

Axis REIT (AXRB MK)

Acquiring i-Park property

Maintain BUY

We are mildly positive on Axis' proposed purchase of an industrial property in Johor. We estimate the purchase to be yield accretive from the 4th year of the acquisition, with an estimated 5.7%-7.2% net property yield. No changes to our earnings forecast. Maintain BUY with unchanged DDM-TP of MYR2.30.

Purchasing industrial property in Johor

Axis has proposed to acquire an industrial facility in Kawasan Perindustrian i-Park, Bandar Indahpura, Kulai, Johor for MYR16.3m, from Axis AME IP Sdn. Bhd. The property is a single-storey detached factory with an annexed double-storey office. It is solely tenanted by HQPack Sdn Bhd (10 year lease expiring in Dec 2031, with 3 years renewal option), with annual rental income ranging from MYR1.1m-1.4m during the initial 10 years term. The lessee manufactures industrial packaging for the high-end semiconductor industry. Axis expects the deal to be completed in 1H22.

Yield accretive from Y4 onwards

Assuming a 95% net property margin, we have derived net property yields of 5.7%-7.2% (based on lease term of 10 years). These are higher than our estimated WACC of 5.3% (debt:equity 40:60). No changes to our forecast, as this deal forms part of our new acquisition assumptions. As the purchase will be fully debt funded, we estimate Axis' gross gearing will increase to 0.33x from 0.31x at end-FY21, which is including the proposed development of the Bukit Raja Distribution Centre 2, Shah Alam (BRDC 2).

Industrial assets to provide resilient income

We remain upbeat on Axis' active acquisition strategy on industrial assets which generally entail resilient rental income and lower occupancy risks. Based on gearing limit of 0.6x (until end-FY22), we view that there is still room for more small to mid-size property purchases in the near-future - in-line with Axis' acquisition target of MYR400m.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	232	246	293	324	345
Net property income	199	213	253	282	302
Core net profit	126	137	170	182	190
Core EPU (sen)	8.7	8.9	10.4	11.2	11.6
Core EPU growth (%)	(6.3)	2.3	16.3	7.4	4.0
Net DPU (sen)	7.9	7.8	9.3	10.0	10.4
Net DPU growth (%)	(6.3)	(1.1)	19.0	7.4	4.0
P/NTA (x)	1.4	1.3	1.2	1.2	1.2
Net DPU yield (%)	3.9	4.0	5.1	5.5	5.7
ROAE (%)	6.8	8.6	6.7	7.2	7.5
ROAA (%)	3.9	3.8	4.3	4.2	4.2
Debt/Assets (x)	0.33	0.31	0.34	0.41	0.42
Consensus Net DPU	-	-	8.6	9.0	9.2
MKE vs. Consensus (%)	-	-	7.5	10.9	13.1

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BUY

Share Price	MYR 1.83
12m Price Target	MYR 2.30 (+30%)
Previous Price Target	MYR 2.30

Company Description

Axis REIT operates as a real estate investment trust that owns and invests in commercial, office, and industrial real estate.

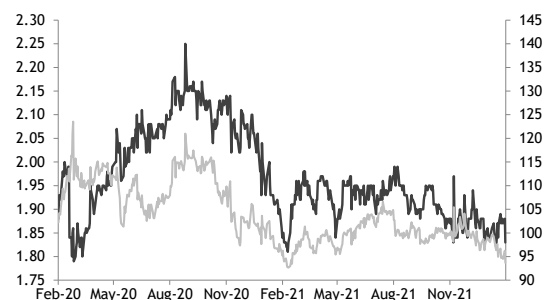
Statistics

52w high/low (MYR)	1.99/1.81
3m avg turnover (USDm)	0.4
Free float (%)	71.4
Issued shares (m)	1,635
Market capitalisation	MYR3.0B USD716M

Major shareholders:

Employees Provident Fund	17.1%
Kumpulan Wang Persaraan	10.9%
Public Mutual Bhd.	5.9%

Price Performance



— Axis REIT - (LHS, MYR) — Axis REIT / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(1)	(3)	(2)
Relative to index (%)	(5)	(6)	(2)

