

## ACORN REIT EARNINGS NOTE – FY'2024

### 30<sup>th</sup> March 2024

Acorn Holdings released their FY'2024 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'2024 performances:**

*Figures in Kshs mn Unless Stated Otherwise*

Cytonn Report: Income Statement						
	Acorn I-REIT			Acorn D-REIT		
	FY'2023	FY'2024	Change	FY'2023	FY'2024	Change
Rental Income	722.3	1081.6	49.7%	324.5	181.7	(44.0%)
Income from Other Sources	2.2	8.6	294.3%	6.8	0.0	(100.0%)
Total operating income	724.8	1101.2	51.9%	728.0	1490.0	104.7%
Operating Expenses	384.7	438.6	14.0%	366.2	337.3	(7.9%)
Finance costs	(127.5)	(440.4)	245.6%	(0.3)	(0.3)	14.2%
<b>Profit Before Tax</b>	<b>396.1</b>	<b>555.6</b>	<b>40.3%</b>	<b>71.6</b>	<b>839.9</b>	<b>1073.8%</b>
<b>Basic EPS (Kshs)</b>	<b>1.2</b>	<b>1.7</b>	<b>39.0%</b>	<b>0.3</b>	<b>3.1</b>	<b>972.4%</b>

*Figures in Kshs bn Unless Stated Otherwise*

Cytonn Report: Balance Sheet						
	Acorn I-REIT			Acorn D-REIT		
	FY'2023	FY'2024	Change	FY'2023	FY'2024	Change
Total Assets	9.2	11.1	20.9%	11.5	15.4	33.7%
Total Equity	7.4	8.1	10.1%	6.6	7.3	11.9%
Total Liabilities	1.8	3.0	65.8%	4.9	8.0	62.8%

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

Cytonn Report: Ratios Summary						
	Acorn I-REIT			Acorn D-REIT		
	FY'2023	FY'2024	Change	FY'2023	FY'2024	Change
ROA	4.3%	5.0%	0.7%	0.6%	5.5%	4.8%
ROE	5.4%	6.8%	1.5%	1.1%	11.4%	10.4%
Debt Ratio	19.5%	26.7%	7.2%	42.9%	52.2%	9.3%
<b>PBT Margin</b>	<b>54.8%</b>	<b>51.4%</b>	<b>(3.5%)</b>	<b>9.8%</b>	<b>56.4%</b>	<b>46.5%</b>
<b>Annualized Rental Yield</b>	<b>8.2%</b>	<b>10.2%</b>	<b>2.0%</b>	<b>3.8%</b>	<b>3.3%</b>	<b>(0.5%)</b>
<b>Distribution Per Unit</b>	<b>77.1%</b>	<b>38.0%</b>	<b>(39.0%)</b>	<b>98.3%</b>	<b>109.7%</b>	<b>11.6%</b>
<b>Payout Ratio</b>	<b>73.4%</b>	<b>22.6%</b>	<b>(50.8%)</b>	<b>29.6%</b>	<b>34.9%</b>	<b>5.3%</b>

**Key Highlights in FY'2024:**

- In May, Acorn Holdings announced its decision to exercise the early redemption of its green bond, with an outstanding balance of Kshs 1.9 bn. The green bond, initially launched in 2019, successfully raised Kshs 5.7 bn through multiple transactions to develop Acorn's branded student hostels. For information please see our [#Cytonn Monthly May 2024](#),
- Acorn Holding managed to secure a Kshs 23.6 bn (USD 180 mn) concessional loan from the US Development Finance Corporation (DFC),
- In the period under review, ASA D-REIT Manager has initiated the [development](#) of Qwetu and Qejani properties outside the Nairobi metropolitan area and is planning to transfer the Karen properties to the ASA I-REIT upon successful stabilization. The ASA D-REIT is not in a position to pay out an interim dividend due to the ongoing development activities expected to be undertaken annually.
- Student accommodation developer Acorn Holdings announced that it has fully redeemed its Kshs 5.7 bn green bond before its scheduled maturity on November 8, 2024. The firm announced that it had paid the balance of Kshs 2.7 bn from the paper, alongside the accrued interest, on its five-year medium-term note issued in November 2019. For more information, please see our [Cytonn Weekly #43/2024](#),
- Acorn Project Two LLP, a special purpose vehicle of Acorn Holdings announced an early redemption of Kshs 2.6 bn in outstanding notes maturing on 8<sup>th</sup> November 2024 under the Kshs 5.7 bn medium-term note (MTN) Programme, effective 4<sup>th</sup> October 2024. For more information, please see our [Cytonn Weekly #38/2024](#),
- Acorn Holdings, a Real Estate developer, completed the acquisition of a 0.79-acre piece of land in Eldoret along Makasembo Road, near the Moi Teaching & Referral Hospital and Moi University Medical School. The company launched a Kshs 1.6 bn two-hostel project under their Qwetu and Qejani brands, with each having a total of 514 rooms and 510 rooms respectively, and a combined bed capacity of 2,291. For more information, please see our [Cytonn Weekly #36/2024](#) and,
- ASA I-REIT has announced distribution of Kshs 125.6 mn translating to Kshs 0.38 per unit held, which represents a 19.2% decrease compared to the interim distribution of Kshs 154.1 mn in FY'2023. This translates to a dividend yield of 1.7% as per the last trading date on [31<sup>th</sup> December 2024](#).
- ASA D-REIT has announced distribution of Kshs 293.2 bn translating to Kshs 1.08 per unit held, which represents a 11.6% increase compared to the interim distribution of Kshs 240.0 mn in FY'2023. This translates to a dividend yield of 4.3% as per the last trading date on [31<sup>th</sup> December 2024](#).

