

Valuation Summary:

- We are of the view that the ILAM Fahari I-REIT is a “BUY” with a target price of Kshs 12.7, representing an upside of 99.1% from the current price of Kshs 6.7 as at 30th July 2021, inclusive of a dividend yield of 11.1%, assuming the dividend payout ratio remains similar to the 5-year average of 96.0% (2016-2020)
- The I-REIT’s performance in terms of projected dividend yield is currently at 11.1% which is significantly high compared to the average rental yields recorded in the commercial office and retail sectors as at H1’2021 of 7.0% and 7.5%, respectively. However, the dividends are likely to continue being fragile attributed to the current impact of the pandemic which continues to affect select real estate sectors, and,
- The Fahari I-REIT is currently trading at a P/B of 0.3x and P/E of 28.9x, versus an emerging markets average of 0.9x and 18.9x, respectively.

Key Highlight in H1'2021:

- After the loss of Tuskys as the anchor tenant for Greenspan mall, ICEA replaced the retailer with Naivas supermarket. This will result to an improvement in revenue collection from the property since Naivas is expected to set foot within the second half of the year.

Income Statement:

- Earnings per unit declined by 50.9% to Kshs 0.2 in H1’2021, from Kshs 0.5 in H1’2020 driven by an 18.4% decline in total operating income to Kshs 147.1 mn, from Kshs 180.1 mn in H1’2020, coupled with a 4.3% increase in total operating expenses to Kshs 106.3 mn, from Kshs 101.9 mn recorded in H1’2020,
- Rental income declined by 21.8% to Kshs 136.7 mn, from Kshs 174.7 mn in H1’2020. The decline is attributed to the declines select sectors of real estate such as the commercial office and retail sector coupled with the existing oversupply of 3.1 mn SQFT in the retail sector and 7.3 mn SQFT in the commercial office sector within the Nairobi Metropolitan Area (NMA),
- Interest income decreased by 9.6% to Kshs 11.8 mn, from Kshs 13.1 mn in H1’2020 due to the downward readjustment on interest rates being experienced in the market due to the cumulative 150 bps downward revision in the Central Bank Rate (CBR) to the current 7.00%. The management also attributed the decline in interest income to the reduced cash available for investing following the reduced / loss of rental income seen during the period,
- Total operating expenses grew by 4.3% to Kshs 106.3 mn in H1’2021, from Kshs 101.9 mn in H1’2020 attributable to the 8.9% growth in Property Expenses to Kshs 52.8 mn, from Kshs 48.5 mn in H1’2020,
- Distributable earnings declined by 50.9% to Kshs 42.2 mn in H1’2021, from Kshs 86.0 mn in H1’2020 following the loss of revenue from the key anchor tenant, Tuskys Supermarket, at Greenspan Mall. However, we expect an improvement in the future after the management signed a contract with Naivas supermarket who are set to replace Tuskys supermarket at the Greenspan Mall within the second half of the year, and,
- Net profit declined by 39.9% to Kshs 42.2 mn in H1’2021, from Kshs 86.0 mn in H1’2020, driven by a 18.4% decline in total operating income to Kshs 147.1 mn, from Kshs 180.1 mn in H1’2020 and a 4.3% increase in total operating expenses to Kshs 106.3 mn, from Kshs 101.9 mn in H1’2020.

Balance Sheet:

- Total assets expanded by 2.1% to Kshs 3,896.1 mn, from Kshs 3,816.7 mn in H1’2020, driven by a 94.3% increase in investment securities to Kshs 199.5 mn, from Kshs 102.7 mn in H1’2020, coupled with a 0.4% marginal growth in Investment Property to Kshs 3,481.4 mn, from Kshs 3,467.9 mn in H1’2020,

ILAM FAHARI I-REIT EARNINGS NOTE– H1'2021

30th July 2021

- Total liabilities increased by 81.4% to Kshs 186.7 mn in H1'2021, from Kshs 102.9 mn in H1'2020 attributable to an 81.4% increase in trade and other payables to Kshs 186.7 mn, from Kshs 102.9 in H1'2020. The REIT remained without debt as at H1'2021
- The shareholder's funds declined marginally by 0.1% to Kshs 3,709.4 mn in the period under review, from Kshs 3,713.7 nm in H1'2020. The REIT closed with a net asset value of Kshs 20.5 per share, a 0.4% decline compared to the H1'2020 value of Kshs 20.6, and,
- The REIT currently has a Return on Assets of 1.1% and a Return on Equity of 1.1%.

Ratios Summary	FY'2017	FY'2018	FY'2019	H1'2020	FY'2020	H1'2021	Δ (H1'21/ H1'20) Points
ROA	4.5%	5.0%	4.5%	2.3%	3.8%	1.1%	(1.2%)
ROE	4.7%	5.2%	4.7%	2.3%	3.9%	1.1%	(1.2%)
Debt Ratio	2.5%	3.3%	3.0%	2.7%	2.8%	4.8%	2.1%
PBT Margin	46.0%	49.7%	46.2%	47.8%	42.6%	28.7%	(19.1%)
Rental Yield	7.0%	5.7%	5.1%	2.5%	4.3%	1.2%	(1.3%)

Performance:

- On the bourse, the REIT continued to perform poorly trading at an average of Kshs 6.2 in H1'2021, a 22.5% decline compared to Kshs 8.0 average trading price in H1'2020, and 69.0% lower than the initial price of Kshs 20.0. This is also 69.8% lower than the net asset value per unit of Kshs 20.5 as at H1'2021 attributed to factors such as i) declining performance of the real estate market in the wake of the pandemic and lockdown restrictions, ii) insufficient institutional grade real estate assets, iii) lack of investor appetite in the instrument, and iv) general lack of knowledge about the instrument.

Below is a summary of the key line items in the balance sheet and income statement;

Figures in Kshs bn Unless Stated Otherwise

Balance Sheet	FY'2017	FY'2018	FY'2019	H1'2020	FY'2020	H1'2021	Δ (H1'21/ H1'20)
Total Assets	3.8	3.9	3.9	3.8	3.9	3.9	2.1%
Total Equity	3.7	3.7	3.8	3.7	3.8	3.7	(0.1%)
Total Liabilities	0.1	0.1	0.1	0.1	0.1	0.2	81.4%

Figures in Kshs bn Unless Stated Otherwise

Income Statement	FY'2017	FY'2018	FY'2019	H1'2020	FY'2020	H1'2021	Δ (H1'21/ H1'20)
Rental Income	0.28	0.31	0.34	0.17	0.34	0.14	(21.8%)
Income from Other Sources	0.10	0.06	0.03	0.01	0.02	0.01	(10.4%)
Operating Expenses	0.23	0.24	0.23	0.10	0.23	0.11	4.3%
Profit Before Tax	0.17	0.19	0.18	0.09	0.15	0.04	(50.9%)
Basic EPS	0.95	1.07	0.97	0.48	0.82	0.23	(50.9%)