

## ACORN REIT EARNINGS NOTE – H1'2024

### 31<sup>st</sup> JULY 2024

Acorn Holdings released their H1'2024 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 a 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 H1'2024 performances:**

*Figures in Kshs mn Unless Stated Otherwise*

Cytonn Report: Income Statement						
	Acorn I-REIT			Acorn D-REIT		
	H1'2023	H1'2024	Change	H1'2023	H1'2024	Change
Rental Income	324.8	534.2	<b>64.5%</b>	162.0	53.1	<b>(67.2%)</b>
Income from Other Sources	10.6	7.9	<b>(25.2%)</b>	0.02	0.0	<b>(100.0%)</b>
Total operating income	335.4	553.2	<b>65.0%</b>	515.6	424.8	<b>(17.6%)</b>
Operating Expenses	197.0	243.3	<b>23.5%</b>	181.4	153.6	<b>(15.3%)</b>
Finance costs	(45.6)	(194.9)	<b>327.8%</b>	(166.1)	(81.2)	<b>(51.1%)</b>
<b>Profit Before Tax</b>	<b>113.3</b>	<b>164.1</b>	<b>44.7%</b>	<b>170.2</b>	<b>181.4</b>	<b>6.6%</b>
<b>Basic EPS (Kshs)</b>	<b>0.4</b>	<b>0.5</b>	<b>26.6%</b>	<b>0.66</b>	<b>0.7</b>	<b>3.5%</b>

*Figures in Kshs bn Unless Stated Otherwise*

Cytonn Report: Balance Sheet						
	Acorn I-REIT			Acorn D-REIT		
	H1'2023	H1'2024	Change	H1'2023	H1'2024	Change
Total Assets	7.3	10.6	44.1%	11.3	12.6	11.4%
Total Equity	6.3	7.4	17.2%	6.5	6.7	3.1%
Total Liabilities	1.0	3.1	215.9%	4.7	5.8	23.1%

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

Cytonn Report: Ratios Summary						
	Acorn I-REIT			Acorn D-REIT		
	H1'2023	H1'2024	Change	H1'2023	H1'2024	Change
ROA	1.5%	1.6%	0.0%	1.5%	1.4%	(0.1%)
ROE	1.8%	2.2%	0.4%	2.6%	2.7%	0.1%
Debt Ratio	13.5%	29.6%	16.1%	41.9%	46.2%	4.4%
PBT Margin	34.9%	30.7%	(4.2%)	33.0%	42.7%	9.7%
Rental Yield	5.0%	5.2%	0.2%	1.5%	0.5%	(1.1%)
Annualized Rental Yield	10.1%	10.6%	0.5%	3.1%	1.0%	(2.1%)
Distribution Per Unit	0.103	0.099	(4.2%)	0.34	0.46	11.4%
Payout Ratio	26.3%	19.9%	(6.4)	53.3%	68.1%	14.8%

#### Key Highlights in H1'2024:

- 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, and,
- ASA I-REIT has announced an interim distribution of Kshs 99.0 mn translating to Kshs 0.30 per unit held, which represents a 14.0% increase compared to the interim distribution of Kshs 70.7 mn in H1'2023. This translates to a dividend yield of 1.3% as per the last trading date on [2<sup>nd</sup> August 2024](#).

#### Acorn I-REIT

##### **Income Statement:**

- The basic earnings per unit increased by 26.6% to Kshs 0.5 in H1'2024, from Kshs 0.4 recorded in H1'2023. This was mainly driven by a 44.7% increase in profit to Kshs 164.1 mn recorded in H1'2024, from Kshs 113.3 mn that was recorded in H1'2023, linked to a 64.5% increase in rental income coming in at Kshs 534.2 mn from 324.8 mn in H1'2023,
- The I-REIT recorded a 64.5% increase in rental income coming in at Kshs 534.2 mn from 324.8 mn in H1'2023. The performance was attributed to the REIT's expanding property portfolio through acquisition of 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 23.5%, rising to Kshs 243.3 mn from Kshs 197.0 mn in H1'2023. This performance was attributable to a 57.1 % increase in administrative expenses which rose to Kshs 187.6 mn in H1'2024 from Kshs 119.4 mn in H1'2023. However, this movement was mitigated by a decrease in fund operating expenses which registered a 34.6% decrease coming in at Kshs 49.9 mn in H1'2024 from 76.2 mn in H1'2023, and,
- The current rental yield for the I-REIT increased by 0.2% points to 5.2% in H1'2024, from 5.0% in H1'2023 following an increase in the rental income and stable average occupancy levels of 87.0% for current properties in their portfolios.

