

Below is a summary of the ILAM Fahari I-REIT's H1'2024 Performance;

<i>All values in Kshs bn unless stated otherwise</i>						
Balance Sheet	H1'2022	FY'2022	H1'2023	FY'2023	H1'2024	Δ Y/Y (H1'24/ H1'23)
<b>Total Assets</b>	3.7	3.6	3.6	3.5	3.4	<b>(5.3%)</b>
<b>Total Equity</b>	3.5	3.4	3.4	3.3	3.2	<b>(4.7%)</b>
<b>Total Liabilities</b>	0.1	0.2	0.2	0.2	0.1	<b>(17.1%)</b>

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Income Statement	H1'2022	FY'2022	H1'2023	FY'2023	H1'2024	Δ Y/Y (H1'24/ H1'23)
Rental Income	0.2	0.4	0.2	0.3	0.1	<b>(22.7%)</b>
Income from Other Sources	0.0	0.0	0.0	0.1	0.0	<b>50.8%</b>
Operating Expenses	0.1	0.2	0.1	0.2	0.1	<b>(0.1%)</b>
<b>Profit/Loss</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>(37.4%)</b>
<b>Basic EPS</b>	<b>0.5</b>	<b>(0.2)</b>	<b>0.5</b>	<b>0.0</b>	<b>0.3</b>	<b>(37.4%)</b>

Ratios Summary	H1'2022	FY'2022	H1'2023	FY'2023	H1 2024	Δ Y/Y (H1'24/ H1'23) % Points
<b>ROA</b>	2.3%	(0.8%)	2.4%	(0.01%)	1.59%	<b>(0.8%)</b>
<b>ROE</b>	2.4%	(0.8%)	2.5%	(0.01%)	1.66%	<b>(0.9%)</b>
<b>Debt Ratio</b>	4.0%	5.3%	4.9%	4.7%	4.3%	<b>(0.6%)</b>
<b>PBT Margin</b>	51.2%	(8.4%)	48.4%	(0.1%)	38.4%	<b>(9.9%)</b>
<b>Annualized Rental Yield</b>	10.3%	9.8%	12.7%	11.6%	10.2%	<b>(2.4%)</b>

### Key Highlights in H1'2024:

- ICEA Lion Asset Managers (ILAM) Fahari I-REIT was admitted to the [Unquoted Securities Platform \(USP\)](#) of the Nairobi Securities Exchange (NSE), following their delisting from the main investment market in February 2024. ILAM Fahari joined Acorn I-REIT, Acorn D-REIT, and Linzi Sukuk in the USP, marking the first trading day in the segment. For more information, please see our [Cytonn Weekly #28/2024](#).

### Income Statement:

- The basic earnings per unit declined by 37.4% to come in at a gain of Kshs 0.3 mn in H1'2024, from a gain of Kshs 0.5 mn in H1' 2023. The performance is attributed to a 37.4% loss in ILAM Fahari's comprehensive profit to a gain of Kshs 53.8 mn in H1'2024, from a gain of Kshs 86.0 mn recorded in H1'2023. This was mainly driven by a 15.1% reduction in total income to a gain of Kshs 164.9 mn realized in H1'2024 from a gain of Kshs 194.4 mn in H1'2023. Additionally, operating expenses declined by 0.1% from Ksh 109.9 mn in H1'2023 to Kshs 109.8 mn in H1'2024,
- Rental income declined by 22.7% to Kshs 138.7 mn in H1'2024, from Kshs 179.5 mn recorded in H1'2023, largely attributed to the loss of revenue from Starling Park Properties upon lease expiry. We note that efforts are underway by the REIT Manager to secure a new tenant for the property,
- Interest income increased by 50.8% to Kshs 24.9 mn in H1'2024, from Kshs 16.5 mn realized in the similar period in 2023, owing to the high interest rates being experienced in the market currently,
- The total operating expenses decreased by 0.1% to Kshs 109.8 mn in H1'2024, from Kshs 109.9 mn recorded in H1'2023, driven by a 4.2% decrease in Fund-Operating expenses to Kshs 53.6 mn in

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H1'2024, from Kshs 55.9 mn in FY'2022. However, there was a 4.1% increase in the property expenses to Kshs 56.2 mn in H1'2024, from Kshs 53.9 mn in H1'2023. The increase in expenses was mainly on the back of the restructuring costs incurred during the year under review. Key to note, expenses made up 66.6% of the total operating income,

- Total earnings available for distribution for the period H1'2024 decreased by 37.4% to Kshs 53.8 mn, from the Kshs 86.0 mn recorded in H1'2023, primarily driven by an increase in fair value loss of investment property, which deteriorated to a loss of Kshs 0.4 mn in H1'2024, from a loss of Kshs 0.3 mn realized in H1'2023,
- Distributable earnings per unit came in at Kshs 0.3mn in H1'2024, a 37.4% decrease from Kshs 0.5 mn recorded during a similar period in 2023 as there was reduction of operational expenses offset by a decline in rental income, and,
- The REIT Manager did not recommend an interim distribution in relation to H1'2024. However, a first and final distribution of Kshs 0.7 per unit was paid in April 2024 in relation to FY'2023. This translates to a dividend yield of 6.4% as at the last trading date, that is 26<sup>th</sup> July 2024 as of the distribution made in FY'2023 and an implied capitalization rate of 3.3%.

### **Balance Sheet:**

- Total assets reduced by 5.3% to Kshs 3.4 bn in H1'2024, from Kshs 3.6 bn in H1'2023. This was attributable to; i) a 76.0% decline in investment securities to Kshs 46.1 mn in H1'2024, from Kshs 192.2 mn recorded in H1'2023, ii) a 20.2% decrease in assets held for sale to Kshs 160.0 mn in H1'2024, from Kshs 200.4 mn in H1'2023,
- Total liabilities decreased by 17.1% to Kshs 144.0 mn in H1'2024, from Kshs 173.9 mn in H1'2023 attributable to a 17.1% decrease in the trade and other payables to Kshs 144.0 mn, from Kshs 173.9mn in H1'2023. The REIT remained without non-current liabilities as at H1'2024,
- The shareholder's funds declined by 4.7% to Kshs 3.2 bn in H1'2024, from Kshs 3.4 bn in H1'2023, following a revaluation reserve correction of Kshs 319.4 mn, which realized a 24.8% increase from Kshs 255.8 mn revaluation recorded in H1'2023, and,
- The REIT currently has a negative Return on Assets of 1.6% and a negative Return on Equity of 1.7%.

### Going forward,

- We anticipate the I-REIT's performance shall improve and stabilize following its recent listing on the Unquoted Securities Platform (USP). We expect this restructuring to enhance the ILAM Fahari I-REIT's operational flexibility and growth potential, providing unitholders with improved returns and diversified investment opportunities. ILAM will seek high-quality assets in prime locations with strong tenants and aims to double its portfolio value from Kshs 3.5 bn to Kshs 7.0 bn within the next three years. The restructuring is expected to create several benefits for unitholders, including increased flexibility to pursue a broader range of investment opportunities, such as direct real estate acquisitions and developments, improved alignment of the REIT's investment strategy with the long-term needs of its unitholders, and reduced costs and administrative burdens associated with being a listed REIT. This development is a positive signal for the real estate sector, highlighting the potential for innovative financial instruments to unlock value and drive growth in Kenya's market.