

Outthink. Outperform.

Back on growth track, upgrade to BUY

Axis REIT reported a strong set of results – FY18 realised EPU grew 13% yoy to 9.2 sen on contribution from new leases, acquisition of new assets and improved office occupancies. In tandem, management has declared a higher FY18 DPU of 8.74 sen (+6% yoy). The results are above market and our expectations. We upgrade Axis REIT to BUY (from HOLD) with a higher DDM-derived price target of RM1.90 (from RM1.58) after incorporating higher FY19-20E earnings forecasts and a lower discount rate of 8.2% (from 8.8%). At 6.0% 2019E yield, Axis REIT's valuation looks attractive.

FY18 realised EPU grew by 13% yoy, above expectations

Axis REIT reported a strong set of results – FY18 realised net profit grew by 25% yoy to RM113.4m on the back of higher revenue (+21.4% yoy), driven by maiden rental / full year contributions from six newly acquired assets, lease commencements of Damco Logstic (1st Feb 2018) and Nestle DC (1st Jun 2018), as well as improving occupancy at its office buildings. Axis REIT's FY18 realised EPU grew by a lower 13% yoy due to an increase in its share base (+11.5%). Overall, the results are above market and our expectations – Axis REIT's FY18 realised net profit beat consensus and our forecast by 8% and 7% respectively on higher revenue and firmer profit margins.

Sequentially, realised profit grew by 23%, DPU at highest since 3Q14

Sequentially, Axis REIT's 4Q18 realised net profit grew by 23% to RM36m, driven by maiden / full quarterly rental contributions from newly acquired assets (ie. Beyonics i-Park Campus Block E, Senawang Industrial Facility) and commencement of Axis Aerotech Centre @ Subang in December 2018. Boosted by RM35.2m fair value gain, the REIT's 4Q18 headline net profit grew by 125% qoq to RM67m. Elsewhere, Axis REIT's 4Q18 DPU of 2.45 sen DPU (+26% yoy) is its highest quarterly payout since 3Q14.

Upgrade to BUY with a higher DDM-derived TP of RM1.90

We raise our FY19-20E earnings forecast by 7-8% after incorporating the earnings contributions from new assets, higher profit margin and higher office occupancy rates. Elsewhere, we have lowered our equity risk premium to 8.2% (from 8.8%) in view of: (i) Axis REIT's improving earnings visibility after the completion of constructions at Nestle DC and Axis Aerotech Centre; (ii) our expectations for a stable OPR; and (iii) higher investor appetite for Shariah compliant MREITs. At 6.0% 2019E, Axis REIT's valuation is below historical average (Fig 5), looks fair. Key downside risk: weaker than expected earnings due to lower occupancy rate / higher doubtful debts.

Earnings & Valuation Summary

FYE 31 Dec (RMm)	2017	2018	2019E	2020E	2021E
Revenue	167.8	203.6	227.8	232.4	240.1
Net property income	141.2	175.8	195.3	199.2	205.9
Reported net profit	122.6	155.0	123.6	126.3	132.1
Realised net profit	90.8	113.4	123.6	126.3	132.1
EPU (sen)	11.0	12.5	10.0	10.2	10.7
Realised EPU (sen)	8.1	9.2	10.0	10.2	10.7
Realised EPU growth (%)	-0.4	12.8	9.0	2.1	4.6
PER (x)	15.1	13.3	16.6	16.3	15.5
Realised PER (x)	20.4	18.1	16.6	16.3	15.5
DPU (sen)	8.3	8.7	10.0	10.1	10.8
Dividend yield (%)	5.0	5.3	6.0	6.1	6.5
P/RNAV (x)	1.3	1.2	1.2	1.2	1.2
Chg in realised EPU (%)			7.5	6.6	new
Affin/Consensus (x)			1.1	1.1	na

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Axis REIT

AXRB MK
Sector: MREITs

RM1.66 @ 22 January 2019

BUY (upgrade)

