

Acorn Holdings released their FY'2023 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 Purpose-Built Student Accommodation (PBSA) housing projects and later exit the projects to the Investment Real Estate Investment Trust (I-REIT) through legally bidding acquisition agreement. Rental incomes and other sources of income play a significant role in driving the investments and operations of the REITs.

**Below is a summary of the Acorn's I-REIT and D-REIT FY'2023 performances:**

*Figures in Kshs mn Unless Stated Otherwise*

Cytonn Report: Income Statement						
	Acorn I-REIT			Acorn D-REIT		
	FY'2022	FY'2023	Change	FY'2022	FY'2023	Change
Rental Income	442.0	722.3	63.4%	311.0	324.5	4.3%
Income from Other Sources	4.8	2.2	(54.9%)	0.5	6.8	1,325.7%
Total operating income	463.0	724.9	56.6%	1,012.6	728.0	(28.1%)
Operating Expenses	316.1	384.7	21.7%	356.1	366.2	2.8%
Finance costs	22.0	127.4	459.0%	313.3	305.4	2.5%
<b>Profit Before Tax</b>	<b>504.9</b>	<b>396.1</b>	<b>(21.5%)</b>	<b>343.6</b>	<b>71.6</b>	<b>(79.2%)</b>
<b>Basic EPS (Kshs)</b>	<b>1.9</b>	<b>1.2</b>	<b>(36.5%)</b>	<b>1.6</b>	<b>0.3</b>	<b>(82.9%)</b>

*Figures in Kshs bn Unless Stated Otherwise*

Cytonn Report: Balance Sheet						
	Acorn I-REIT			Acorn D-REIT		
	FY'2022	FY'2023	Change	FY'2022	FY'2023	Change
Total Assets	6.8	9.2	34.7%	10.4	11.5	10.7%
Total Equity	5.9	7.4	26.0%	6.2	6.6	6.6%
Total Liabilities	0.9	1.8	88.4%	4.2	4.9	16.6%

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

Cytonn Report: Ratios Summary						
	Acorn I-REIT			Acorn D-REIT		
	FY'2022	FY'2023	Change	FY'2022	FY'2023	Change
ROA	7.4%	4.3%	(3.1%)	3.3%	0.6%	(2.7%)
ROE	8.6%	5.4%	(3.3%)	5.6%	1.1%	(4.5%)
Debt Ratio	13.9%	19.5%	5.5%	40.7%	42.9%	2.2%
<b>PBT Margin</b>	<b>114.2%</b>	<b>54.8%</b>	<b>(59.4%)</b>	<b>33.9%</b>	<b>42.9%</b>	<b>(24.1.0%)</b>
<b>Rental Yield</b>	<b>6.8%</b>	<b>8.2%</b>	<b>1.5%</b>	<b>3.4%</b>	<b>3.8%</b>	<b>0.4%</b>
<b>Distribution Per Unit</b>	<b>0.8</b>	<b>0.8</b>	<b>0.2%</b>	<b>0.0</b>	<b>0.9</b>	<b>-</b>
<b>Payout Ratio</b>	<b>96.9%</b>	<b>73.4%</b>	<b>(24.2%)</b>	<b>0.0%</b>	<b>335.2%</b>	<b>-</b>

**Key Highlights in FY'2023:**

- Acorn D-REIT recommended a distribution of Kshs 240.0 mn translating to Kshs 0.9 per unit which was paid in December 2023. The recommendation will be ratified in the upcoming annual general meeting. We note this was the REITs debut dividend since its inception, and,
- Acorn I-REIT raised its total distribution for the year to Kshs 242.8 mn translating to Kshs 0.7 per unit, a 20.7% increase from Kshs 192.5 distributed in 2022.

### **Acorn I-REIT**

#### **Income Statement:**

- The basic earnings per unit decreased by 36.5% to Kshs 1.2 in FY'2023, from Kshs 1.9 recorded in FY'2022. This was mainly driven by a 21.5% decline in profit to Kshs 396.1 mn recorded in FY'2023, from Kshs 504.9 mn that was recorded in FY'2022. This was on the back of increased total operating expenses which registered a 21.7% increase to come in at Kshs 384.7 mn from Kshs 316.1 mn in FY'2022. The increase was however offset by a 56.6% increase in total operating income to Kshs 724.9 mn in FY'2023 from Kshs 463.0 mn in FY'2022
- The I-REIT recorded a 63.4% increase in rental income to come in at Kshs 722.3 mn from 442.0 mn in FY'2022. The performance was attributed to the REIT's expanding property portfolio and the periodic positive rental reviews,
- The REIT's total operating expenses came in at Kshs 384.7 mn, a 21.7% increase from Kshs 316.1 mn recorded in FY'2022. This performance was attributable to a 58.9% increase in; fund-operating expenses to Kshs 124.2 mn in FY'2023, from Kshs 114.0 mn in FY'2022. Additionally, administrative expenses also increased by 30.3% to Kshs 264.8 mn in FY'2023 from Kshs 47.8 mn in FY'2022,
- The current rental yield for the I-REIT increased by 1.5% points to 8.2% in FY'2023, from 6.8% in FY'2022 following an increase in the rental income and occupancy levels of current properties under their portfolios.