**Acorn I-REIT****Income Statement:**

- The basic earnings per unit increased by 39.0% to Kshs 1.7 in FY'2024, from Kshs 1.2 recorded in FY'2023. This was mainly driven by a 40.3% increase in profit to Kshs 555.6 mn recorded in FY'2024, from Kshs 396.1 mn that was recorded in FY'2023, linked to a 49.7% increase in rental income coming in at Kshs 1.1 bn from 0.7 bn in FY'2023
- The I-REIT recorded a 49.7% increase in rental income coming in at Kshs 1.1 bn from 0.7 bn in FY'2023. The performance was attributed to the REIT's expanding property portfolio through acquisition of

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Qwetu Hurlingham and Qwetu Aberdare Heights II as well as the rental escalations that took effect in April 2024. On 1<sup>st</sup> April 2024, the I-REIT escalated rental rates at an average rate of 7.1% across its entire portfolio to hedge against inflation;

- The REIT's total operating expenses increased by 14.0%, rising to Kshs 438.6 mn from Kshs 384.7 mn in FY'2023. This performance was attributable to a 34.3 % increase in administrative expenses which rose to Kshs 355.6 mn in FY'2024 from Kshs 264.8 mn in FY'2023. However, this movement was mitigated by a decrease in fund operating expenses which registered a 23.4% decrease coming in at Kshs 88.1 mn in FY'2024 from 115.0 mn in FY'2023, and,
- The current rental yield for the I-REIT increased by 2.0% points to 10.2% in FY'2024, from 8.2% in FY'2023 following an increase in the rental income and stable average occupancy levels of 89.7% for current properties in their portfolios.

#### Balance Sheet:

- Total assets for the I-REIT increased by 20.9% to Kshs 11.1 bn in FY'2024 from Kshs 9.2 bn in FY'2023. This was mainly on the back of a 20.5% increase in investment property during the period, coming in at Kshs 10.6 bn from Kshs 8.8 bn in FY'2023. This was as a result of newer acquisitions during the period including Qwetu Aberdare Heights II at a valuation of Kshs 1.5 bn,
- Total liabilities increased by 65.8% to Kshs 3.0 bn in FY'2024, from Kshs 1.8 bn in FY'2023 as a result of an increase in short term borrowings. During the period under review, short-term borrowings increased by 76.7% to Kshs 2.7 bn from Kshs 1.5bn in FY'2023. Moreover, the REIT registered payables amounting to Kshs 256.9 mn in FY'2024 which further contributed to the increase in liabilities,
- The shareholder's funds for I-REIT increased by 10.1% to Kshs 8.1 bn in FY'2024, from Kshs 7.4 bn in FY'2023. The I-REIT's equity increase was as a result of; i) an increase in revaluation reserve at the end of the period by 49.0% to Kshs 942.1 mn in FY'2024 from 632.1mn in FY'2023 and, ii) increase trust capital by 6.8% to Kshs 7.0 bn from 6.5 bn. On the other hand, there was a slight 3.6 % decrease in retained earnings to Kshs 204.3 mn from Kshs 211.8 mn in FY'2023, and,
- The I-REIT's Return on Assets (ROA) remained stable at 5.0%, Return on Equity (ROE) increased by 1.4% points in FY'2024 to 6.8%, from 5.4% in FY'2023. This was attributable to a 40.3% increase in profit to Kshs 555.6 mn recorded in FY'2024, from Kshs 396.1 mn that was recorded in FY'2023