Upside: 14%

Price Target: RM1.90

Previous Target: RM1.58



Price Performance

	1M	3M	12M
Absolute	+10.7%	+9.9%	+18.6%
Rel to KLCI	+8.6%	+11.9%	+27.4%

Stock Data

Issued shares (m)	1,237
Mkt cap (RMm)/(US\$m)	2.054/497
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	1.19-1.67
Est free float	33.1%
BV per share (RM)	1.34
P/BV (x)	1.24
Net cash/ (debt) (RMm)(4Q18)	(1,041)
ROE (2019E)	7.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

EPF	16.2%
KWAP	10.8%
Skim ASB	8.9%
Lembaga Tabung Haji	5.8%

Source: Affin Hwang, Bloomberg

Isaac Chow
(603) 2146 7536
isaac.chow@affinhwang.com

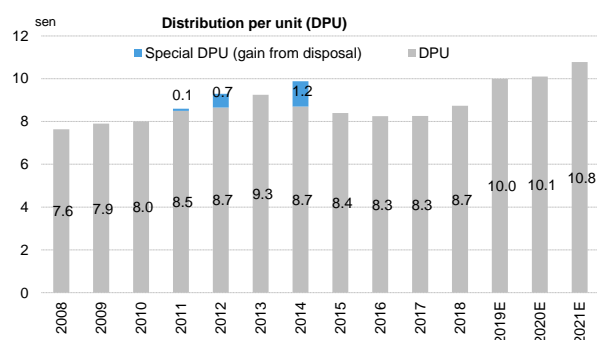
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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q17	3Q18	4Q18	QoQ % chg	YoY % chg	FY17	FY18	YoY % chg	Comments
Revenue	41.9	52.1	59.3	13.7	41.5	167.8	203.6	21.4	Higher FY18 revenue driven by: (i) the maiden rental from Nestle's lease at Axis Mega DC; (ii) contributions from six properties acquired in 2017/18; and (iii) improving office occupancy rates.
Operating expenses	-6.6	-6.8	-7.0	2.3	5.2	-26.5	-27.8	5.0	
Net Property Income	35.3	45.3	52.3	15.5	48.3	141.2	175.8	24.5	
<i>NPI margin (%)</i>	<i>84.2</i>	<i>87.0</i>	<i>88.3</i>	<i>+1.3 ppt</i>	<i>+4.0 ppt</i>	<i>84.2</i>	<i>86.3</i>	<i>+2.1 ppt</i>	FY18 NPI margin improved by 2.1ppt due to higher profit contribution from industrial assets with long-term leases.
Revaluation surplus/others	22.1	0.7	35.5	5,083	.5	60.3	32.3	46.7	44.3
Net Invest. Income	57.5	46.0	87.9	90.9	52.9	173.6	222.5	28.2	
Int expense	-8.2	-11.4	-11.2	-1.3	37.0	-32.5	-41.8	28.7	Higher FY18 interest expenses due to the undertaking of new borrowing to fund acquisitions.
REIT's expenses	-5.2	-4.9	-5.3	6.7	1.4	-18.6	-21.3	14.6	
Pretax Profit	44.1	29.7	71.4	140.0	61.9	122.6	159.4	30.1	
Profit After Tax	44.1	29.7	67.0	125.2	51.9	122.6	155.0	26.5	
Realised net profit	22.4	29.3	36.1	23.2	60.7	90.8	113.4	24.9	Above market and our expectations.
EPU (sen)	3.84	2.41	5.43	125.0	41.3	10.95	12.57	14.8	
Realised EPU (sen)	1.96	2.38	2.92	22.9	49.3	8.15	9.20	12.9	Realised EPU is 8% above consensus and 7% above our forecasts.
DPU (sen)	1.94	2.35	2.45	4.3	26.3	8.26	8.74	5.8	FY18 DPU of 8.74 sen is highest since 2014.