#### **Balance Sheet:**

- Total assets for the I-REIT increased by 34.7% to Kshs 9.2 bn in FY'2023 from Kshs 6.8 bn in FY'2022. This was mainly on the back of a 34.2% increase in investment property during the period, coming in at Kshs 8.8 bn from Kshs 6.5 bn in FY'2022. This was as a result of newer acquisitions during the period including Qwetu Hurlingham,
- Total liabilities increased by 88.4% to Kshs 1.8 bn in FY'2023, from Kshs 0.9 bn in FY'2022 as a result of increase in trade payables. During the period under review, payables increased by 66.3% to Kshs 260.0 mn from Kshs 156.3 mn in FY'2022. Moreover, the REIT registered short-term borrowings amounting to Kshs 1.5 bn in FY'2023 which further contributed to the increase in liabilities,
- The shareholder's funds for I-REIT increased by 26.0% to Kshs 7.4 bn in FY'2023, from Kshs 5.9 bn in FY'2022. The I-REIT's equity increase was as a result of; i) an increase in revaluation reserve at end of period by 34.0% to Kshs 632.1 mn in FY'2023 from 471.7mn in FY'2022, ii) increase trust capital by 26.0% to Kshs 6.5 bn from 5.2 bn, and iii) a further 8.5% increase in retained earnings to Kshs 211.8 mn from Kshs 195.3 mn in FY'2022, and,
- The I-REIT recorded 3.1% and 3.3% points decrease in Return on Assets (ROA) and Return on Equity (ROE) respectively to 4.3% and 5.4% in FY'2023, from 7.4% and 8.6% respectively in FY'2022. This was attributable to 21.5% decrease in profits for the period to Kshs 396.1 mn in FY'2023 from Kshs 504.9 mn in FY'2022.

### **Acorn D-REIT**

#### **Income Statement:**

- The basic earnings per unit for the REIT decreased by 82.9% to Kshs 0.3 in FY'2023, from Kshs 1.6 in FY'2022. This was mainly driven by a 79.2% decline in profits to Kshs 71.6 mn from Kshs 396.1 mn in FY'2022, on the back of declined total operating income by 28.1% to Kshs 728.0 mn from 1.0 bn in FY'2022,
- Acorn D-REIT posted a 4.3% increase in rental income to Kshs 324.5 from Kshs 311.0 mn in FY'2022. The performance was supported by the sale of 830-bed capacity Qwetu Hostels at Hurlingham at Kshs 2.1 bn in 2023. However, the D-REIT operated in tough environment such as persistent high interest rates,
- The total operating expenses for the D-REIT increased marginally by 2.8% to Kshs 366.2 mn in FY'2023 from Kshs 356.1 mn in FY'2022, mainly driven by a 16.7% increase fund-operating expenses to Kshs 214.4 mn from Kshs 183.7 mn in FY'2022,
- The current rental yield for the D-REIT increased by 0.4% points to 3.8% from 3.4% recorded in FY'2022. This can be attributed to the consistent occupancy rates across properties in their portfolio, although their overall performance was negatively affected by the departure of certain properties to I-REIT. These properties, like Qwetu Aberdare Heights II, were experiencing increasing occupancy rates and rental income before their transfer.

**Balance Sheet:**

- Total assets for the D-REIT increased by 10.7% to Kshs 11.5 bn in FY'2023, from Kshs 10.4 bn in FY'2022. The increase in assets was mainly on the back of an increase in non-current assets to Kshs 2.2 bn from Kshs 0.7 bn in FY'2022 as a result of classified as held for sale which came in at Kshs 1.5 bn,
- Total liabilities for the D-REIT increased by 16.6% to Kshs 4.9 bn, from Kshs 4.2 bn in FY'2022, mainly driven by; i) 5330.5% increase in short-term borrowings which came in at Kshs 2.9 bn in FY'2023, from Kshs 54.1 mn in FY'2022, and ii) 89.1% increase in trade and other payables to Kshs 744.8 mn, from Kshs 393.9 mn in FY'2022,
- The shareholder's funds for the D-REIT increased by 6.6% to Kshs 6.5 bn in FY'2023, from Kshs 6.1 bn in FY'2022. The increase was attributed to an increase in shareholders contribution by 28.0% to Kshs 6.5 bn in FY'2023 from Kshs 6.1 bn in FY'2022, and,
- The D-REIT recorded 2.7% and 4.5% points decrease in ROA and ROE respectively to 0.6% and 1.1% in FY'2023 from 3.3% and 5.6% respectively in FY'2022. This was attributable to 79.2% decrease in profits for the period under review to Kshs 79.2 mn in FY'2023 from Kshs 343.6 mn in FY'2022.

Looking ahead, we anticipate both the Acorn D-REIT and I-REIT to maintain their positive growth, showcasing enhanced performance through several key factors. Firstly, this includes notable investment returns from fully operational projects and the appeal of the student housing market, driven by a growing student population and expanding tertiary education sector. Secondly, ongoing partnerships with additional tertiary institutions and financial backers like the Mastercard Foundation's Global Scholars Program will further bolster student accommodation initiatives, particularly for students facing educational accessibility challenges. Thirdly, there is potential for further property acquisitions in the near future, alongside the successful completion of ongoing property developments. Moreover, we expect that their underway project in Nairobi's Central Business District, designed specifically for students from Nairobi University and Technical University of Kenya, will significantly enhance student housing options in the Nairobi Metropolitan Area.

In addition, the consistent repayment of the Acorn Green Bond underscores the REITs' commitment to sustainability and sound financial practices, aligning their investments with environmentally-conscious principles. Regarding rental yields, the I-REIT's student housing facilities notably yielded an annual return of 8.2%, surpassing other real asset classes such as traditional residential and commercial office sectors.

