021, respectively. The D-REIT rental income increase was mainly driven by the launch of the 832 – bed Qwetu Hurlingham project in January 2022, and reportedly has an occupancy rate of 90.0%, whereas the I – REIT rental growth was driven by the rental income from its current properties,
- The annualized rental yield for the D-REIT increased by 2.6% to 3.4% in FY'2022 from 0.8% in FY'2021, following an increase in the rental income. For the I-REIT, the annualized rental yield decreased by 3.0% to 6.8% in FY'2022 from 9.8% in FY'2021, mainly as a result of a faster 92.5% increase in Investment property to Kshs 6.5 bn from Kshs 3.4 bn in FY'2021, which outpaced the 32.3% increase in rental income to Kshs 442.0 mn from Kshs 334.0 mn in FY'2021,
- The total operating expenses for the D-REIT increased by 81.4% to Kshs 274.5 mn in FY'2022 from Kshs 151.3 mn in FY'2021. This was driven by an increase in the administrative expenses, and finance costs which came in at Kshs 174.3 mn and Kshs 311.9 mn in FY'2022, respectively, from Kshs 153.3 mn and Kshs 103.5 mn, respectively, in FY'2021. For the I – REIT, the total expenses came in at Kshs 323.4 mn in FY'2022, a 100.9% increase from Kshs 160.9 mn in FY'2021. This mainly driven by an increase in the administrative expenses and fund operating expenses which came in at Kshs 184.7 mn and Kshs 72.3 mn, respectively, in FY'2022, from Kshs 12.9 mn and Kshs 38.2 mn, respectively, in FY'2021, and,
- For Acorn I-REIT, the Board of Trustees approved the payment of a final dividend of Kshs 0.50 per unit which equates to Kshs 132.3 mn. The distribution was not recognized as a liability as at 31st December 2022, as it was declared after the end of the financial reporting period. The I-REIT recorded a payout ratio of 38.3% in FY'2022, from 42.1% in FY'2021. For the D-REIT, the Board of Trustees did not recommend the payment of a dividend.

Balance Sheet:

- Total assets for the D-REIT and I-REIT increased by 23.3% and 81.0% to Kshs 10.4 bn and Kshs 6.8 bn in FY'2022, respectively, from Kshs 8.4 bn and Kshs 3.8 bn, respectively, in FY'2021. The increase in assets was mainly on the back of increased investment property with the D-REIT's coming in at Kshs 9.2 bn, an 18.2% increase from Kshs 7.8 bn in FY'2021, whereas the I-REIT's investment property came in at Kshs 6.5 bn, a 92.1% increase from Kshs 3.4 bn in FY'2021,
- Total liabilities for the D-REIT increased by 32.5% to Kshs 4.2 bn, from Kshs 3.2 bn in FY'2021 largely driven by the increased borrowings and amounts due to related parties which came in at Kshs 3.5 bn

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and Kshs 272.5 mn, respectively, in FY'2022, from Kshs 2.7 bn and Kshs 189.4 mn, respectively, in FY'2021. For the I-REIT, the total liabilities increased by 435.4% to Kshs 0.9 bn in FY'2022, from Kshs 0.2 bn in FY'2021 as a result of increase in the proposed dividend by 109.4% to Kshs 132.3 mn from Kshs 63.2 mn in 2021, coupled with an increase in the amounts payable by 32.3% to Kshs 156.3 mn from Kshs 118.1 mn in FY'2021,

- The shareholder's funds for the D-REIT and I-REIT increased by 17.6% and 63.5% to Kshs 6.2 bn and Kshs 5.9 bn, respectively, from Kshs 5.2 bn and Kshs 3.6 bn, respectively, in FY'2021. The I-REIT's retained earnings and fair value reserve came in at Kshs 195.3 mn, and Kshs 471.7 mn, respectively, in FY'2022 from Kshs 217.9 mn, and Kshs 106.4 bn, respectively, in FY'2021. For the D-REIT, shareholder's equity comprises of the Unitholders funds of Kshs 6.2 bn, and,
- The I-REIT currently has a Return on Assets of 7.4% and a Return on Equity of 8.6%, while the D-REIT has a Return on Assets of 3.1% and a Return on Equity of 6.2%.

Going forward, we expect the Acorn D-REIT and I-REIT to continue showing improved performance evidenced by the impressive investment returns and the attractiveness of the student housing markets given the growing population of students as well as the number of tertiary learning. In light of this, the student housing facilities generated annual rental yields of 6.8% for the I-REIT, compared to other asset classes such as the hospitality and residential sectors which recorded average rental yields of 6.2% and 5.1%, respectively, in FY'2022.