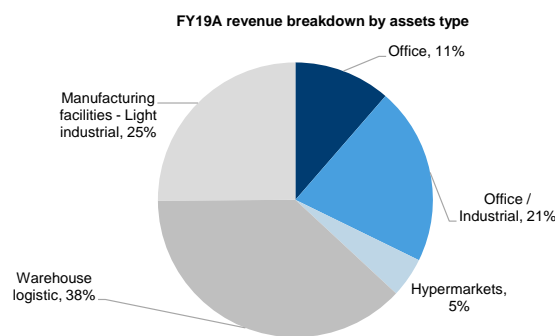
Source: Company, Affin Hwang estimates

Fig 2: Axis REIT's DPU grew by a second consecutive years. FY18 DPU of 8.74 sen is its highest payout since 2014



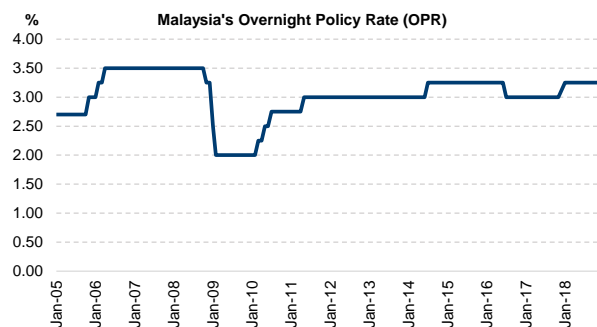
Source: Company, Affin Hwang forecasts

Fig 3: Over the years, Axis REIT has built up its manufacturing and warehousing portfolio. We forecast manufacturing and warehousing assets to contribute c.63% of its 2019E revenue



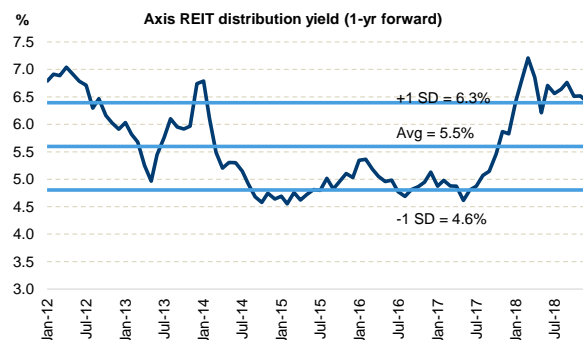
Source: Company, Affin Hwang forecasts

Fig 4: We expect BNM to maintain OPR at 3.25% for 2019. Among the MREITs under our coverage, Axis REIT and Sunway REIT has the highest earnings sensitivity to changes in OPR



Source: Bloomberg, Affin Hwang

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Fig 5: At 6.0% 2019E yield, Axis REIT's valuation is above historical average of 5.5%, looks attractive



Source: Bloomberg, Affin Hwang forecasts

Fig 6: Peer comparison table

	Rating	Sh Pr (RM)	TP (RM)	Mkt Cap (RMm)	Year End	Core PE (x)		EPS growth (%)		Gearing (%)	P/NAV (x)	DPU (sen)		DPU yield (%)	
						CY18E	CY19E	CY18E	CY19E			CY18E	CY19E	CY18E	CY19E
Axis REIT	BUY	1.66	1.90	2,054	Dec	18.1	16.6	12.8	9.0	34.5	1.24	8.7	10.0	5.3%	6.0%
IGB REIT	HOLD	1.74	1.74	6,139	Dec	20.4	19.5	(1.6)	4.6	24.2	1.62	9.1	9.5	5.2%	5.4%
KLCCPSG	HOLD	7.85	7.55	14,154	Dec	19.1	18.9	2.9	1.0	12.7	1.11	37.4	39.0	4.8%	5.0%
Pavilion REIT	BUY	1.67	1.81	5,030	Dec	19.9	18.0	9.2	10.4	25.4	1.29	8.8	9.5	5.3%	5.7%
Sunway REIT	BUY	1.74	1.95	5,124	Jun	18.0	17.5	3.0	2.7	34.3	1.24	9.6	9.9	5.5%	5.7%
YTL REIT	BUY	1.23	1.38	2,096	Jun	14.0	14.1	3.9	(1.0)	34.8	0.83	8.0	8.3	6.5%	6.8%
Sector Average						18.3	17.5	5.1	4.5	27.7	1.22	13.6	14.4	5.4%	5.8%

Source: Company, Bloomberg, Affin Hwang forecasts

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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 Affin Hwang Investment Bank Berhad (14389-U)
 A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
 69, Jalan Raja Chulan,
 50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
 F : + 603 2146 7630
 research@affinhwang.com

www.affinhwang.com