

Axis REIT (AXRB MK)

Acquiring logistics warehouse in PTP

Maintain BUY

We are mildly positive on Axis' proposed acquisition of a MYR390m logistics warehouse in Pelabuhan Tanjung Pelepas, Johor. We maintain our earnings forecasts, DDM-TP of MYR2.30 (Ke: 6.5%) and BUY rating. We are also keeping Axis as our sector's top pick, on account of its resilient rental income from industrial assets and active acquisition strategy.

Acquiring MYR390m logistics warehouse in PTP, Johor

Axis has proposed to acquire a double-storey ramp-up warehouse cum 3-storey office (NLA: 1.15m sq.ft.) in Pelabuhan Tanjung Pelepas, Gelang Patah, Johor for MYR390m, from Equalbase PTP Sdn. Bhd. The property is currently built on a portion of leasehold land with an unexpired 33 years sub-leased term. The deal also entails a 10 years leaseback agreement with fixed rental rates ranging from MYR26m-27.9m p.a. The lessee is primarily in the business of the building and construction of warehouses. Axis expects the deal to be completed in mid-2022.

Yield accretive purchase

Assuming a 95% net property margin, we have derived net property yields of 6.3%-6.8% (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. We estimate Axis' gross gearing will increase to 0.4x from 0.31x at end-FY21, which is including the proposed development of the Bukit Raja Distribution Centre 2, Shah Alam (BRDC 2).

Forecast intact

We maintain our FY22-24E net profit as we have included a MYR400m acquisition assumption for FY22E. We remain upbeat on Axis' active acquisition strategy on industrial assets which generally entail resilient rental income and lower occupancy risks. To recap, YTD-FY22, Axis has completed 2 industrial properties purchases in Johor, in March.

| 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 | - | - | 8.4 | 9.0 | 9.2 |
| MKE vs. Consensus (%) | - | - | 11.0 | 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 USD707M |

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 (%) | (2) | (2) | (5) |
| Relative to index (%) | (4) | (4) | (5) |

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 IBG Research

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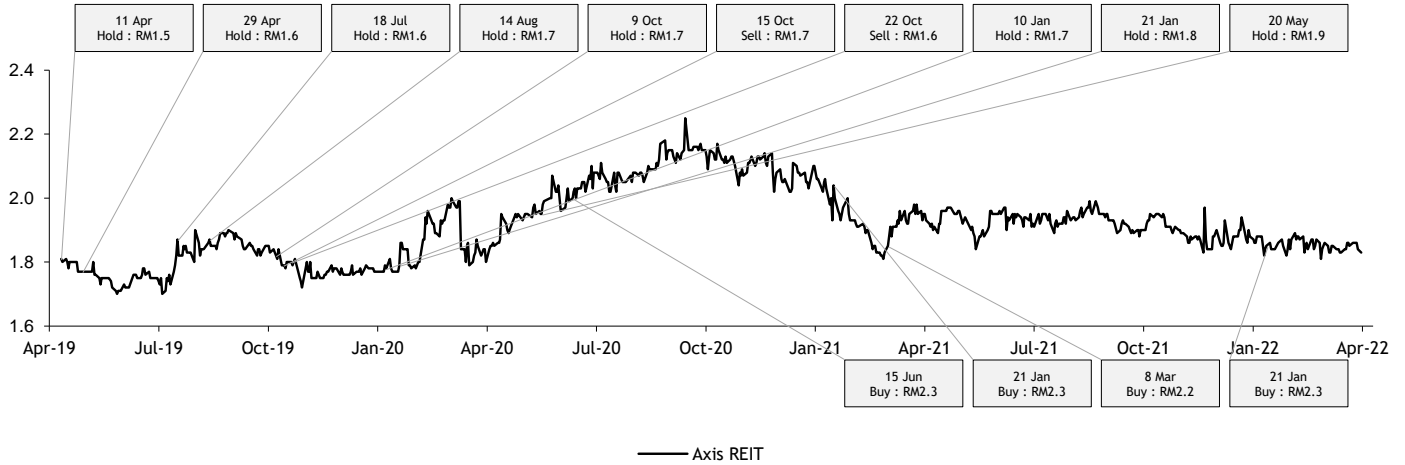
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