Source: FactSet

Risk statement

There are several risk factors that could impact our earnings estimates, target price and rating for Axis. Changes in rental rates, occupancy rates, operating expenses and interest rates may lead to lower earnings for Axis. About 36% of Axis' borrowings are based on floating rates and about 25% of Axis' NLA is due for lease renewal in FY22. Another earnings risk would be if the economic impact from Covid-19 becomes prolonged.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
Price/DPU(x)	25.7	24.8	19.7	18.3	17.6
P/BV (x)	1.4	1.2	1.2	1.2	1.2
P/NTA (x)	1.4	1.3	1.2	1.2	1.2
DPU yield (%)	4.3	4.5	5.6	6.1	6.3
FCF yield (%)	5.8	6.4	6.9	8.4	9.1
INCOME STATEMENT (MYR m)					
Revenue	232.2	246.2	292.6	324.0	345.3
Net property income	198.5	212.9	252.6	282.0	302.0
Management and trustee fees	(26.8)	(27.2)	(28.7)	(28.9)	(29.0)
Net financing costs	(38.6)	(44.9)	(54.3)	(70.8)	(83.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	142.6	204.0	169.7	182.3	189.6
Income tax	(0.5)	(3.7)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	142.1	200.4	169.7	182.3	189.6
Core net profit	125.6	137.4	169.7	182.3	189.6
Distributable inc to unitholders	126.3	138.0	170.4	183.1	190.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	39.8	196.0	180.6	180.0	168.1
Accounts receivable	41.2	26.2	51.3	56.8	60.6
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	3,280.2	3,614.2	3,820.5	4,293.6	4,368.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2.9	2.4	2.4	2.4	2.4
Total assets	3,364.1	3,838.8	4,054.8	4,532.8	4,599.4
ST interest bearing debt	611.5	560.4	560.4	560.4	560.4
Accounts payable	62.0	52.5	60.6	63.8	65.7
LT interest bearing debt	500.6	624.2	831.2	1,305.0	1,368.6
Other liabilities	66.9	74.3	74.3	74.3	74.3
Total Liabilities	1,241.1	1,311.4	1,526.5	2,003.5	2,069.1
Shareholders Equity	2,123.0	2,527.3	2,528.3	2,529.3	2,530.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,123.0	2,527.3	2,528.3	2,529.3	2,530.3
Total liabilities and equity	3,364.1	3,838.8	4,054.8	4,532.8	4,599.4
CASH FLOW (MYR m)					
Cash flow from operations	168.3	191.1	207.6	251.5	272.1
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(270.7)	(266.2)	(207.0)	(473.8)	(75.7)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	3.6	(8.2)	6.3	5.8	5.8
CF from investing activities	(267.1)	(274.4)	(200.7)	(468.0)	(69.9)
Dividends paid	(109.5)	(134.9)	(168.7)	(181.3)	(188.6)
Interest expense	(39.1)	(44.6)	(60.5)	(76.5)	(89.2)
Change in debt	225.9	71.4	207.0	473.8	63.7
Equity raised / (purchased)	11.8	342.5	0.0	0.0	0.0
Other financial activities	(0.1)	(3.7)	0.0	0.0	0.0
CF from financing activities	89.0	230.7	(22.3)	216.0	(214.1)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(9.7)	147.4	(15.4)	(0.6)	(11.9)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	4.4	6.0	18.8	10.7	6.6
Net property income growth	3.6	7.2	18.7	11.6	7.1
Core net profit growth	8.1	9.4	23.5	7.4	4.0
Distributable income growth	8.2	9.3	23.5	7.4	4.0
Profitability ratios (%)					
Net property income margin	85.5	86.5	86.4	87.0	87.5
Core net profit margin	54.1	55.8	58.0	56.3	54.9
Payout ratio	80.0	60.0	89.5	89.5	89.5
DuPont analysis					
Total return margin (%)	61.2	81.4	58.0	56.3	54.9
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.5	1.6	1.8	1.8
ROAE (%)	6.8	8.6	6.7	7.2	7.5
ROAA (%)	3.9	3.8	4.3	4.2	4.2
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.9	2.7	2.3	2.2
Net gearing (%) (excl. perps)	50.5	39.1	47.9	66.6	69.6
Net interest cover (x)	4.7	5.5	4.1	3.6	3.3
Debt/EBITDA (x)	6.1	4.7	6.2	7.3	7.0
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,072.4	988.6	1,211.0	1,685.4	1,761.0
Debt/Assets (x)	0.33	0.31	0.34	0.41	0.42

Source: Company; Maybank

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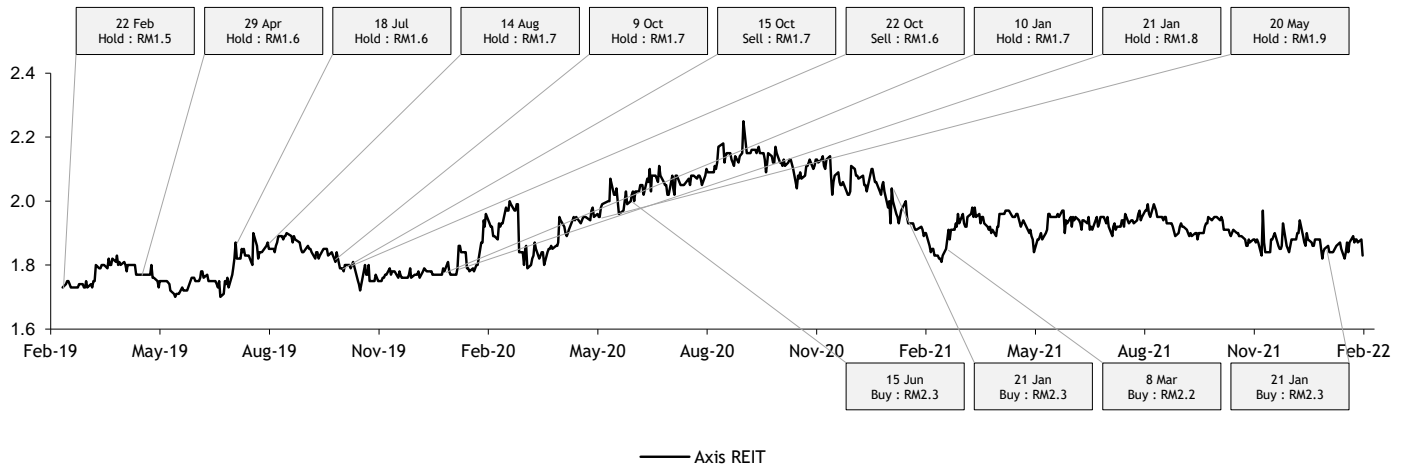
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Historical recommendations and target price: Axis REIT (AXRB MK)



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