

Axis REIT (AXRB MK)

1Q22 earnings on track

Maintain BUY

1QFY22 net profit and 1st gross DPU of 2.42sen was in line at 23%/24% of our and consensus' forecasts. We maintain our earnings forecasts and DDM-TP of MYR2.30 (Ke: 6.5%). Maintain BUY. We remain upbeat on Axis' active acquisition strategy on industrial assets which generally entail resilient rental income and lower occupancy risks. Current FY22-24E net DPU yields are 5%-5.6%.

Lifted by new assets

1QFY22 core net profit was MYR38.8m (+21% YoY, +10% QoQ). Earnings growth was mainly driven by: (i) rental contribution from newly acquired assets (3 new properties), (ii) positive rental reversions at selected assets and, (iii) improved portfolio occupancy to 96% (1Q21: 91%). QoQ earnings also supported by lower financing costs (-15%) from lower borrowings.

Earnings estimates unchanged

We maintain our FY22-24E earnings. Our 3-year forward earnings CAGR estimates of +11% are largely backed by new assets, with a total estimated value of MYR460m in FY22.

Active in acquisition strategy

Moving forward, we believe earnings for Axis remain resilient, contributed by recent completed asset acquisitions and noting on-going acquisition of assets. The selection of properties will continue to focus on Grade A logistics and manufacturing facilities, retail warehousing, as well as office, business parks and industrial properties.

BUY

Share Price	MYR 1.87
12m Price Target	MYR 2.30 (+28%)
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	MYR3.1B USD714M

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	2	(3)
Relative to index (%)	2	(2)	(1)

Source: FactSet

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	5.0	5.3	5.6
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	9.5
MKE vs. Consensus (%)	-	-	11.0	10.9	9.4

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Fig 1: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	1QFY22	1QFY21	% YoY	4QFY21	% QoQ	3MFY22	3MFY21	% YoY
Gross revenue	67.2	58.4	15.0	63.8	5.3	67.2	58.4	15.0
Net property income	58.4	49.8	17.2	55.0	6.2	58.4	49.8	17.2
Interest income	0.2	0.1	101.9	0.4	(45.3)	0.2	0.1	>1001
Revaluation gain/(loss)	-	-	NM	67.8	(100.0)	-	-	NM
Other exceptional items	0.1	(0.9)	<-100	(1.7)	<-100	0.1	(0.9)	<-100
Non-property expenses	(8.3)	(6.7)	24.2	(5.4)	53.6	(8.3)	(6.7)	24.2
Finance costs	(10.6)	(10.4)	1.9	(12.4)	(14.6)	(10.6)	(10.4)	1.9
Pretax profit	39.8	32.0	24.6	103.7	(61.6)	39.8	32.0	24.6
Tax	-	-	NM	(3.7)	(100.0)	-	-	NM
Net profit	39.8	32.0	24.6	100.0	(60.2)	39.8	32.0	24.6
Net profit ex-EI	38.8	32.2	20.5	35.3	10.0	38.8	32.2	20.5
EPU ex-EI (sen)	2.4	2.2	6.6	2.2	10.0	2.4	2.2	6.6
Gross DPU (sen)	2.4	2.2	8.5	2.4	0.4	2.4	2.2	8.5
	1QFY22	1QFY21	+/- ppt	4QFY21	+/- ppt	3MFY22	3MFY21	+/- ppt
<i>Net property margin (%)</i>	87.0	85.3	1.7	86.2	0.7	87.0	85.3	1.7
<i>Net income ex-EI margin (%)</i>	57.7	55.1	2.6	55.3	2.4	57.7	55.1	2.6

Source: Company, Maybank IBG Research

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 32% 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	20.1	18.7	18.0
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	5.5	5.9	6.2
FCF yield (%)	5.8	6.4	6.8	8.2	8.9
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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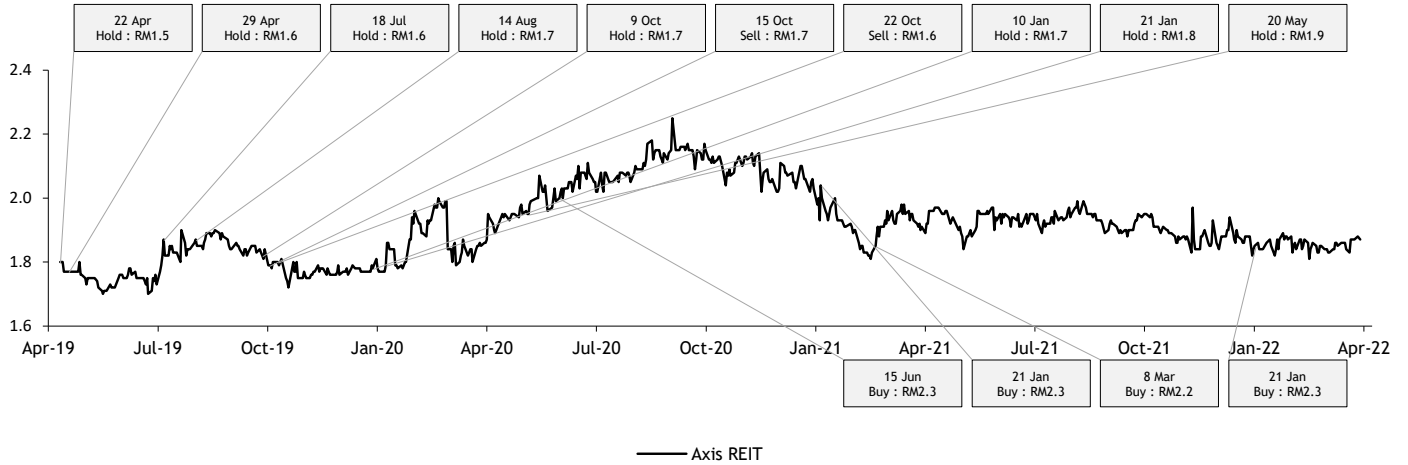
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