**Balance Sheet:**

- Total assets for the I-REIT increased by 44.1% to Kshs 10.6 bn in H1'2024 from Kshs 7.3 bn in H1'2023. This was mainly on the back of a 57.0% increase in investment property during the period, coming in at Kshs 10.3 bn from Kshs 6.6 bn in H1'2023. This was a result of newer acquisitions during the period including Qwetu Aberdare Heights II at a valuation of Kshs 1.4 bn,
- Total liabilities increased by 215.9% to Kshs 3.1 bn in H1'2024, from Kshs 1.0 bn in H1'2023 as a result of an increase in short-term borrowings. During the period under review, short-term borrowings increased by 214.3% to Kshs 2.6 bn from Kshs 0.8bn in H1'2023. Moreover, the REIT registered payables amounting to Kshs 268.5 mn in H1'2024 which further contributed to the increase in liabilities,
- The shareholder's funds for I-REIT increased by 17.2% to Kshs 7.4 bn in H1'2024, from Kshs 6.3 bn in H1'2023. The I-REIT's equity increase was a result of; i) an increase in revaluation reserve at the end of the period by 44.4% to Kshs 681.1 mn in H1'2024 from 471.7mn in H1'2023, ii) increase trust capital by 15.4% to Kshs 6.6 bn from 5.7 bn, and iii) 7.2 mn in assets replacement reserves. On the other hand, there was a slight 1.2% decrease in retained earnings to Kshs 174.0 mn from Kshs 176.1 mn in H1'2023, and,
- The I-REIT's Return on Assets (ROA) remained stable at 1.6%, and Return on Equity (ROE) increased by 0.4% points in H1'2024 to 2.2%, from 1.8% in H1'2023. This was attributable to a 44.7% increase in profits for the period to Kshs 164.1 mn from Kshs 113.3mn in H1'2023.

**Acorn D-REIT****Income Statement:**

- The basic earnings per unit for the REIT increased by 3.5% to Kshs 0.7 in H1'2024, from Kshs 0.66 in H1'2023. This was mainly driven by a 6.6% increase in total profit to Kshs 181.4 mn in H1'2024 from Kshs 170.2 mn in H1'2023,
- Acorn D-REIT posted a 67.2% decline in rental income to Kshs 53.1mn in H1'2024 from Kshs 162.0 mn in H1'2023. The performance is attributed to 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 15.3% to Kshs 153.6 mn in H1'2024 from Kshs 181.4 mn in H1'2023, mainly driven by a 38.8% decrease in administrative expenses to Kshs 47.2 mn in H1'2024 from Kshs 77.1 mn in H1'2023, and,
- The current rental yield for the D-REIT declined by 0.5% points to 1.0% in H1'2024 from 1.5% recorded in H1'2023. This can be attributed to a decrease in rental revenue in the half-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 11.4% to Kshs 12.6 bn in H1'2024, from Kshs 11.3 bn in H1'2023. The increase in assets was mainly backed by increased amounts due from related parties which increased by 1,233.0% to Kshs 400.6 mn in H1'2024 from Kshs 30.0 mn in H1'2023,
- Total liabilities for the D-REIT increased by 23.1% to Kshs 5.8 bn in 2024, from Kshs 4.7 bn in H1'2023, mainly driven by; i) 4,343.8% increase in short-term borrowings which came in at Kshs 2.7 bn in H1'2024, from Kshs 62.4 mn in H1'2023, and ii) 111.2% increase in trade and other payables to Kshs 1.1 bn in H1'2024, from Kshs 504.1 mn in H1'2023,
- The total equity for the D-REIT increased by 3.1% to Kshs 6.7 bn in H1'2024, from Kshs 6.5 bn in H1'2023. The increase was attributed to an increase in shareholders' contribution by 6.7% to Kshs 5.5 bn in H1'2024 from Kshs 5.1 bn in H1'2023, and,
- The D-REIT recorded 0.1%-point decrease in ROA to 1.4% in H1'2024 from 1.5% in H1'2023. This is attributable to slightly higher returns on assets in H1'2023 compared to H1'2024. The ROE recorded a 0.1%-point increase to 2.7% in H1'2024 from 2.6% in H1'2023 which was mainly attributable to a 6.6% increase in total profit to Kshs 181.4 mn in H1'2024 from Kshs 170.2 mn in H1'2023.

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 as 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 FY'2022/2023. For Technical, Vocational Education, and Training (TVET) institutions, student enrollment in the FY'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 as 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 H1'2024.

We expect the I-REIT to remain resilient as it continues to pursue alliances and partnerships with institutions across the board to reduce reliance on key institutions and diversify its client base. Currently, the I-REIT properties draw residents from 165 institutions. The ASA I-REIT properties have alliances with 92 institutions, which allow these institutions to direct students to ASA I-REIT properties as a preferred student housing partner. The continued increase in targeted institutions is expected to stabilize its portfolio, with occupancy averaging 87.0% in H1'2024, despite challenges arising from a disjointed academic calendar in key anchor institutions. The current annualized rental yield for the I-REIT, which came in at 10.6%, is 0.5% points higher than the 10.1% recorded in H1 2023, showcasing the I-REIT's resilience. This performance is expected to remain stable in the second half of the year, with increasing enrollment by tertiary institutions despite the government's reduced funding for tertiary education.