#### Acorn D-REIT

#### Income Statement:

- The basic earnings per unit for the REIT increased by 972.4% to Kshs 0.3 in FY'2024, from Kshs 3.2 in FY'2023. This was mainly driven by a 1073.8% increase in total profit to Kshs 839.9 mn in FY' 2024 from Kshs 71.6 mn in FY' 2023.
- Acorn D-REIT posted a 44.4% decline in rental income to Kshs 181.7mn in FY'2024 from Kshs 324.5 mn in FY'2023. The performance is attributed ASA D-REIT closing the period with only 2 operational properties in Karen (Qwetu Karen and Qejani Karen) compared to 4 at the same time in the previous year. This led to a decrease in residential revenue in the half-year following the sale of both Qwetu Hurlingham and Qwetu Aberdare Heights II,
- The total operating expenses for the D-REIT decreased marginally by 7.9% to Kshs 337.3 mn in FY'2024 from Kshs 366.2 mn in FY'2023, mainly driven by a 31.0% decrease in administrative expenses to Kshs 104.5 mn in FY'2024 from Kshs 151.4 mn in FY'2023, and,
- The current rental yield for the D-REIT declined by 2.2% points to 1.6% in FY' 2024 from 3.8% recorded in FY'2023. This can be attributed to a decrease in rental revenue in the year 2024 affected by the sale

of two residential properties Qwetu Hurlingham and Qwetu Aberdare Heights II. These properties, such as 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 33.7% to Kshs 15.4 bn in FY'2024, from Kshs 11.5 bn in FY'2023. The increase in assets was mainly backed by an increase in cash and cash equivalent which increased by 324.2% to Kshs 792.1 mn in FY'2024 from Kshs 186.7 mn in FY'2023.
- Total liabilities for the D-REIT increased by 62.8% to Kshs 8.0 bn in 2024, from Kshs 4.9 bn in FY'2023, mainly driven by; i) 301.9% increase in borrowings which came in at Kshs 4.3 bn in FY'2024, from Kshs 1.1 bn in FY'2023, and ii) 58.4% increase in trade and other payables to Kshs 1.2 bn in FY'2024, from Kshs 744.8 mn in FY'2023,
- The total equity for the D-REIT increased by 11.9% to Kshs 7.3 bn in FY'2024, from Kshs 6.6 bn in FY'2023. The increase was attributed to an increase in shareholders contribution by 11.9% to Kshs 7.3 bn in FY'2024, from Kshs 6.6 bn in FY'2023.
- The D-REIT recorded 4.8%-point increase in ROA to 5.5% in FY'2024 from 0.6% in FY'2023. This is attributable to slightly higher returns on assets in FY'2024 compared to FY' 2023. The ROE recorded a 10.4%-point increase to 11.4% in FY'2024 from 1.1% in FY'2023 which was mainly attributable to a 1,073.8% increase in total comprehensive profit to Kshs 839.9 mn in FY' 2024 from Kshs 71.6 mn in FY' 2023.

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, the Purpose-Built Student Accommodation (PBSA) market presents an investment opportunity due to a shortage of quality, affordable student housing. ASA D-REIT still maintains a substantial advantage a major large-scale institutional PBSA developer, positioning it ahead of potential competitors. Additionally, enrollment into universities and tertiary institutions remains resilient, as highlighted by the Kenya National Bureau of Statistics (KNBS). [University enrollment](#) for the 2023/2024 academic year increased by 3.0% year-on-year to 579,046 students from 561,674 in 2022/2023. For Technical, Vocational Education, and Training (TVET) institutions, student enrollment in the 2023/2024 increased by 14.0% year-on-year to 642,726 students from 552,744 in 2022/2023. Secondly, there is potential for further property development in the near future, such the Chiromo project on Riverside Drive. This project aims to address student housing gaps for students at the University of Nairobi, Chiromo Campus, with development poised to start in H2' 2024.

The ASA I-REIT continues to target alliances and partnerships with institutions across the board to reduce reliance on key institutions and diversify client base. The ASA I-REIT properties currently draw residents from 165 institutions. The ASA I-REIT properties have alliances with 92 institutions which allows the institutions to direct students to ASA I-REIT properties as a preferred student housing partner. The continued increase in institutions targeted has enabled the ASA I-REIT to stabilize its portfolio occupancy averaging at 89.7% in FY'2024 despite the challenges arising from a disjointed academic calendar in the key anchor institutions. The current rental yield for the I-REIT has shown increase in FY'2024, following an increase in the rental income and stable average occupancy levels of 89.7% for current properties in their portfolios. The rents were increased to cater for inflation.